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Registration No. 33- 46-222

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Federated Department Stores, Inc.

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

Delaware
(State of Incorporation)

5311
(Primary Standard Industrial
Classification Code Number)

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

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Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after this Registration Statement becomes effective.

None of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933.

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered(2)	Proposed Maximum Offering Price per Share(3)	Proposed Maximum Aggregate Offering Price(3)	Amount of Registration Fee
Common Stock, par value \$.01 per share(1)	46,000,000 shares	\$14.5625	\$669,875,000	\$209,335.94

- (1) Includes associated preferred share purchase rights as described in "Capital Stock — Preferred Share Purchase Rights" in the accompanying Prospectus.
- (2) Includes 6,000,000 shares which the U.S. Underwriters and the International Managers have the option to purchase solely to cover over-allotments, if any.
- (3) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, on the basis of the average of the high and low reported sales prices on March 30, 1992.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

TOTAL OF SEQUENTIALLY NUMBERED PAGES: 194

EXHIBIT INDEX ON SEQUENTIALLY NUMBERED PAGE 120

FEDERATED DEPARTMENT STORES, INC.

CROSS REFERENCE SHEET
Pursuant to Item 501(b) of Regulation S-K

<u>Form S-1 Item Number and Heading</u>	<u>Caption or Location in Prospectus</u>
1. Forepart of the Registration Statement and Outside Front Cover Page of Prospectus	Facing Page; Cross Reference Sheet; Outside Front Cover Page of Prospectus
2. Inside Front and Outside Back Cover Pages of Prospectus ...	Inside Front Cover Page of Prospectus; Outside Back Cover Page of Prospectus
3. Summary Information, Risk Factors, and Ratio of Earnings to Fixed Charges	"Summary"; "Investment Considerations"
4. Use of Proceeds	"Use of Proceeds"
5. Determination of Offering Price.....	*
6. Dilution	*
7. Selling Security Holders	*
8. Plan of Distribution	Front Cover Page of Prospectus; "Underwriting"
9. Description of Securities to be Registered	Front Cover Page of Prospectus; "Summary"; "Capital Stock"
10. Interests of Named Experts and Counsel	*
11. Information with Respect to the Registrant	"Summary"; "Investment Considerations"; "The Company"; "Capitalization"; "Pro Forma Financial Information"; "Selected Financial Information"; "Management's Discussion and Analysis of Financial Condition and Results of Operations"; "Business"; "Management"; "Security Ownership"; "Capital Stock"; "Indebtedness"; "Available Information"; "Index to Consolidated Financial Statements"
12. Disclosure of Commission Position on Indemnification for Securities Act Liabilities	*

* Item is omitted because answer is negative or item is inapplicable.

EXPLANATORY NOTE

This Registration Statement covers the registration of 32,000,000 shares of Common Stock to be offered in a public offering in the United States (the "U.S. Offering") and 8,000,000 shares of Common Stock to be offered in a concurrent public offering outside the United States (the "International Offering"). The complete form of prospectus relating to the U.S. Offering (the "U.S. Prospectus") follows immediately after this explanatory note. The form of prospectus relating to the International Offering (the "International Prospectus") will be identical in all respects to the U.S. Prospectus, except that the International Prospectus contains different front and back cover pages and a different inside front cover page. The form of the U.S. Prospectus included herein is followed by those pages to be used in the International Prospectus which differ from those in the U.S. Prospectus. Each of such pages included herein is labeled "Alternate Page for International Prospectus."

PROSPECTUS

40,000,000 Shares

Federated DEPARTMENT STORES, INC.

Common Stock

All of the 40,000,000 shares of Common Stock being offered are to be issued and sold by the Company. Of these shares, 32,000,000 are being offered hereby initially in the United States by the U.S. Underwriters and 8,000,000 are being offered initially outside the United States by the International Managers. Such offerings are referred to collectively as the "Offerings." The initial offering price and the aggregate underwriting discount per share are identical for both Offerings. See "Underwriting."

The net proceeds of the Offerings, together with other funds available to the Company, will be used to prepay certain indebtedness of the Company. See "Use of Proceeds."

The Common Stock is listed on the New York Stock Exchange under the symbol "FD." On March 31, 1992, the last sale price of the Common Stock as reported on the New York Stock Exchange Composite Tape was \$14 1/4 per share. See "Price Range of Common Stock."

See "Investment Considerations" for certain factors that should be considered by prospective investors.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Company(2)
Per Share	\$	\$	\$
Total(3)	\$	\$	\$

- (1) The Company has agreed to indemnify the U.S. Underwriters and the International Managers against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
- (2) Before deducting estimated expenses of \$ payable by the Company.
- (3) The Company has granted the U.S. Underwriters a 30-day option to purchase up to 4,800,000 additional shares of Common Stock on the same terms and conditions set forth above, solely to cover over-allotments, if any. The International Managers have been granted a similar option to purchase up to 1,200,000 additional shares, solely to cover over-allotments, if any. If such options are exercised in full, the total Price to Public, Underwriting Discounts and Commissions, and Proceeds to Company will be \$, \$, and \$, respectively. See "Underwriting."

The shares of Common Stock offered by this Prospectus are offered by the U.S. Underwriters subject to prior sale, to withdrawal, cancellation, or modification of the offering without notice, to delivery to and acceptance by the U.S. Underwriters, and to certain further conditions. It is expected that delivery of the shares of Common Stock offered by this Prospectus will be made at the offices of Shearson Lehman Brothers Inc., New York, New York on or about , 1992.

LEHMAN BROTHERS

GOLDMAN, SACHS & CO.

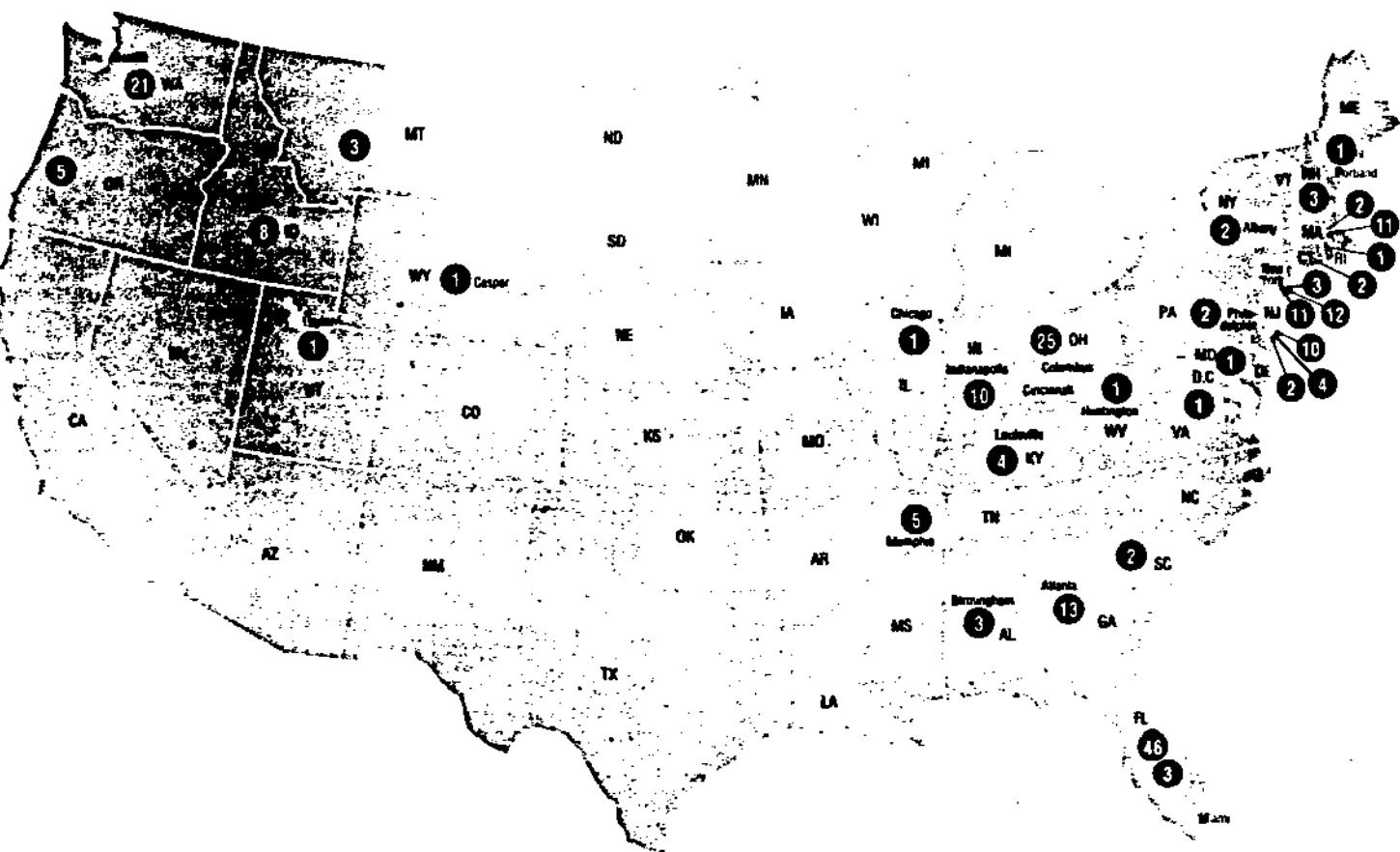
MORGAN STANLEY & CO.
INCORPORATED

SMITH BARNEY, HARRIS UPHAM & CO.
INCORPORATED

Federated

DEPARTMENT STORES, INC.

The following map identifies the locations of the Company's 220 stores in 26 states as of March 31, 1992.



- | | |
|-------------------------------|------------------------|
| 39 The BON MARCHÉ | 20 jordan marsh |
| 15 bloomingdale's | 22 STERN'S |
| 40 LAZARUS | 15 A&S |
| 23 RICH'S / Goldsmiths | 46 Burdines |

IN CONNECTION WITH THE OFFERINGS, THE U.S. UNDERWRITERS AND THE INTERNATIONAL MANAGERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

SUMMARY

The following is a summary of certain information contained elsewhere in this Prospectus. Reference is made to, and this Summary is qualified in its entirety by, the more detailed information (including financial information and the notes thereto) contained elsewhere in this Prospectus, which should be read in its entirety. Unless the context otherwise requires, (i) references to the "Company" include Federated Department Stores, Inc. and its subsidiaries, (ii) the information contained in this Prospectus assumes that the over-allotment options granted to the U.S. Underwriters and the International Managers are not exercised, and (iii) all references to "1991," "1990," and "1989" mean the Company's fiscal years ended February 1, 1992, February 2, 1991, and February 3, 1990, respectively.

The Company

The Company is one of the leading operators of full-line department stores in the United States, with 220 department stores in 26 states. The Company's merchandising strategy focuses primarily on moderately to upper-moderately priced apparel and other soft goods. The Company is distinctive from many of its principal department store competitors in that it also emphasizes the offering of merchandise for home use, including textiles, tabletop items, housewares, floor coverings, bedding, and electronics. Sales of apparel, accessories, and cosmetics constituted approximately 74% of the Company's net sales in 1991, with the remaining 26% attributable to sales of merchandise for home use.

The Company conducts its business through seven retail operating divisions, each of which is among the leading department store operators in its principal geographic region. The Company's merchandising division ("Federated Merchandising") provides centralized buying services, principally through its team buying program; the Company's financial and credit services division ("FACS") provides proprietary credit services and establishes and monitors credit policies on a Company-wide basis; and the Company's data processing division ("SABRE") provides electronic data processing and management information services. See "Business." This organizational structure is designed to achieve economies of scale and the implementation of consistent, Company-wide merchandise assortments and merchandising strategies, while retaining the ability to tailor merchandise assortments and merchandising strategies to the particular character and customer base of the Company's various department store franchises.

<u>Operating Division</u>	<u>Year Founded</u>	<u>Principal Geographic Region</u>	<u>Number of Stores(a)</u>	<u>1991 Sales(b) (millions)</u>	<u>Gross Square Feet(b)(c) (thousands)</u>
Bloomingdale's	1872	East	15	\$1,066.6	4,149
Abraham & Straus/Jordan Marsh ...	1851	Northeast	35	1,385.3	9,743
The Bon Marché	1890	Northwest	39	719.2	4,638
Burdines	1898	Florida	46	1,126.8	7,381
Lazarus	1830	Midwest	40	914.4	7,635
Rich's/Goldsmith's	1867	Southeast	23	809.0	4,578
Stern's	1867	Northeast	22	640.6	3,834
			<u>220</u>	<u>\$6,661.9</u>	<u>41,958</u>

(a) As of March 31, 1992.

- (b) Excludes sales or gross square feet, as the case may be, of stores closed during 1991 and of stores which the Company has announced will be closed and \$75.9 million of sales of the Company's Bloomingdale's By Mail subsidiary.
- (c) Includes total square footage of store locations, including office, storage, service, and other support space that is not dedicated to direct merchandise sales, but excludes warehouses and distribution terminals not located at store sites.

Recent History

The Company and Allied Stores Corporation ("Allied") were among the leading independent retailers in the United States prior to being acquired by Campeau Corporation ("Campeau") in 1988 and 1986, respectively, in highly leveraged transactions. On January 15, 1990, the Company, Allied, and substantially all of their respective subsidiaries (collectively, the "Federated/Allied Companies") commenced proceedings under chapter 11 of the Bankruptcy Code (the "Reorganization Proceedings") to reorganize and to restructure their acquisition debt and other liabilities. On February 4, 1992 (the "POR Effective Date"), the Federated/Allied Companies emerged from bankruptcy pursuant to a plan of reorganization (the "POR") and Allied was merged into Federated. Pursuant to the POR, substantially all of the currently outstanding shares of Common Stock of the Company were distributed to prepetition creditors of the Federated/Allied Companies, following which Campeau no longer had any direct or indirect equity interest in the Company. See "The Company" and "Business -- Legal Proceedings."

Business Strategy

In 1990, the Company adopted a long-term strategic plan, the principal objective of which was to improve operating and financial performance to levels consistent with the other leading department store retailers in the United States. The strategic plan formed the basis for the POR. While the strategic plan has not yet been fully implemented and the effects of its implementation to date have not yet been fully realized, a number of significant actions have been taken under the plan. Management is currently emphasizing the following seven key components of the long-term strategic plan.

- *Team Buying Program.* The Company is implementing a team buying program designed to realize the benefits of integrated, Company-wide merchandise assortments and strategies while tailoring such assortments and strategies to the particular character and customer base of the Company's various department store franchises. The objective of the team buying program is to utilize fully the talents of the Company's most successful merchants and to develop specialty store levels of focus and expertise in its various merchandise categories. In addition, the team approach to merchandise purchasing is intended to enhance the Company's ability to negotiate the price and other terms of its merchandise purchases and increase efficiencies due to the realization of economies of scale. During 1991, approximately 70% of the Company's merchandise purchases were effected through the team buying program.
- *Inventory Management.* The Company has adopted various inventory management strategies designed to improve its inventory turnover rate (*i.e.*, net sales divided by average monthly merchandise inventories, at retail) and the freshness of its merchandise inventories. As a result of these actions, the Company's inventory turnover rate increased to 2.5 times in 1991 from 2.3 times in 1989, while the percentage of fresh soft goods merchandise (inventory less than 12 weeks old) increased to 76% in December 1991 from 66% in December 1989.
- *Store-Level Execution of Merchandising and Selling Strategies.* The Company's merchandising and selling strategies are intended to enhance the effective presentation of assortments and to increase the level of attention to selling and customer service. These strategies require a more focused and consistent approach to merchandise display than some of the Company's operating divisions have had in the past, and emphasize selling skills, floor staffing, and selling supervision to increase sales productivity and to improve customer service.

- ***Cost Reduction.*** The Company has centralized various support operations and staff functions in its corporate headquarters in Cincinnati, Ohio. In addition, the Company consolidated its former Maas Brothers division into its Burdines division and, in March of 1992, the Company announced that it would also consolidate the headquarters and support operations of its Abraham & Straus and Jordan Marsh divisions. Management intends to continue to explore additional ways to increase efficiency and reduce costs, including through further consolidation and centralization of operations and support functions and through enhanced applications of information technologies.
- ***Utilization of Technology.*** During 1990 and 1991, the Company invested approximately \$60.0 million in equipment and related systems to enable the Company to utilize universal product code, electronic data interchange, and price look-up technology in all retail operating divisions. This technology is intended to improve merchandising decisions and accuracy in reporting, lower inventory levels, reduce expenses, and improve customer service.
- ***Upgrading of Stores.*** During the Reorganization Proceedings, the Company closed or announced its intention to close 41 underperforming or redundant department stores (38 of which have been closed) and two specialty stores. Management has allocated approximately \$900.0 million of the Company's capital budget for the period from 1992 to 1996 to upgrade existing stores, including \$520.0 million allocated to major remodelings (projects over \$1.0 million).
- ***Pay for Performance.*** In 1992, the Company established a Company-wide incentive compensation program which is designed to link the compensation of key employees more closely to the achievement of specific performance levels. Approximately 750 employees participate in this program.

See "Business — Business Strategy." The retailing industry is intensely competitive and there necessarily can be no assurance that the Company's strategic plan will result in substantial improvements in the Company's operating or financial performance. See "Investment Considerations — Competitive Conditions; Business Factors."

Use of Proceeds and Additional Debt Prepayments

The net proceeds of the Offerings will be used to prepay long-term debt. The amount of such net proceeds is estimated to be \$541.5 million (\$622.7 million if the U.S. Underwriters' and International Managers' over-allotment options are exercised in full) based on an assumed offering price of \$14.25 per share (the closing sales price as reported on the NYSE Composite Tape on March 31, 1992). Subject to the Company entering into a satisfactory Working Capital Facilities Agreement (see "Use of Proceeds"), the net proceeds of the Offerings and approximately \$400.0 million of cash on hand would be used by the Company to prepay approximately \$941.5 million of long-term debt (or \$1,022.7 million of long-term debt if the over-allotment options are exercised in full). As of March 31, 1992, the weighted average interest rate of the various series of debt to be so prepaid was approximately 8.5% per annum. See "Use of Proceeds."

The Offerings

Number of shares of Common Stock offered:

U.S. offering	32,000,000
International offering	<u>8,000,000</u>
Total	40,000,000(a)
Number of shares to be outstanding after the Offerings	120,009,737(a)(b)(c)
Use of proceeds	Prepayment of long-term debt
New York Stock Exchange ("NYSE") symbol	FD

- (a) Does not include up to an aggregate of 6,000,000 shares of Common Stock subject to over-allotment options granted to the U.S. Underwriters and the International Managers. See "Underwriting."
- (b) Does not include (i) 1,808,500 shares reserved for issuance upon exercise of options granted to officers and key employees of the Company (exercisable at \$16.875 per share); (ii) 8,564,107 shares reserved for issuance upon conversion of the Company's Senior Convertible Discount Notes (convertible at the rate of 27.86 shares per \$1,000 stated principal amount); (iii) 4,000,000 shares reserved for issuance upon exercise of Series A Warrants (exercisable at \$25.00 per share); (iv) 1,000,000 shares reserved for issuance upon exercise of Series B Warrants (exercisable at \$35.00 per share); (v) 204,000 shares issuable to the U.S. Treasury in five equal annual installments; and (vi) up to 1,200,000 shares reserved for issuance to certain prepetition creditors in the event certain third-party insurance recoveries are realized. See "Capital Stock — Future Stock Issuances." Includes 763,100 shares of restricted Common Stock issued to the Company's executive officers and other key employees under the Company's long-term incentive plan. See "Management — Benefit Plans and Agreements — The Equity Plan and Bonus Plan."
- (c) Approximately 67% of the Company's currently outstanding shares of Common Stock is currently subject to substantial restrictions on transfer (the "Restrictions") and may not be traded on the NYSE. See "Investment Considerations — Restricted Stock" and "Capital Stock — Common Stock." The Restrictions will not apply to shares of Common Stock issued in the Offerings.

Summary Consolidated Financial Data and Certain Operating Data

The following table presents summary consolidated financial data and certain operating data of the Company as of and for the fiscal years ended February 1, 1992, February 2, 1991, and February 3, 1990. The financial data have been derived from the Company's Consolidated Financial Statements, which give effect to the POR as if it had occurred on February 1, 1992. The following financial and other data should be read in conjunction with the Consolidated Financial Statements, the unaudited pro forma financial information, the related notes, and the other information contained elsewhere in this Prospectus.

	For the Fiscal Year Ended		
	<u>Feb. 1, 1992</u>	<u>Feb. 2, 1991</u>	<u>Feb. 3, 1990</u>
	(thousands, except operating data)		
Results of Operations Data:			
Net sales, including leased department sales	<u>\$6,932,323</u>	<u>\$7,141,983</u>	<u>\$ 7,577,586</u>
Cost of sales, including occupancy and buying costs	4,964,471	5,172,892	5,447,121
Selling, publicity, delivery, and administrative expenses	1,700,880	1,833,918	1,881,017
Interest expense(a)	504,257	639,527	914,557
Interest income	(67,260)	(83,585)	(107,892)
Unusual items	—	—	1,067,817 (b)
Total costs and expenses	<u>7,102,348</u>	<u>7,562,752</u>	<u>9,202,620</u>
Loss before reorganization items, income taxes, extraordinary item, and cumulative effect of change in accounting principle	(170,025)	(420,769)	(1,625,034)
Reorganization items	(1,679,936)	(127,032)	(142,110)
Federal, state, and local income tax benefit (expense)	613,989	276,355	(6,783)
Extraordinary item — gain on debt discharge	2,165,515	—	—
Cumulative effect of change in accounting principle	(93,151)	—	—
Net income (loss) (c)(d)	<u>\$ 836,392</u>	<u>\$ (271,446)</u>	<u><u><u>\$ (1,773,927)</u></u></u>
Depreciation and amortization	<u>\$ 260,884</u>	<u>\$ 278,227</u>	<u>\$ 317,575</u>
Capital expenditures	201,631	93,143	177,792
Operating Data:			
Stores at end of period	220	244	258
Stores opened during period	1	2	3
Stores closed during period	25	16	—
Comparable store sales increase (decrease) (e)	1.4%	(4.3)%	2.9%
Inventory turnover(f)	2.5x	2.3x	2.3x
Balance Sheet Data (at end of period):			
Cash	<u>\$1,002,482</u>	<u>\$ 453,560</u>	<u>\$ 446,195</u>
Working capital	1,923,812	1,957,037	2,653,693
Total assets	7,501,145	9,150,056	9,592,231
Long-term debt	3,176,687	1,004,000 (g)	1,204,000 (g)
Shareholders' equity (deficit)	1,454,132	(1,398,528)	(1,127,082)

- (a) Excludes interest on unsecured prepetition indebtedness of \$301,576, \$290,979, and \$11,300, respectively, for 1991, 1990, and 1989.
- (b) Consists primarily of a write-down of the excess of cost over the value of assets acquired.
- (c) See "Investment Considerations — Accounting Presentation."
- (d) Historical per share data are not presented due to the lack of comparability between periods shown and because there were no publicly held shares of the Company during the period between the acquisition of the Company by Campeau and February 1, 1992.
- (e) Percentages show year-to-year comparisons of net sales, including leased department sales, from stores open during the entirety of each period compared.
- (f) Inventory turnover is computed by dividing (i) net sales, including leased department sales, for the period by (ii) average month-end inventory (at retail) for the period.
- (g) Excludes \$6,475,129 and \$6,729,168, respectively, of liabilities subject to settlement in reorganization proceedings as of February 2, 1991 and February 3, 1990.

Summary Pro Forma Financial Data

The following table presents unaudited summary pro forma financial data of the Company as of and for the year ended February 1, 1992. The pro forma results of operations data have been derived from the Company's Consolidated Financial Statements, as adjusted to give effect to the POR, the assumed receipt of \$541.5 million in net proceeds of the Offerings and the application thereof to the prepayment of long-term debt, and the assumed application of \$400.0 million of cash on hand to additional debt prepayments (the "Additional Debt Prepayments") to be made if the Offerings are completed and the Company enters into a definitive Working Capital Facilities Agreement as described in "Use of Proceeds," as if such transactions had been consummated on February 3, 1991, as well as for certain other transactions described in "Notes to Pro Forma Financial Information." The pro forma balance sheet data have been adjusted to give effect to the assumed application of \$941.5 million of net proceeds of the Offerings and such Additional Debt Prepayments as if such transactions had been consummated on February 1, 1992. The pro forma financial data do not purport to be indicative of the financial position or results of operations that would actually have been reported had such transactions in fact been consummated on such dates or of the financial position or results of operations that may be reported by the Company in the future. All of the following data should be read in conjunction with the Consolidated Financial Statements, the unaudited pro forma financial information, the related notes, and the other information contained elsewhere in this Prospectus.

	<u>For the Fiscal Year Ended Feb. 1, 1992</u>	
	<u>As Adjusted for the Offerings and Additional Debt Prepayments(a)</u>	<u>(in thousands, except per share data)</u>
Results of Operations Data:		
Net sales, including leased department sales	\$6,932,323	\$6,932,323
Cost of sales, including occupancy and buying costs	4,959,313	4,959,313
Selling, publicity, delivery, and administrative expenses	1,695,355	1,695,355
Interest expense	347,158	262,566
Interest income	(40,887)	(40,887)
Total costs and expenses	<u>6,960,939</u>	<u>6,876,347</u>
Loss before reorganization items, income taxes, extraordinary item, and cumulative effect of change in accounting principle	(28,616)	55,976
Net income (loss)	<u>\$ (24,773)</u>	<u>\$ 26,828</u>
Net income (loss) per common share.....	<u>\$ (0.31)(b)</u>	<u>\$ 0.22 (c)</u>
Depreciation and amortization	230,948	230,948
Capital expenditures	201,631	201,631
 Balance Sheet Data (at Feb. 1, 1992):		
Cash	\$1,002,482	\$ 591,982
Working capital	1,923,812	1,521,401
Total assets	7,501,145	7,080,405
Long-term debt	3,176,687	2,235,187
Shareholders' equity	1,454,132	1,982,981

Actual

- (a) Under applicable accounting rules, the Company has included certain pro forma historical data in Note 3 to the Consolidated Financial Statements. Such pro forma data do not give effect to the Offerings and the application of proceeds therefrom or the proposed \$400.0 million of Additional Debt Prepayments.
- (b) Based on 80,213,737 shares of Common Stock.
- (c) Based on 120,213,737 shares of Common Stock.

INVESTMENT CONSIDERATIONS

The Common Stock offered hereby is subject to a number of material risks and other investment considerations, including those summarized below. These risks and investment considerations should be carefully considered by prospective investors.

Leverage; Restrictive Covenants and Other Terms of Indebtedness

The net proceeds of the Offerings will increase the shareholders' equity of the Company and the use of such proceeds, together with other available cash, to prepay long-term indebtedness will reduce the Company's overall level of indebtedness. See "Use of Proceeds." Nonetheless, the Company will continue to have consolidated indebtedness that is greater than its shareholders' equity even after giving effect to such transactions. See "Capitalization" and "Pro Forma Financial Information." The debt instruments to which the Company is a party contain a number of restrictive covenants and events of default, including covenants limiting capital expenditures, incurrence of debt, and sales of assets. In addition, under its debt instruments, the Company is required to achieve certain financial ratios (including ratios of senior indebtedness to adjusted tangible net worth, earnings to fixed charges, and earnings to cash interest expense), some of which become more restrictive over time, and a substantial portion of the Company's indebtedness is secured by the capital stock or assets of various subsidiaries of the Company or has been issued by subsidiaries. Among other consequences, the Company's continuing substantial indebtedness, and such restrictive covenants and other terms of the Company's debt instruments, could increase the Company's vulnerability to adverse general economic and retailing industry conditions and could impair the Company's ability to obtain additional financing in the future and to take advantage of significant business opportunities that may arise.

Accounting Presentation

The Company emerged from bankruptcy on February 4, 1992. In accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"), the Company adopted "fresh-start reporting" and reflected the effects of such adoption in its Consolidated Balance Sheet as of February 1, 1992. Accordingly the Company's Consolidated Balance Sheets at and after February 1, 1992 and its Consolidated Statements of Operations for periods after February 1, 1992 will not be comparable to the Consolidated Financial Statements for prior periods included elsewhere herein. Among other things, the Consolidated Statement of Operations for the year ended February 1, 1992 includes as an extraordinary item a one-time gain of \$2,165.5 million relating to debt discharged in the Reorganization Proceedings. In addition, as a result of fresh-start accounting, the Consolidated Balance Sheet at February 1, 1992 includes an intangible asset of \$375.2 million denominated "Reorganization Value in Excess of Amounts Allocable to Identifiable Assets," which is being amortized on a straight line basis over 20 years. The application and impact of SOP 90-7 is set forth in greater detail in the Notes to the Consolidated Financial Statements included elsewhere in this Prospectus.

Dividend Policy; Restrictions on Payment of Dividends

The Company does not anticipate paying any dividends on the Common Stock in the foreseeable future. In addition, the covenants in certain debt instruments to which the Company is a party restrict the ability of the Company to pay dividends. See "Dividend Policy" and "Indebtedness."

Restricted Stock

The Company currently estimates that approximately 67.0% of the approximately 79.2 million shares of Common Stock issued pursuant to the POR are, or upon final distribution pursuant to the POR will be, subject to the Restrictions, which, among other things, presently prevent such shares from being traded on the NYSE or otherwise freely transferred. The Restrictions are subject to a number of exceptions, including an exception relating to certain privately negotiated transactions in which, among other things, the purchaser agrees to be bound by the Restrictions. The Restrictions will lapse no later than August 4, 1994. See "Capital Stock -- Common Stock — Restrictions on Transfer." There can be no assurance that transactions involving

shares of Common Stock subject to the Restrictions, whether effected before or after the termination of the Restrictions, will not have an adverse effect on the market for, or the market price of, the shares of Common Stock offered hereby.

Tax Risks

In connection with the POR and the plan of reorganization of Federated Stores, Inc. ("FSI"), formerly Campeau's United States holding company for the Company and Allied, the FSI consolidated tax group (which, with respect to periods prior to the POR Effective Date, included the Federated/Allied Companies) triggered certain gains (the "Gains") estimated at approximately \$1.8 billion. Under applicable federal tax law, each member of the FSI consolidated tax group would be severally liable for the entire amount of any tax liability incurred by any other member of the group, generally, prior to February 4, 1992. Under an indemnification agreement entered into pursuant to the POR, among other things, Ralphs Grocery Company ("Ralphs"), a former subsidiary of FSI, would generally be liable to the Company for 21% of the first \$71.43 million in tax liability with respect to the Gains and the Company would indemnify Ralphs for any tax liability above that amount. The Company believes that net operating and capital losses and carryforwards ("NOLs") sufficient to offset the Gains were available at the time the Gains were triggered and, accordingly, that the Company will have no regular federal income tax liability in respect thereof and that it has adequately provided for its estimated alternative minimum tax liability. However, there are a number of issues that may arise which, if determined adversely, could limit the amount of available NOLs, and therefore result in tax liability to the Company. These issues include, without limitation, the availability of certain deductions previously claimed by the FSI consolidated tax group and the applicability of certain provisions of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), generally limiting the availability of NOL carryforwards following certain changes in ownership. While there can be no assurance with respect thereto, management does not expect that the resolution of these issues will have a material adverse effect on the Company's financial position.

In connection with the Reorganization Proceedings, the Internal Revenue Service (the "IRS") audited the tax returns of the Federated/Allied Companies for tax years 1984 through 1989 and asserted certain claims against the Federated/Allied Companies and other members of the FSI consolidated tax group. The issues raised by the IRS audit were resolved by agreement with the IRS in the Reorganization Proceedings except for two issues involving the use by the Federated/Allied Companies of an aggregate of \$27.0 million of NOLs of an acquired company and the deductibility of approximately \$176.3 million of so-called "break-up fees." These issues were litigated before the Bankruptcy Court and resolved in favor of the Federated/Allied Companies; however, the IRS has appealed the Bankruptcy Court's determination of these issues. While there can be no assurance with respect thereto, management does not expect that the resolution of these issues will have a material adverse effect on the Company's financial position.

Disputed Claims Reserves

Pursuant to the POR, and based on the Company's estimate of the amount of such claims that ultimately will be allowed by the Bankruptcy Court, the Company provided for the payment of approximately \$285.0 million in respect of certain classes of claims against certain subsidiaries of the Company. Approximately \$183.5 million of this amount was segregated on the POR Effective Date, and is not reflected on the Company's Consolidated Balance Sheet as of February 1, 1992, while the remaining \$101.5 million of this amount consists of deferred obligations which are reflected as "subsidiary trade obligations" on the Company's Consolidated Balance Sheet as of February 1, 1992. Both the cash portion and the deferred portion of this amount include amounts in respect of claims that have been allowed as well as amounts in respect of claims that are still being disputed by the Company. Approximately \$57.1 million of the segregated cash had been paid out as of March 26, 1992 in respect of allowed claims. The total face amount of such claims which are still being disputed by the Company is approximately \$358.4 million. In the event that the provisions applicable to the disputed claims prove to be inadequate, the holders of such disputed claims that ultimately are allowed by the Bankruptcy Court would have recourse to certain subsidiaries of the Company and, with respect to a portion of the consideration provided for such claims in the POR, to the Company. See

"Indebtedness — Subsidiary Trade Obligations." However, while there can be no assurance that the actual amounts of such disputed claims that are ultimately allowed by the Bankruptcy Court will not exceed the estimated amounts thereof, management does not expect that any variance between such actual and estimated amounts will have a material adverse effect on the Company's financial position.

Competitive Conditions; Business Factors

The retailing industry, in general, and the department store business, in particular, are intensely competitive. Generally, the Company's stores compete not only with other department stores in the geographic areas in which they operate but also with numerous other types of retail outlets, including specialty stores, general merchandise stores, and off-price and discount stores. See "Business — Operating Divisions" and "— Competition." Some of the retailers with which the Company competes have substantially greater financial resources than the Company. In addition, the Company's credit card operations are subject to legal and regulatory requirements which, if changed, could adversely affect the Company's results of operations. See "Business — Support Service Divisions — Financial and Credit Services."

The department store business is seasonal in nature with a high proportion of sales and operating income generated in November and December. Working capital requirements fluctuate during the year, increasing somewhat in mid-Summer in anticipation of the Fall merchandising season and increasing substantially prior to the Christmas season as significantly higher inventory levels are necessary.

Certain Provisions of the Company's Certificate of Incorporation, By-Laws, and Other Agreements

The Company's Certificate of Incorporation and By-Laws, and certain other agreements to which the Company is a party, contain provisions that may have the effect of delaying, deferring, or preventing a change in control of the Company. See "Capital Stock — Certain Corporate Governance Matters." In addition, the Company's Certificate of Incorporation authorizes the issuance of up to 250 million shares of Common Stock and 125 million shares of Preferred Stock. The Board of Directors will have the power to determine the price and terms under which any such additional capital stock may be issued and to fix the terms of such Preferred Stock and existing stockholders of the Company will not have preemptive rights with respect thereto. See "Capital Stock — Future Stock Issuances."

THE COMPANY

The Company and its predecessors have been operating department stores since 1830. The Company was organized as a Delaware corporation in 1929. Both the Company and Allied were among the leading independent retailers in the United States prior to being acquired by Campeau in 1988 and 1986, respectively, in highly leveraged transactions. Following the acquisitions, the Company and Allied disposed of a number of operating divisions, including all non-department store operations. Substantially all of the proceeds of such dispositions were used to pay down acquisition debt. However, during the course of 1989, it became apparent that their remaining indebtedness could not be supported by operations and, on January 15, 1990 (the "Petition Date"), the Federated/Allied Companies commenced the Reorganization Proceedings to reorganize and to restructure their acquisition debt and other liabilities.

The Federated/Allied Companies emerged from bankruptcy on February 4, 1992. Pursuant to the POR, among other transactions, (i) the liabilities of the Federated/Allied Companies were reduced by a net amount of approximately \$5.0 billion, (ii) the Company distributed to prepetition creditors or reinstated approximately \$3.9 billion aggregate principal amount of debt securities and other debt, approximately \$398.8 million in cash, and approximately 79.2 million shares of Common Stock, (iii) Allied was merged into the Company, and (iv) a new Board of Directors of the Company was elected. As a result of the POR, Campeau (now known as Camdev, Inc.) no longer has any direct or indirect equity interest in the Company. See "Business — Legal Proceedings."

The Company's executive offices are located at 7 West Seventh Street, Cincinnati, Ohio 45202. The Company's telephone number is (513) 579-7000.

PRICE RANGE OF COMMON STOCK

In connection with the issuance of shares of Common Stock pursuant to the POR, trading of the Common Stock not subject to the Restrictions commenced on the NYSE on a when-issued basis on February 5, 1992 and on a regular-way basis on March 17, 1992. During the period from February 5, 1992 to March 31, 1992, the high and low sales prices per share for such shares of Common Stock as reported on the NYSE Composite Tape were \$18.25 and \$13.50, respectively. On March 31, 1992, the last reported sales price per share as reported on the NYSE Composite Tape was \$14.25. As of March 31, 1992, there were approximately 2,200 holders of record of Common Stock.

DIVIDEND POLICY

The Company has not paid dividends on its common stock since 1988 and does not anticipate paying any dividends on the Common Stock in the foreseeable future. The covenants in certain debt instruments to which the Company is a party restrict the ability of the Company to pay dividends. See "Indebtedness — Reorganization Indebtedness" and "— Subsidiary Trade Obligations."

USE OF PROCEEDS

The estimated net proceeds to the Company from the Offerings (assuming a public offering price of \$14.25 per share, the last reported sales price per share of Common Stock as reported on the NYSE Composite Tape on March 31, 1992) will be approximately \$541.5 million (approximately \$622.7 million if the U.S. Underwriters' and the International Managers' over-allotment options are exercised in full). The Company will apply the net proceeds of the Offerings, including any net proceeds from the exercise of the over-allotment options, to the prepayment of outstanding indebtedness under the Company's Series C Secured Notes Due February 4, 1995 (the "Series C Notes"), the Company's Series D Secured Notes Due August 15, 1997 (the "Series D Notes"), and the Company's Series E Secured Notes Due February 15, 2000 (the "Series E Notes"). The aggregate principal amount of the Series C, D, and E Notes was \$581.2 million as of March 31, 1992. Interest on the Series C and E Notes accrues at variable rates which, as of March 31, 1992, were 6.875% and 6.5%, respectively, per annum. Interest on the Series D Notes accrues at 9.0% per annum (plus a 1% annual fee) and is subject to being reset effective as of February 15, 1995.

The Company anticipates entering into a working capital facilities agreement (the "Working Capital Facilities Agreement") concurrently with the consummation of the Offerings, which would provide for a nonamortizing revolving loan and letter of credit facility aggregating at least \$300.0 million (the "Working Capital Facility"), as to which Citibank, N.A. ("Citibank") has agreed to act as agent. Citibank has proposed to provide \$150.0 million of borrowing capacity under the Working Capital Facilities Agreement, subject to final credit approval, successful syndication of an additional \$150.0 million of borrowing capacity thereunder, the entry into definitive loan documentation, and certain other conditions. Citibank has advised the Company that Citibank is of the opinion that, based on current market conditions and discussions with potential participating banks, and subject to various assumptions, including the successful completion of the Offerings and the prepayment by the Company of not less than \$900.0 million of long-term debt, the Working Capital Facility could be successfully syndicated and has agreed to use its best efforts to arrange it. However, there can be no assurance as to whether, or the terms upon which, such a facility will actually be available to the Company.

Subject to the Company entering into the Working Capital Facilities Agreement, the Company will apply an estimated \$400.0 million of cash on hand to prepay any remaining Series C, D, and E Notes and thereafter ratably to prepay a portion of the outstanding principal amount of the Company's Series A Secured Notes Due February 15, 2000 (the "Series A Notes") and the Company's Series B Secured Notes Due February 15, 2000 (the "Series B Notes"). See "Indebtedness — Reorganization Indebtedness" for descriptions of the Series A and Series B Notes. The net proceeds of the Offerings and the application of the estimated \$400.0 million of cash on hand would result in total long-term debt prepayments of \$941.5 million (or \$1,022.7 million if the over-allotment options are exercised in full).

CAPITALIZATION

The following table sets forth the consolidated capitalization and short-term debt of the Company as of February 1, 1992, and as adjusted to give effect to the Offerings and application of \$541.5 million of estimated net proceeds therefrom, and \$400.0 million of Additional Debt Prepayments. See "Use of Proceeds." This presentation does not purport to represent what the Company's actual capitalization would have been had such transactions in fact been consummated on February 1, 1992, or the Company's results of operations since February 1, 1992. This presentation should be read in conjunction with the Consolidated Financial Statements, the unaudited pro forma financial information, the related notes, and the other information contained in this Prospectus. See "Unaudited Pro Forma Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

	At February 1, 1992	Pro Forma As Adjusted
	(thousands, except share data)	
Short-term debt:		
Receivables facilities	\$ 742,422	\$ 742,422
Current portion of long-term debt	<u>29,183</u>	<u>29,183</u>
Total short-term debt and current portion of long-term debt	<u><u>\$ 771,605</u></u>	<u><u>\$ 771,605</u></u>
Long-term debt:		
Note monetization facility(a)	\$ 352,000	\$ 352,000
Receivables facilities	400,000	400,000
Working capital facility	—	—
Series A secured notes	472,809	306,928
Series B secured notes	554,243	359,791
Series C secured notes	182,595	—
Series D secured notes	305,553	—
Series E secured notes	93,019	—
Mortgage facility	365,205	365,205
Senior convertible discount notes	256,926	256,926
Other secured real estate	6,229	6,229
Capitalized leases	49,895	49,895
Subsidiary trade obligations	101,523	101,523
Administrative tax notes	35,199	35,199
Other	<u>1,491</u>	<u>1,491</u>
Total long-term debt	<u><u>3,176,687</u></u>	<u><u>2,235,187</u></u>
Shareholders' equity:		
Common stock, 79,246,637 shares outstanding (120,009,737 shares pro forma)(b)	792	1,200
Additional paid-in capital	1,453,340	1,994,432
Retained earnings	—	(12,651)
Total shareholders' equity	<u><u>1,454,132</u></u>	<u><u>1,982,981</u></u>
Total capitalization	<u><u>\$4,630,819</u></u>	<u><u>\$4,218,168</u></u>

- (a) The note monetization facility represents debt of a trust of which the Company is the beneficiary. Repayment of such debt is nonrecourse to the Company (other than its interests in such trust). The trust holds a \$400.0 million principal amount note receivable from May Department Stores, Inc. supported by a letter of credit from a consortium of banks.
- (b) Does not include (i) 1,808,500 shares reserved for issuance upon exercise of options granted to officers and key employees of the Company (exercisable at \$16.875 per share); (ii) 8,564,107 shares reserved for issuance upon conversion of the Company's Senior Convertible Discount Notes (convertible at the rate of 27.86 shares per \$1,000 stated principal amount); (iii) 4,000,000 shares reserved for issuance upon exercise of Series A Warrants (exercisable at \$25.00 per share); (iv) 1,000,000 shares reserved for issuance upon exercise of Series B Warrants (exercisable at \$35.00 per share); (v) 204,000 shares issuable to the U.S. Treasury in five equal annual installments; and (vi) up to 1,200,000 shares reserved for issuance to certain prepetition creditors in the event certain third-party insurance recoveries are realized. See "Capital Stock — Future Stock Issuances." Pro forma as adjusted data include 763,100 shares of restricted Common Stock issued to the Company's executive officers and other key employees under the Company's long-term incentive plan. See "Management — Benefit Plans and Agreements — The Equity Plan and Bonus Plan."

PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma financial information is based upon the Consolidated Financial Statements of the Company as of and for the year ended February 1, 1992. The Pro Forma Condensed Consolidated Balance Sheet has been adjusted to give effect to the assumed receipt of \$541.5 million in net proceeds of the Offerings and the application of such amount together with \$400.0 million of Additional Debt Prepayments from cash on hand to the prepayment of a total of \$941.5 million of long-term debt as if such transactions had been consummated on February 1, 1992. See "Use of Proceeds." The Pro Forma Condensed Consolidated Statement of Operations has been adjusted to give effect to the POR, the assumed receipt of \$541.5 million in net proceeds of the Offerings and the application of such amount, together with \$400.0 million of cash on hand, to the prepayment of a total of \$941.5 million of long-term debt as if such transactions had been consummated on February 3, 1991, as well as for certain other transactions referred to in "Notes to Pro Forma Financial Information." The following unaudited pro forma financial information does not purport to be indicative of the financial position or results of operations that would actually have been reported had such transactions in fact been consummated as of such dates, or the financial position or results of operations that may be reported by the Company in the future. The following unaudited pro forma financial information should be read in conjunction with the Consolidated Financial Statements, the related notes, and the other information contained elsewhere in this Prospectus. Under applicable accounting rules, the Company has included certain pro forma historical data in Note 3 to the Consolidated Financial Statements. Such pro forma data do not give effect to the Offerings and application of proceeds therefrom or the proposed \$400.0 million of Additional Debt Prepayments.

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
February 1, 1992
 (thousands) |

ASSETS

	<u>Historical</u>	<u>Debit</u>	<u>Credit</u>	<u>Pro Forma As Adjusted</u>
Current Assets:				
Cash	<u>\$1,002,482</u>			\$400,000(a) \$ 591,982
			10,500(c)	
Accounts receivable	1,515,378			1,515,378
Merchandise inventories	1,167,346			1,167,346
Supplies and prepaid expenses	42,615			42,615
Deferred income tax benefit	<u>113,342</u>			<u>113,342</u>
Total Current Assets	3,841,163			3,430,663
Property and Equipment — net	2,499,700			2,499,700
Reorganization Value in Excess of Amounts				
Allocable to Identifiable Assets	375,244			375,244
Notes Receivable	420,575			420,575
Other Assets	<u>364,463</u>	10,500(c)	20,740(b)	<u>354,223</u>
Total Assets	<u>\$7,501,145</u>			<u>\$7,080,405</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:				
Short-term borrowings and long-term debt due within one year	\$ 771,605			\$ 771,605
Accounts payable and accrued liabilities	1,111,011			1,111,011
Income taxes	<u>34,735</u>	8,089(b)		<u>26,646</u>
Total Current Liabilities	1,917,351			1,909,262
Long-Term Debt	3,176,687		941,500(a)	2,235,187
Deferred Income Taxes	746,627			746,627
Other Liabilities	206,348			206,348
Shareholders' Equity	<u>1,454,132</u>	12,651(b) 541,500(a)		<u>1,982,981</u>
Total Liabilities and Shareholders' Equity	<u>\$7,501,145</u>			<u>\$7,080,405</u>

See accompanying Notes to Pro Forma Financial Information.

**PRO FORMA CONSOLIDATED CONDENSED
STATEMENT OF OPERATIONS**
For the Fiscal Year Ended February 1, 1992
(thousands, except per share data)

	Historical	POR Adjustments		As Adjusted For the POR	Offering and Additional Debt Prepayment Adjustments		Pro Forma As Adjusted
	Debit	Credit			Debit	Credit	
Net Sales, including leased department sales	\$ 6,932,323			\$ 6,932,323			\$ 6,932,323
Cost of sales, including occupancy and buying costs.....	4,964,471		5,158(a)	4,959,313			4,959,313
Selling, publicity, delivery, and administrative expenses	1,700,880	18,283(b) 18,762(d) 5,763(e) 13,627(f)	48,698(c) 13,262(a)	1,695,355			1,695,355
Interest expense	504,257	347,158(g)	504,257(g)	347,158	4,250(l)	88,842(l)	262,566
Interest income.....	(67,260)	67,260(g)	40,887(g)	(40,887)			(40,887)
Total costs and expenses	<u>7,102,348</u>			<u>6,960,939</u>			<u>6,876,347</u>
Income (Loss) Before Reorganization Items, Income Taxes, Extraordinary Item, and Cumulative Effect of Change in Accounting Principle	(170,025)			(28,616)			55,976
Reorganization items	<u>(1,679,936)</u>		1,679,936(h)	—			—
Income (Loss) Before Income Taxes, Extraordinary Item, and Cumulative Effect of Change in Accounting Principle	(1,849,961)			(28,616)			55,976
Federal, state, and local income tax benefit (expense)	<u>613,989</u>	610,146(i)		<u>3,843</u>	32,991(m)		<u>(29,148)</u>
Income (Loss) Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle	(1,235,972)			(24,773)			26,828
Extraordinary item — gain on debt discharge	2,165,515	2,165,515(j)		—			—
Cumulative effect of change in accounting for postretirement benefits other than pensions	(93,151)		93,151(k)	—			—
Net Income (Loss)	<u>\$ 836,392</u>			<u>(24,773)</u>			<u>26,828</u>
Net Income (Loss) per share(n) \$	<u>—</u>			<u>\$ (0.31)</u>			<u>\$ 0.22</u>

See accompanying Notes to Pro Forma Financial Information.

NOTES TO PRO FORMA FINANCIAL INFORMATION

Note 1 — Pro Forma Consolidated Condensed Balance Sheet Adjustments

- (a) To adjust for the assumed issuance and sale of 40,000,000 shares of Common Stock pursuant to the Offerings at a price of \$14.25 per share, the receipt by the Company of the net proceeds thereof in the assumed amount of \$541.5 million, and the application of such net proceeds and \$400.0 million of cash on hand to the prepayment of a total of \$941.5 million of long-term debt. See "Use of Proceeds."
- (b) To write off the balance of deferred financing costs associated with the Series C and D Secured Notes and the Series F LC Facility.
- (c) To record payment of financing costs associated with the proposed Working Capital Facility. See "Use of Proceeds."

Note 2 — Pro Forma Consolidated Condensed Statement of Operations Data

- (a) To reflect projected savings in personnel and operating expenses from the consolidation of merchandising and marketing operations of the Company's Burdines and former Maas Brothers divisions and the closing of underperforming or redundant stores in Florida for the portion of 1991 preceding those actions. See "Business — Operating Divisions — Burdines."
- (b) To record the incremental expense impact of adopting SFAS No. 106.
- (c) To reflect the reversal of the historical amortization of the excess of cost over net assets acquired. See Note 3 of Notes to the Consolidated Financial Statements.
- (d) To reflect the amortization of reorganization value in excess of amounts allocable to identifiable assets over a 20-year period.
- (e) To record, as compensation expense, the amortization of awards of 763,100 shares of restricted stock granted under the Company's long-term incentive plan. See "Management — Benefit Plans and Agreements — The Equity Plan and Bonus Plan."
- (f) To reclassify the expenses under the pre-POR Effective Date bonus plan from reorganization expense.
- (g) To reverse historical interest expense and interest income and record interest expense on the debt incurred in connection with the POR and interest income from remaining notes receivable after giving effect to the POR. The assumed interest expense, amortization of deferred debt expense, and interest rates are as follows:

	<u>For the 52 Weeks Ended February 1, 1992</u> (thousands)	<u>Assumed Interest Rate</u>
Interest expense:		
Receivables facilities	\$ 67,215	6.60%
Note monetization facility	37,498	10.61%
Series A secured notes	35,756	7.50%
Series B secured notes	55,272	10.00%
Series C secured notes	13,809	7.50%
Series D secured notes	30,472	10.00%
Series E secured notes	7,035	7.50%
Mortgage facility	37,331	10.25%
Senior convertible discount notes	15,373	6.00%
Other secured real estate	491	8.30%
Capitalized leases	5,677	9.57%
Subsidiary trade obligations	7,025	6.94%
Administrative tax notes	2,864	8.50%
Other	7,393	10.82%
 Amortization of deferred debt expense	 323,211	
 Total interest expense	 23,947	
	 \$347,158	

NOTES TO PRO FORMA FINANCIAL INFORMATION — (Continued)

The Company intends to maintain and invest cash balances in the ordinary course of its business. Such anticipated cash balances are subject to seasonal variations and other uncertainties, however, and the consolidated pro forma statement of income does not reflect any estimate of interest income thereon.

- (h) To reverse historical reorganization expense which will not be incurred subsequent to the POR Effective Date and to reclassify pre-POR Effective Date bonus plan expense to selling, publicity, delivery, and administrative expenses.
- (i) To reverse the income tax effect of fresh-start adjustments and record the income tax effect of pro forma adjustments for items that are deductible for income tax purposes, using an assumed effective income tax rate of 39%.
- (j) To reverse the gain on debt discharged pursuant to the POR.
- (k) To reverse the cumulative effect of adopting SFAS No. 106.
- (l) To record interest expense on debt giving effect to the Offerings and the Additional Debt Prepayments. The assumed interest expense, amortization of deferred debt expense, and interest rates are as follows:

	<u>For the 52 Weeks Ended February 1, 1992</u>	<u>Assumed Interest Rate</u>
	(thousands)	
Interest expense:		
Receivables facilities	\$ 67,215	6.60%
Note monetization facility	37,498	10.61%
Series A secured notes	23,211	7.50%
Series B secured notes	35,880	10.00%
Mortgage facility	37,331	10.25%
Senior convertible discount notes.....	15,373	6.00%
Other secured real estate	491	8.30%
Capitalized leases.....	5,677	9.57%
Subsidiary trade obligations	7,025	6.94%
Administrative tax notes	2,864	8.50%
Other	<u>8,143</u>	<u>10.82%</u>
	<u>240,708</u>	
Amortization of deferred debt expense	<u>21,858</u>	
Total interest expense	<u>\$262,566</u>	

The Company intends to maintain and invest cash balances in the ordinary course of its business. Such anticipated cash balances are subject to seasonal variations and other uncertainties, however, and the consolidated pro forma statement of income does not reflect any estimate of interest income thereon.

- (m) To record the income tax effect of adjustments relating to the Offerings for items that are deductible for income tax purposes, using an assumed effective income tax rate of 39%.
- (n) Earnings per share are not presented because there were no publicly held shares of common stock of the Company during the historical period presented. Net loss per share as adjusted for the POR is based on 80,213,737 shares (the number of shares issued or issuable under the POR plus restricted stock issued to certain key employees); pro forma as adjusted net income per share is based upon such number of shares increased by the 40,000,000 shares offered hereby.

SELECTED CONSOLIDATED FINANCIAL DATA

(thousands, except dividend data)	The Company				The Predecessor (a)	
	Fiscal Year Ended February 1, 1992	Fiscal Year Ended February 2, 1991	Fiscal Year Ended February 3, 1990	Nine Months Ended January 28, 1989 (unaudited)	13 Weeks Ended April 30, 1988	Fiscal Year Ended January 30, 1988
Consolidated Statements of Operations Data:						
Net sales, including leased department sales	\$ 6,932,323	\$ 7,141,983	\$ 7,577,586	\$ 5,867,002	\$2,449,096	\$11,117,840
Cost of sales, including occupancy and buying costs	4,964,471	5,172,892	5,447,121	4,163,904	1,827,501	8,191,571
Selling, publicity, delivery, and administrative expenses	1,700,880	1,833,918	1,881,017	1,377,952	555,235	2,298,802
Interest expense(b)	504,257	639,527	914,557	620,716	30,853	107,965
Interest income	(67,260)	(83,585)	(107,892)	(65,207)	(766)	(3,356)
Unusual items	—	—	1,067,817 (c)	10,000 (d)	315,680 (e)	(7,124) (f)
Total costs and expenses	7,102,348	7,562,752	9,202,620	6,107,365	2,728,503	10,587,858
Income (loss) before reorganization items, income taxes, extraordinary item, and cumulative effect of change in accounting principle	(170,025)	(420,769)	(1,625,034)	(240,363)	(279,407)	529,982
Reorganization items	(1,679,936)	(127,032)	(142,110)	—	—	—
Federal, state, and local income tax benefit (expense)	613,989	276,355	(6,783)	15,522	113,827	(217,000)
Extraordinary item — gain on debt discharge	2,165,515	—	—	—	—	—
Cumulative effect of change in accounting principle	(93,151)	—	—	—	—	—
Net income (loss) (g)(h)	<u>\$ 836,392</u>	<u>\$ (271,446)</u>	<u>\$ (1,773,927)</u>	<u>\$ (224,841)</u>	<u>\$ (165,580)</u>	<u>\$ 312,982</u>
Depreciation and amortization	\$ 260,884	\$ 278,227	\$ 317,575	\$ 244,892	\$ 69,717	\$ 280,716
Capital expenditures	201,631	93,143	177,792	200,902	61,221	486,631
Cash dividends per share of common stock	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1.48
Balance Sheet Data (at year end): (i)						
Cash	\$ 1,002,482	\$ 453,560	\$ 446,195	\$ 119,482	\$ 167,760	\$ 93,217
Working capital	1,923,812	1,957,037	2,653,693	258,978	1,093,058	1,447,121
Total assets	7,501,145	9,150,056	9,592,231	11,259,169	6,098,874	6,008,717
Short-term borrowings and long-term debt due within one year	771,605	309,268	176,216	1,891,366	611,080	399,646
Liabilities subject to settlement under reorganization proceedings	—	6,475,129	6,729,168	—	—	—
Long-term debt (including preferred shares)	3,176,687	1,361,778	1,561,778	5,152,898	940,662	956,619
Shareholders' equity (deficit)	1,454,132	(1,398,528)	(1,127,082)	1,130,940	2,473,999	2,629,067

(See Notes on following page)

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- (a) For purposes of this table, the "Predecessor" refers to Federated Department Stores, Inc. prior to its acquisition by Campeau and does not include Allied. See Note 1 to the Consolidated Financial Statements.
 - (b) Excludes interest on unsecured prepetition indebtedness of \$301,576, \$290,979, and \$11,300, respectively, for 1991, 1990, and 1989. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."
 - (c) Consists primarily of write-downs of the excess of cost over the value of assets acquired. See Note 7 to the Consolidated Financial Statements.
 - (d) Consists of an adjustment to the gain on sale of Allied's Brooks Brothers subsidiary which was sold in April 1988.
 - (e) Consists of expenses, before income tax benefits, related to the tender offers for shares of Federated Department Stores, Inc. common stock.
 - (f) Consists of a gain from the sale by a Federated subsidiary of its interest in a shopping center.
 - (g) See Notes 3, 4, 5, and 17 to the Consolidated Financial Statements.
 - (h) Per share data are not presented for the Company inasmuch as they are not meaningful because there were no publicly held shares of common stock of the Company following its acquisition by Campeau. Per share data are not presented for the period prior to the Company's acquisition by Campeau due to the general lack of comparability between the periods shown for the Predecessor with those shown for the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."
 - (i) Balance Sheet Data at February 1, 1992 reflects the adoption of fresh-start reporting. See Note 3 to the Consolidated Financial Statements.

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

Introduction

The discussion of results of operations that follows is based upon the Company's Consolidated Financial Statements. The discussion of the Company's liquidity and capital resources is based upon the Company's current financial position as adjusted to give effect to the Offerings and the Additional Debt Prepayments. See "Use of Proceeds" and "Pro Forma Financial Information."

The Company's results of operations and financial condition reflect the combination of the Federated/Allied Companies in the historical financial information presented, as well as the consummation of the POR and the transactions contemplated thereby. Accordingly, the financial condition and results of operations of the Company are generally not comparable between years due to the Reorganization Proceedings and the effect of the POR and the transactions contemplated thereby.

Results of Operations

Recent Developments. As is typical in the department store industry, the Company publicly releases monthly sales information. On March 5, 1992, the Company reported an increase in comparable store sales of 10.2% for February of 1992 compared to February of 1991. For the four weeks ended February 28, 1992, the Company had net sales of \$465.1 million compared to \$448.4 million for the comparable period in 1991. Such net sales reflect the closing of 24 stores between the two periods. The February 1992 comparable store sales increase was attributable primarily to two factors — home store promotions that are typically conducted in the month of February and a strategy to clear certain old inventory marked down in 1991. The Company does not expect comparable store sales to continue to increase during 1992 at the level achieved for the month of February.

Comparison of the 52 weeks ended February 1, 1992 and the 52 weeks ended February 2, 1991. Net sales for 1991 were \$6,932.3 million, compared to \$7,142.0 million for 1990, a decrease of 2.9%. From February 2, 1990 to February 1, 1992, the Company closed or announced the closing of 41 department stores and two specialty stores, opened three stores, discontinued operating a clearance center, and discontinued basement businesses at two subsidiaries. On a comparable store basis, net sales increased 1.4%.

Cost of sales, including occupancy and buying costs, was 71.6% of net sales for 1991 compared to 72.4% for 1990. The decrease is primarily due to improved margins resulting from new merchandising strategies.

Selling, publicity, delivery, and administrative expenses were 24.5% of net sales for 1991 compared to 25.7% for 1990. The decrease is due to continued efforts to reduce expenses.

Net interest expense was \$437.0 million for 1991, compared to \$555.9 million for 1990. The Company did not accrue \$301.6 million and \$291.0 million of interest on unsecured prepetition debt obligations in 1991 and 1990, respectively. Interest payments net of interest received were \$122.6 million for 1991 compared to \$292.1 million for 1990. In 1991, the Company paid \$43.0 million of interest as compared to \$154.9 million in 1990 on prepetition indebtedness required under the terms of its previous debtor-in-possession working capital financing facility.

Reorganization items represent the expenses incurred as a result of the chapter 11 filings by the Federated/Allied Companies and subsequent reorganization efforts, including among other things, the closing of stores, the consolidation of certain operations in 1991, and the adjustments to record the fair value of assets and liabilities at February 1, 1992. See Note 4 to the Consolidated Financial Statements for further discussion.

The effective income tax rate of 33.2% for 1991 differs from the federal income tax statutory rate of 34.0% because of state and local income taxes, permanent differences arising from the amortization of goodwill, and certain reorganization items and the impact on the Company of the tax benefit associated with the implementation of the POR.

The extraordinary item in 1991 represents the gain on debt discharge resulting from the consummation of the POR. Because the debt is being discharged as a result of a chapter 11 case, no income tax expense has been recorded. See Note 15 to the Consolidated Financial Statements for further discussion.

In connection with the consummation of the POR, the Company changed its method of accounting for postretirement benefits other than pensions from principally a cash basis to the accrual basis in accordance with Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The amount of additional liability recorded represents the incremental amount over the remaining liability for then-current retirees previously recorded in connection with the acquisition of the Company by Campeau.

Comparison of the 52 Weeks Ended February 2, 1991 and the 53 Weeks Ended February 3, 1990. Net sales in 1990 were \$7,142.0 million, compared to \$7,577.6 million for 1989, a decrease of 5.7%. On a comparable 52-week year basis, net sales decreased 4.3% from 1989. During 1990, the Company closed 16 stores and opened two stores. On a comparable store basis, net sales decreased 4.3% from 1989. The sales decrease was primarily due to the sluggish economy, the transition to a new merchandising strategy, and distractions caused by uncertainties regarding the Federated/Allied Companies' financial condition.

Cost of sales, including occupancy and buying costs, as a percent of net sales, increased to 72.4% in 1990 from 71.9% in 1989. The increase was primarily due to relatively constant or, in some cases, higher occupancy and buying costs combined with the decline in net sales.

Selling, publicity, delivery, and administrative expenses were 25.7% as a percent of net sales for 1990, compared to 24.8% for 1989. The increase was primarily the result of a decline in net sales and increased employee benefit costs from the prior year. In contrast, 1990 reflected the reduction in amortization of goodwill by \$31.6 million from the prior year.

Net interest expense was \$555.9 million for 1990, compared to \$806.7 million for 1989. As a result of the chapter 11 filings, \$291.0 million and \$11.3 million of interest on unsecured prepetition debt obligations was not accrued in 1990 and 1989, respectively.

The unusual items in 1989 reflect the net effect of a \$1,150.0 million write-down of excess of cost over net assets acquired, partially offset by an \$82.2 million gain on the sale of a subsidiary.

Reorganization items represent the expenses incurred as a result of the chapter 11 filings by the Federated/Allied Companies and subsequent reorganization efforts, including among other things, the closing of 16 stores and the consolidation of merchandising services in 1990, and a non-recurring charge of \$139.9 million for the write-off of financing costs related to unsecured debts in 1989. See Note 4 to the Consolidated Financial Statements for further discussion.

The effective income tax rate of 50.4% for 1990 differs from the federal income tax statutory rate of 34.0% primarily due to the reinstatement of certain NOL carryforwards excluded in 1989, the effect of carrying back NOLs to years with higher federal income tax rates, state, and local income taxes, and permanent differences resulting from the amortization of goodwill and certain reorganization items. The effective tax rate for 1989 of (0.4)% reflects the exclusion of certain NOL carryforwards, state, and local income taxes, and permanent differences resulting from the write-down and amortization of goodwill.

Liquidity and Capital Resources

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

The POR resulted in an approximately \$5.0 billion net reduction in indebtedness, liabilities subject to reorganization, and preferred stock obligations. Management of the Company believes that the Company's cash on hand and funds from operations, together with borrowings and letters of credit under the Company's existing credit facilities described below and funds available from other capital resources, will be sufficient to cover its reasonably foreseeable working capital, capital expenditure, and debt service requirements as a result of the POR even if the Offerings and the Additional Debt Prepayments were not effected. The Company is

seeking, however, further to deleverage its capital structure to reduce the Company's overall level of debt and debt service requirements and further enhance the Company's financial flexibility and ability to pursue its long-term strategic plan. Accordingly, as discussed in "Use of Proceeds," the Company will apply the entire net proceeds of the Offerings (including any net proceeds from the exercise of over-allotment options) and other cash on hand to the prepayment of long-term debt issued pursuant to the POR. Assuming the sale of 40,000,000 shares of Common Stock at a public offering price of \$14.25 per share, and that the Company enters into the Working Capital Facilities Agreement, the Company currently intends to prepay an aggregate amount of approximately \$941.5 million of long-term debt. After giving effect to such \$941.5 million total debt prepayment, the Company's scheduled required repayments of long-term debt, other than receivables facilities and capitalized leases, for the next five fiscal years are as follows: 1992: \$23.5 million; 1993: \$13.0 million; 1994: \$12.1 million; 1995: \$113.2 million; and 1996: \$2.1 million.

The completion of the Offerings is not subject to the execution of a definitive Working Capital Facilities Agreement or the Company making any debt prepayments from cash on hand. However, it is anticipated that the execution of the proposed Working Capital Facilities Agreement will be subject to, among other things, the Company successfully completing the Offerings and prepaying at least \$900.0 million of long-term debt. See "Use of Proceeds." Accordingly, the Company currently does not intend to give notice of prepayment of any indebtedness until the completion of the Offerings and the execution of a definitive Working Capital Facilities Agreement.

Assuming the completion of the Offerings and the execution of a definitive Working Capital Facilities Agreement as described above, the Company intends to seek further to strengthen its financial position and increase its financial flexibility and may from time to time consider possible additional transactions, including possible capital markets transactions.

Existing Credit Facilities. Federated Credit Corporation ("Federated Credit"), an indirect wholly owned subsidiary of the Company, is presently a party to a receivables-backed credit facility to finance the purchase of accounts receivable from Abraham & Straus, Bloomingdale's, Burdines, Lazarus, and Rich's. Pursuant to this facility, Federated Credit may borrow from time to time until August 5, 1993 amounts equal to up to 88% of eligible accounts receivable, subject to an overall maximum of \$1.0 billion and subject to reduction in certain circumstances. As of February 1, 1992, Federated Credit had \$684.1 million outstanding under this facility. This facility is further described in Note 12 to the Consolidated Financial Statements. Allied Stores Credit Corporation ("Allied Credit"), an indirect wholly owned subsidiary of the Company, is a party to a receivables-backed credit facility to finance the purchase of accounts receivable from Jordan Marsh, Stern's, and The Bon Marché. Pursuant to this facility, Allied Credit may borrow from time to time until May 5, 1993 amounts equal to up to 88% of eligible accounts receivable, subject to an overall maximum of \$525.0 million and subject to reduction in certain circumstances. As of February 1, 1992, Allied Credit had \$458.3 million outstanding under this facility. This facility is further described in Note 12 to the Consolidated Financial Statements.

The Company is presently a party to a letter of credit facility agreement providing for the issuance from time to time of up to \$150.0 million aggregate face amount of letters of credit. Such letter of credit facility is described in Note 12 to the Consolidated Financial Statements. It is contemplated that such facility will be replaced by the proposed Working Capital Facility if the Company enters into such agreement. See "Use of Proceeds." In that event, outstanding letters of credit under the existing letter of credit facility would be replaced by letters of credit issued under the Working Capital Facilities Agreement.

Capital Expenditures. The Company's total capital expenditures were \$201.6 million and \$93.1 million in fiscal years 1991 and 1990, respectively. The Company's capital budget for the next five years is as follows: 1992: \$228.2 million; 1993: \$263.7 million; 1994: \$240.4 million; 1995: \$244.8 million; and 1996: \$243.5 million. See "Business — Business Strategy." See "Indebtedness — Reorganization Indebtedness" for a discussion of restrictions on capital expenditures under the Company's debt instruments.

BUSINESS

General

The Company is one of the leading operators of full-line department stores in the United States, with 220 stores in 26 states. The Company's stores sell a wide range of merchandise, including men's, women's, and children's apparel and accessories, cosmetics, home furnishings, and other consumer goods, and are diversified by size of store, merchandising character, and character of community served. The stores are located at urban or suburban sites, principally in densely populated areas in the eastern, midwestern, northeastern, northwestern, and southeastern regions of the United States, and are among the leading department stores in their respective markets.

The Company conducts its department store operations through seven retail operating divisions. The Company provides merchandise purchasing, credit, electronic data processing, and other support functions on an integrated, Company-wide basis through three support divisions — Federated Merchandising, FACS, and SABRE — and other centralized support services from the Company's headquarters in Cincinnati, Ohio. This structure is designed to achieve economies of scale and the implementation of consistent, Company-wide merchandise assortments and merchandising strategies, while retaining the ability to tailor merchandise assortments and merchandising strategies to the character and customer base of the Company's various department store franchises.

The Company seeks to satisfy the merchandise needs of consumers in its various geographic markets, serving customers of all ages with varied interests and incomes. In general, the Company's merchandising strategy focuses primarily on moderately to upper-moderately priced apparel and soft goods intended to appeal to the fashion-conscious, value oriented customer, except that Bloomingdale's places greater emphasis than the Company's other operating divisions on upscale, fashion-forward merchandise designed to appeal to the more affluent customer. Through its home store merchandising concept, the Company also emphasizes the offering of merchandise such as textiles, tabletop items, housewares, furniture, floor coverings, bedding, electronics, and other goods for home use. Management believes that the Company's home store concept differentiates the Company from its principal department store competitors. The following table sets forth the percentage of 1991 sales attributable to various merchandise categories:

	<u>% of 1991 Sales</u>
Apparel and Other Soft Goods	
Women's Apparel	28.6%
Men's Apparel and Accessories	15.7
Cosmetics	9.5
Women's Fashion Accessories	9.1
Children's Apparel	5.9
Shoes	5.3
	<u>74.1%</u>
Home Store Goods	
Textiles, Tabletop, and Housewares	13.6
Furniture, Floor Coverings, and Bedding	6.8
Electronics and Other Miscellaneous Goods	5.5
	<u>25.9%</u>
	<u>100.0%</u>

Business Strategy

Shortly after the commencement of the Reorganization Proceedings, Allen I. Questrom, who had left the Company following its acquisition by Campeau, returned to serve as the Chairman and Chief Executive Officer of the Company. Thereafter, Mr. Questrom, together with James M. Zimmerman, the Company's President and Chief Operating Officer, and other members of the Company's senior management, developed a

long-term strategic plan, the principal objective of which was to improve the Company's operating and financial performance to levels consistent with other leading department store retailers in the United States. The strategic plan formed the basis for the POR. While the strategic plan has not yet been fully implemented and the effects of its implementation to date have not yet been fully realized, a number of significant actions have been taken under the plan. Management is currently emphasizing the following seven key components of the long-term strategic plan.

- *Team Buying Program.* The Company is implementing a team buying program designed to realize the benefits of integrated, Company-wide merchandise assortments and strategies while tailoring such assortments and strategies to the character and customer base of the Company's various department store franchises. Each buying team consists of two or three of the most experienced merchants in a particular merchandise category from the Company's retail operating divisions, together with a specialist from the Company's central Federated Merchandising support division. Each buying team develops merchandising strategies for a particular category of merchandise, including the establishment of vendor relationships, merchandise assortments, and presentation standards. Depending upon the particular category of merchandise, the buying team is responsible for 50-90% of purchases on a Company-wide basis. The objective of the team buying program is to utilize fully the talents of the Company's most successful merchants and to develop specialty store levels of focus and expertise in its various merchandise categories. In addition, the team approach to merchandise purchasing is intended to enhance the Company's ability to negotiate the price and other terms of its merchandise purchases and to increase efficiencies due to economies of scale. During 1991, approximately 70% of the Company's merchandise purchases were effected through the team buying program, and management intends to endeavor to maximize the effectiveness of the program by completing its implementation across merchandise categories throughout the Company and seeking to identify opportunities for refinements and enhancements.
- *Inventory Management.* The Company has adopted various inventory management strategies designed to improve its inventory turnover rate (*i.e.*, net sales divided by average monthly merchandise inventories, at retail) and the freshness of its merchandise inventories. As a result of these actions, the Company's inventory turnover rate increased to 2.5 times in 1991 from 2.3 times in 1989, while the percentage of fresh soft goods merchandise (inventory less than 12 weeks old) increased to 76% in December 1991 from 66% in December 1989. The Company's inventory management strategies include the use of computer technology intended to shorten lead times and the management of the level of merchandise shipments received based on the most recent sales trends.
- *Store-Level Execution of Merchandising and Selling Strategies.* The Company's merchandising and selling strategies are intended to enhance the effective presentation of assortments and to increase the level of attention to selling and individual customer service. These strategies require a more focused and consistent approach to merchandise display than some of the Company's operating divisions have had in the past and emphasize selling skills, floor staffing, and selling supervision to increase sales productivity and to improve customer service. The Company has introduced a "prototype" program designed to develop optimal merchandise display strategies for specific merchandise categories. Under this program, merchandise display strategies are established in a limited number of selected stores to serve as models for implementation on a Company-wide basis. In addition, the Company is emphasizing the recruiting and training of top quality sales personnel and has implemented incentive compensation programs for certain sales associates.
- *Cost Reduction.* The Company centralized various support operations and staff functions. In addition, the Company consolidated its former Maas Brothers division into its Burdines division and, in March of 1992, the Company announced that it would also consolidate the headquarters and support operations of its Abraham & Straus and Jordan Marsh divisions.

These consolidations are expected to result in annual expense savings of approximately \$30.0 million and \$25.0 million, respectively. In addition, the Company is in the process of implementing an expense reduction program at Bloomingdale's, based in part on a comprehensive study by a nationally recognized consulting firm, that is designed to reduce annual operating expenses by approximately \$20.0 million. The estimated savings resulting from the Burdines/Maas Brothers consolidation and related store closings began to be realized in the last quarter of 1991, while the full impact of the operational consolidation of Abraham & Straus and Jordan Marsh is not expected to be realized until fiscal 1993. Approximately 50% of the estimated annual savings of Bloomingdale's expense reduction program was realized in 1991 and the full amount is expected to be realized in 1992. Management intends to continue to explore additional ways to increase efficiency and reduce costs, including through further consolidation and centralization of operations and support functions and through enhanced applications of information technologies.

- *Utilization of Technology.* During 1990 and 1991, the Company invested approximately \$60.0 million in equipment and related systems to enable the Company to utilize universal product code, electronic data interchange, and price look-up technology in all retail operating divisions. This investment in technology is intended to improve merchandising decisions and accuracy in reporting, lower inventory levels, reduce expenses, and improve customer service.
- *Upgrading of Stores.* During the Reorganization Proceedings, the Company closed or announced its intention to close 41 underperforming or redundant department stores (38 of which have been closed) and two specialty stores. Management has allocated approximately \$900.0 million of the Company's capital budget for the period from 1992 to 1996 to upgrade existing stores, including \$520.0 million allocated to major remodelings (projects over \$1.0 million).
- *Pay for Performance.* In 1992, the Company established a Company-wide incentive compensation program which is designed to link the compensation of key employees more closely to the achievement of specific performance levels. Approximately 750 employees participate in this program. See "Management — Benefit Plans and Agreements — The Equity Plan and Bonus Plan."

The retailing industry is intensely competitive and there necessarily can be no assurance that the Company's strategic plan will result in substantial improvements in the Company's operating or financial performance. See "Investment Considerations — Competitive Conditions; Business Factors."

Operating Divisions

The Company conducts its business through seven retail operating divisions, while providing merchandise purchasing, credit, electronic data processing, and other support functions on an integrated, Company-wide basis. The Company's seven retail operating divisions are Bloomingdale's, Abraham & Straus/Jordan Marsh, The Bon Marché, Burdines, Lazarus, Rich's/Goldsmith's, and Stern's, each of which is among the leading department store operators in its principal geographic region.

<u>Operating Division</u>	<u>Year Founded</u>	<u>Principal Geographic Region</u>	<u>Number of Stores(a)</u>	<u>1991 Sales(b) (millions)</u>	<u>Gross Square Feet(b) (c) (thousands)</u>
Bloomingdale's	1872	East	15	\$1,066.6	4,149
Abraham & Straus/Jordan Marsh	1851	Northeast	35	1,385.3	9,743
The Bon Marché	1890	Northwest	39	719.2	4,638
Burdines	1898	Florida	46	1,126.8	7,381
Lazarus	1830	Midwest	40	914.4	7,635
Rich's/Goldsmith's	1867	Southeast	23	809.0	4,578
Stern's	1867	Northeast	22	640.6	3,834
			<u>220</u>	<u>\$6,661.9</u>	<u>41,958</u>

(a) As of March 31, 1992.

(b) Excludes sales of \$194.5 million or gross square feet, as the case may be, of stores closed during 1991 and of stores which the Company has announced will be closed and \$75.9 million of sales of the Company's Bloomingdale's By Mail subsidiary.

(c) Includes total square footage of store locations, including office, storage, service, and other support space that is not dedicated to direct merchandise sales, but excludes warehouses and distribution terminals not located at store sites.

Each of the Company's retail operating divisions is a separate subsidiary of the Company, except that the Abraham & Straus/Jordan Marsh division comprises two separate subsidiaries of the Company.

Bloomingdale's. Bloomingdale's was founded in 1872 and operates 15 full-line department stores in eight states: one in Manhattan and four others in the greater New York metropolitan area; two in the greater Philadelphia metropolitan area; two in the greater Boston metropolitan area; two in the greater Washington, D.C. metropolitan area; three in southeast Florida; and one in Chicago. With the exception of its Manhattan store, which contains 444,000 square feet of selling space, Bloomingdale's stores contain an average of 187,500 square feet of selling space.

Bloomingdale's enjoys a reputation as a leader in fashion merchandising both nationally and abroad. Bloomingdale's offers a wide range of fashion merchandise in dramatic store settings. In particular, Bloomingdale's concentrates on upscale fashion apparel and home-related products, with an emphasis on distinctive merchandise. Bloomingdale's primary department store competitors include various national and regional department store operators, including Macy's, Neiman Marcus, and Saks Fifth Avenue.

Management intends to continue to improve the execution of Bloomingdale's merchandising strategies through more rigorous attention to standards and consistency in merchandise and service, particularly in its non-Manhattan locations, while increasing its emphasis on effective marketing techniques. Three underperforming Bloomingdale's stores have been closed since the end of fiscal year 1989. The Company plans to open in the Fall of 1992 a new Bloomingdale's store in the Mall of America located in Minneapolis, Minnesota. In addition, management is in the process of implementing an expense reduction program, based in part on a comprehensive study undertaken by a nationally recognized consulting firm, that is designed to reduce future operating expenses by approximately \$20.0 million per year commencing in 1992, with an estimated \$10.0 million reduction in such expenses having been realized in 1991.

In addition to Bloomingdale's department store operations, the Company operates, through a separate subsidiary, Bloomingdale's By Mail, a nationwide catalog business. Net sales of this catalog business for fiscal 1991 were \$75.9 million.

Abraham & Straus/Jordan Marsh. Abraham & Straus and Jordan Marsh were founded in 1865 and 1851, respectively. The Company is in the process of consolidating the headquarters and support operations, including merchandising, advertising, personnel, financial, and distribution, of the two department store franchises. This operational consolidation, which will involve the elimination of Jordan Marsh's central operations headquarters in Boston and a net reduction of approximately 400 personnel, is expected to result in annual expense savings of approximately \$25.0 million beginning in 1993.

Abraham & Straus/Jordan Marsh operates 15 Abraham & Straus stores in the greater New York metropolitan area and 20 Jordan Marsh stores, most of which are located in the greater Boston metropolitan area, with additional Jordan Marsh stores being located in Connecticut, Maine, New Hampshire, New York, and Rhode Island. With the exception of Abraham & Straus' Brooklyn store and Jordan Marsh's downtown Boston store, which contain 472,000 square feet and 437,000 square feet, respectively, of selling space, Abraham & Straus/Jordan Marsh's full-line department stores contain an average of 170,000 square feet of selling space. Abraham & Straus' primary department store competitors include various national and regional department store operators, including Macy's; Jordan Marsh's primary department store competitors include various national and regional department store operators, including Filene's. The Filene's stores with which Jordan Marsh competes are generally smaller in size and, unlike Jordan Marsh stores, do not carry a full line of home-related products, which management believes provides a competitive advantage to Jordan Marsh.

Abraham & Straus, which historically has had a strong presence in the New York metropolitan area outside of Manhattan, opened a store in Manhattan in 1989. Management believes that the Manhattan store has improved Abraham & Straus' market position and penetration, and that Abraham & Straus' competitive position in the Long Island market will be enhanced by the opening of a new store in Roosevelt Field in 1992. In addition, management believes that Jordan Marsh's financial performance, which has been adversely affected by economic conditions in New England, will improve as a result of the closing of six underperforming Jordan Marsh stores since the end of fiscal 1989, the economies of scale and synergies expected to result from the operational consolidation of Abraham & Straus and Jordan Marsh, and the deployment of merchandising strategies and expertise developed for Abraham & Straus.

The Bon Marché. The Bon Marché was founded in 1890 and operates 39 stores in the northwestern United States, four of which sell only furniture and home accessories. With the exception of The Bon Marché's downtown Seattle store, which contains 377,000 square feet of selling space, The Bon Marché's full-line department stores contain an average of 80,000 square feet of selling space, with larger stores being located in the greater Seattle-Tacoma metropolitan area and smaller stores, generally without furniture departments, being located primarily in secondary markets in the states of Idaho, Montana, Oregon, Utah, and Wyoming. The Bon Marché's primary department store competitors include various national and regional department store operators, including Nordstrom's, which generally does not offer a full line of home-related products in its stores.

The Bon Marché's financial performance historically has been consistently among the best of the Company's operating divisions. Management believes that The Bon Marché has potential for expansion in its geographic market.

Burdines. Burdines was founded in 1898 and operates 46 stores in Florida, including 15 stores that formerly operated under the Maas Brothers nameplate and five stores that formerly operated under the Jordan Marsh nameplate. Burdines' full-line department stores contain an average of 130,000 square feet of selling space. Management believes that Burdines is the leading department store franchise in Florida. Burdines' primary department store competitors include various national and regional department store operators, including Macy's and Dillard's.

Burdines' competitive position has been enhanced through its merger with Allied's former Maas Brothers subsidiary, which followed a decision in the Summer of 1991 to close 19 underperforming or redundant Maas Brothers stores (including 14 Maas Brothers stores operating under the Jordan Marsh nameplate), together

with three Burdines stores. All of these locations except one have already been closed. The consolidation of the operations of Burdines and Maas Brothers, together with the store closings, is expected to reduce operating expenses by an annual rate of approximately \$30.0 million commencing in 1992, with an estimated \$11.6 million reduction in such expenses having been realized in 1991. Management believes that Burdines, as reconfigured pursuant to such consolidation and store closings, has potential for expansion in its geographic market. The Company has opened one furniture store in Dade County and plans to open one full-line Burdine's department store at Pembroke Pines in 1992.

Lazarus. Lazarus was founded in 1830 and operates 40 stores, 28 of which offer a full line of merchandise, in addition to 10 apparel stores and two stores that only sell home related merchandise. Lazarus' stores are principally located in and around Cincinnati, Columbus, and Dayton, Ohio; Indianapolis, Indiana; Huntington, West Virginia; and Lexington and Louisville, Kentucky. With the exception of Lazarus' downtown Cincinnati and Columbus stores, which contain 364,000 square feet and 523,000 square feet of selling space, respectively, Lazarus' full-line department stores contain an average of 160,000 square feet of selling space. Lazarus' primary department store competitors include various national and regional department store operators, including L.S. Ayres, McAlpins, and Elder Beerman.

Lazarus is the product of the successful consolidation over the years of four department store operations — Lazarus, Rikes, Shillito's, and Block's — and, consequently, has achieved economies of scale resulting in a low expense rate relative to the Company's other divisions. During the past two fiscal years, Lazarus has closed four underperforming stores, including its downtown Dayton, Ohio store. Management intends to continue to seek further to improve Lazarus' performance through implementation of the Company's basic strategic plan.

Rich's/Goldsmith's. Rich's and Goldsmith's were founded in 1867 and 1870, respectively. The operations of Rich's and Goldsmith's were consolidated in mid-1988. Rich's/Goldsmith's operates 18 Rich's stores in Atlanta and Augusta, Georgia; Birmingham, Alabama; and Columbia and Greenville, South Carolina; and five Goldsmith's stores in the greater Memphis, Tennessee metropolitan area. All of these stores offer a full line of merchandise, with the exception of a 68,000 square foot free-standing furniture store in Atlanta. Rich's/Goldsmith's full-line department stores contain an average of 166,000 square feet of selling space. Rich's primary department store competitors include various national and regional department store operators, including Macy's and Parisian. Goldsmith's primary department store competitors include various national and regional department store operators, including Dillard's and Thalheimer's.

Since the end of fiscal 1989, Rich's/Goldsmith's has closed its Rich's store in downtown Atlanta and its Goldsmith's store in downtown Memphis, as well as two 5,000-square foot specialty stores. The Company expects to open a new Rich's store in Savannah, Georgia in 1992. Rich's/Goldsmith's financial performance historically has been consistently among the best of the Company's operating divisions. Management believes that Rich's/Goldsmith's has potential for expansion in its geographic markets.

Stern's. Stern's was founded in 1867 and operates 22 stores in New Jersey and New York (exclusive of two stores in Philadelphia which Stern's is in the process of closing). Stern's offers a traditional mix of merchandise designed to appeal to the more price-conscious customer and emphasizes promotional activities to a greater degree than the Company's other operating divisions. With the exception of Stern's Paramus store, which contains 210,000 square feet of selling space, Stern's full-line department stores contain an average of 123,500 square feet of selling space. Stern's primary department store competitors include various national and regional department store operators, including Macy's and Abraham & Straus.

Stern's financial performance historically has been consistently among the best of the Company's operating divisions.

Support Service Divisions

Federated Merchandising. Federated Merchandising, a division of the Company based in New York City, provides centralized buying services for the Company's retail operating divisions and coordinates the Company's team buying program, which is designed to improve the quality of merchandising assortments on a

Company-wide basis while reducing inventory costs. See " — Business Strategy." Federated Merchandising is also responsible for the private label development for all of the Company's operating divisions other than Bloomingdale's (which has its own private label program). Although the Company's merchandising strategy deemphasizes private label merchandise, the Company continues to utilize private labels in situations where they are complementary to the team buying strategy for a particular merchandise line.

Financial and Credit Services. FACS, a division of the Company located near Cincinnati, Ohio, provides proprietary credit services to each of the Company's retail operating divisions. In addition to establishing and monitoring credit policies on a Company-wide basis, FACS provides services that include, among others, statement processing and mailing, credit authorizations, new account development and processing, customer service, and collections. By centralizing its credit operations under a distinct, specialized management team and utilizing enhanced credit practices and technology, the Company believes that it has significantly reduced the net cost of providing credit and developed an important marketing tool for the Company's operating divisions by facilitating credit sales and assisting in the targeting of specific customers for promotional purposes.

Approximately 50.7% of the Company's total net sales for 1991 were financed through proprietary credit plans operated by FACS, with approximately 23.3% being financed through third-party credit cards and the remainder attributable to cash sales. As of February 1, 1992, the proprietary credit plans operated by FACS comprised approximately 11 million active accounts (i.e., accounts to which charges were made during the preceding 12 months).

The Company's proprietary credit plans are subject to federal and state regulation, including consumer protection laws, which impose restrictions on the making and collection of consumer loans and other aspects of credit card operations. During 1991, several legislative initiatives were undertaken by members of Congress which, had they been successful, would have had the effect of limiting the interest rate that could be charged on credit card accounts. There can be no assurance that existing laws and regulations will not be amended, or that new laws or regulations will not be adopted, in a manner that could adversely affect the Company's credit operations.

Electronic Data Processing Services. SABRE, a division of the Company located near Atlanta, Georgia, provides operational electronic data processing and management information services to each of the Company's retail operating divisions. Management believes that such services play an important role in the Company's merchandising strategy by providing management with current Company-wide information designed to improve merchandise assortments and reduce inventory costs. In addition, such services facilitate management's ability to monitor the effectiveness of the Company's merchandising strategies on a consolidated basis. Utilizing SABRE, management has access to essentially current information regarding over two million stock keeping units.

Through SABRE, the Company has invested approximately \$60.0 million in the past two years in universal product code, electronic data interchange, and price look-up technology to enhance the operating efficiency of its operating divisions. This investment in technology is intended to result in increased accuracy in reporting, lower inventory levels, and improved customer service. Registers in all of the Company's stores were equipped (where necessary) to utilize this technology at the end of 1991. In addition, the Company expects to have interactive electronic communication linkages with over 100 vendors by the end of fiscal 1992.

The Company currently provides certain electronic data processing and management information services to Macy's. In addition to the arrangement with Macy's, the Company is exploring the possibility of providing electronic data processing and management information services to other third parties. However, there can be no assurance that the Company will be able to do so or as to the timing or potential effect thereof.

Other Centralized Functions. The Company's substantial size enables it to take advantage of certain economies of scale by providing various other centralized services to its retail operating subsidiaries. A specialized staff maintained in the Company's corporate offices in Cincinnati provides services for all stores in such areas as store design and construction, real estate, insurance, supply purchasing, and transportation, as well as various other corporate office functions.

Properties

The properties of the Company consist primarily of stores and related retail facilities, including warehouses and distribution centers. The Company also owns or leases other properties including its corporate headquarters and other facilities at which centralized operational support functions are conducted. As of February 1, 1992, the Company operated 220 stores, of which 104 stores were entirely or mostly owned and 116 stores were entirely or mostly leased. Substantially all of the Company's owned and leased real estate is subject to security interests in favor of certain creditors of the Company. See "Indebtedness — Reorganization Indebtedness" and "— Mortgage Facility." In connection with various shopping center agreements, the Company is obligated to operate certain 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. See Note 10 to the Consolidated Financial Statements.

Investment in Ralphs Grocery Company

The Company owns approximately 6.6% of the outstanding shares of common stock (the "Ralphs Shares") of Ralphs Holding Company ("Ralphs Holding"), which in turn owns all of the common stock of Ralphs, a California-based grocery store operator. Ralphs was a wholly owned subsidiary of the Company until 1988. Pursuant to a Registration Rights and Corporate Governance Agreement (the "Ralphs Agreement") among Ralphs Holding, Ralphs, the Company, and the other Ralphs Holding stockholders, the Company agreed, among other things, not to sell or dispose of the Ralphs Shares except in accordance with applicable securities laws and is entitled to certain registration rights with respect to its Ralphs Shares. In addition, under certain circumstances, the Company has the right, and under other circumstances may be required, to sell its Ralphs Shares in a transaction in which the majority stockholder of Ralphs Holding sells its Ralphs Shares. The Company holds its Ralphs Shares as an investment. Depending upon market conditions, whether Ralphs or its stockholders seek to register or otherwise dispose of Ralphs Shares pursuant to a public or private transaction, Ralphs Holding's financial condition and results of operations, and other factors, and subject to the terms of the Ralphs Agreement, the Company will from time to time consider the possible sale of its Ralphs Shares.

Purchasing

The Company purchases merchandise from many suppliers, no one of which accounted for as much as 5% of the Company's net purchases during fiscal year 1991. The Company has no long-term purchase commitments or arrangements with any of its suppliers, and believes that it is not dependent on any one supplier. The Company believes its relations with its suppliers are satisfactory. The Company intends further to strengthen its vendor relationships by purchasing greater quantities of merchandise from fewer vendors.

Employees

As of February 1, 1992, the Company had approximately 78,900 regular full-time and part-time employees. Because of the seasonal nature of the retail business, the number of employees rises to a peak in the Christmas season. Approximately 10% of the Company's employees as of February 1, 1992 were represented by unions. Management considers its relations with employees to be satisfactory.

Seasonality

The department store business is seasonal in nature with a high proportion of sales and operating income generated in November and December. Working capital requirements fluctuate during the year, increasing somewhat in mid-Summer in anticipation of the Fall merchandising season and increasing substantially prior to the Christmas season when the Company must carry significantly higher inventory levels. See "Investment Considerations — Competitive Conditions; Business Factors."

Competition

The retail industry, in general, and the department store business, in particular, are intensely competitive. Generally, the Company's stores are in competition not only with other department stores in the geographic areas in which they operate but also with numerous other types of retail outlets, including specialty stores, general merchandise stores, and off-price and discount stores. See "Investment Considerations — Competitive Conditions; Business Factors."

Legal Proceedings

The POR was confirmed by the Bankruptcy Court on January 10, 1992 and became effective on February 4, 1992. Notwithstanding the confirmation and effectiveness of the POR, the Bankruptcy Court continues to have jurisdiction to, among other things, resolve disputed prepetition claims against the Federated/Allied Companies, resolve matters related to the assumption, assumption and assignment, or rejection of executory contracts pursuant to the POR, and to resolve other matters that may arise in connection with or relate to the POR. Except as described in "Investment Considerations — Tax Risks" and "— Disputed Claims Reserves," provision was made under the POR in respect of all prepetition liabilities of the Company.

The Company and its subsidiaries are involved in various other proceedings incidental to the normal course of their businesses. Management does not expect that any of such other proceedings will have a material adverse effect on the Company's financial position.

MANAGEMENT

Directors and Executive Officers

The following table sets forth certain information regarding the directors and executive officers of the Company:

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
Allen I. Questrom	51	Chairman of the Board and Chief Executive Officer; Director
James M. Zimmerman	48	President and Chief Operating Officer; Director
Ronald W. Tysoc	39	Vice Chairman of the Board and Chief Financial Officer; Director
Thomas G. Cody	50	Executive Vice President
Dennis J. Broderick	43	Senior Vice President and General Counsel
John E. Brown	52	Senior Vice President and Controller
Karen M. Hoguet	35	Senior Vice President — Planning and Treasurer
Charlotte Beers	56	Director
Robert A. Charpie	66	Director
Lyle Everingham	65	Director
Reginald H. Jones	74	Director
John K. McKinley	72	Director
G. William Miller	67	Director
Karl M. von der Heyden	55	Director

Allen I. Questrom has been Chairman of the Board and Chief Executive Officer of the Company and Allied since February 1990; prior thereto, he was President and Chief Executive Officer of the Neiman-Marcus division of the Neiman Marcus Group, Inc. from September 1988 to February 1990, Vice Chairman of the Board of the Company from January 1988 to July 1988, Executive Vice President of the Company from March 1987 to January 1988, and Chairman of Bullock's since September 1984. Mr. Questrom is also a

member of the Board of Directors of Principal Financial Group, a mutual life insurance company, and WEI Holdings, Inc., the holding company for the Wherehouse Entertainment record and tape store chain.

James M. Zimmerman has been President and Chief Operating Officer of the Company and Allied since May 1988; prior thereto, he was Chairman of Rich's since January 1984.

Ronald W. Tysoe has been Vice Chairman and Chief Financial Officer of the Company and Allied since April 1990; prior thereto, he served in various executive capacities with Campeau and certain of its subsidiaries, including, from April 1989 to January 1990, as President of Campeau.

Thomas G. Cody has been Executive Vice President, Legal and Human Resources, of the Company and Allied since May 1988; prior thereto, he served as Senior Vice President of the Company since 1982.

Dennis J. Broderick has been Senior Vice President and General Counsel of the Company and Allied since January 1990; prior thereto, he served as Vice President and General Counsel of Allied and General Counsel of the Company since May 1988 and Vice President of the Company since February 1987.

John E. Brown has been Senior Vice President of the Company and Allied since September 1988 and Controller of the Company since January 1992; prior to September 1988, he served as Vice President and Controller of the Company since October 1984.

Karen M. Hoguet has been Senior Vice President — Planning of the Company and Allied since April 1991 and Treasurer of the Company since January 1992; prior thereto, she served as Vice President of the Company and Allied since December 1988 and as Operating Vice President — Financial Planning and in other planning and buying capacities for the Company from 1982 until December 1988.

Charlotte Beers was Chief Executive Officer and Chairman of Tatham-RSCG, a Chicago-based advertising agency, from 1982 until March 1992 and Vice Chairman of the RSCG Corporation of France, a French advertising agency, from 1988 until March 1992.

Robert A. Charpie has been Chairman of the Board of Ampersand Ventures Management Co., a venture capital firm, since October 1988; prior thereto, he was Chairman, President, and Chief Executive Officer of Cabot Corporation from February 1986 until his retirement in September 1988; prior to February 1986, he was President and Chief Executive Officer of Cabot Corporation. Mr. Charpie is also a member of the Board of Directors of Alliant Techsystems, Inc., a designer of tactical weapons and guidance systems, Ashland Coal, Inc., Cabot Corporation, Ceramics Process Systems Corporation, and Champion International Corporation.

Lyle Everingham was Chief Executive Officer of The Kroger Co. from 1978 and Chairman of the Board thereof from 1979 until his retirement in 1990. Mr. Everingham is also a member of the Board of Directors of Cincinnati Milacron, Inc., Capital Holding Corporation, and The Kroger Co.

Reginald H. Jones was Chairman of the Board and Chief Executive Officer of General Electric Company from December 1972 until his retirement in April 1981. Mr. Jones is also a member of the Board of Directors of ASA Limited and Birmingham Steel Co.

John K. McKinley has been a consultant to Texaco, Inc. since December 1986; prior thereto, he was Chairman of the Board, President, and Chief Executive Officer of Texaco, Inc. from November 1980 until his retirement in December 1986. Mr. McKinley is also a member of the Board of Directors of Texaco, Inc. In connection with certain litigation involving Texaco, Inc. and Pennzoil Co., Texaco, Inc. commenced proceedings under chapter 11 of the Bankruptcy Code in April 1987. Texaco, Inc. emerged from bankruptcy on April 7, 1988 pursuant to a plan of reorganization.

G. William Miller has been Chairman of G. William Miller & Co., Inc., a Washington, D.C.-based merchant banking firm, since November 1982. Mr. Miller is also a member of the Board of Directors of Georgetown Industries, Inc., a holding company for steel, smelting, and nine manufacturing businesses, Kleinwort Benson Australian Income Fund, Inc., a New York-based investment management firm, Ralphs Holding, Ralphs, and Repligen Corporation, a Cambridge, Massachusetts-based manufacturer of biochemical

and biocatalytic products, and was Chairman of the Board and Chief Executive Officer of FSI from January 1990 until February 2, 1992.

Karl M. von der Heyden has been Executive Vice President and Chief Financial Officer of RJR Nabisco Holdings Corp. and RJR Nabisco, Inc. since 1989; prior thereto, he was Senior Vice President and Chief Financial Officer of the H.J. Heinz Co. since 1983.

Board of Directors

In connection with the development of the POR, representatives of the Federated/Allied Companies consulted with representatives of certain creditors with respect to the composition of the Company's Board of Directors (the "Board") following the POR Effective Date. Based thereon, Spencer Stuart & Associates, Inc., a nationally recognized executive/director search firm, was retained to assist the Federated/Allied Companies in identifying candidates for possible election as additional directors. Pursuant to the POR, the Company has been consulting with representatives of such creditor groups (generally, the chairman of the statutory creditor committees appointed in connection with the Reorganization Proceedings) prior to electing such additional directors. It is anticipated that three additional directors will be elected to the Board by the existing directors as soon as practicable pursuant to this search process.

Messrs. Tysoe and Zimmerman have been directors of the Company and its predecessors since 1988. Mr. Questrom has been a director of the Company and its predecessors since 1990. Each of Ms. Beers and Messrs. Charpie, Everingham, Jones, McKinley, and Miller has been a director of the Company since February 4, 1992 and prior thereto was a director of FSI. Mr. von der Heyden, who was identified as a candidate for election to the Board pursuant to the search process described above, has been a director of the Company since February 21, 1992.

The Company's Certificate of Incorporation and By-Laws provide that the directors of the Company are to be classified into three classes, with the directors in each class serving for three-year terms and until their successors are elected, except that the initial terms of the initial directors of the Company will expire at the 1993, 1994, or 1995 annual meeting of the stockholders of the Company, depending upon the particular class in which each such director is placed. Of the persons presently serving on the Board, the directors whose terms will expire at the 1993 annual meeting of stockholders are Ms. Beers and Messrs. McKinley and Tysoe; the directors whose terms will expire at the 1994 annual meeting of stockholders are Messrs. Charpie, Jones, and Zimmerman; and the directors whose terms will expire at the 1995 annual meeting of stockholders are Messrs. Everingham, Miller, Questrom, and von der Heyden. Any additional persons elected to the Board will be added to a particular class of directors to be determined at the time of such election, although in accordance with the Company's Certificate of Incorporation and By-Laws, the number of directors in each class will be identical or as nearly as practicable thereto based on the total number of directors then serving as such.

Pursuant to the By-Laws, no annual meeting of stockholders will be held in 1992. The first annual meeting of the stockholders of the Company will be held in 1993 following the completion of the Company's 1992 fiscal year.

Board Committees

The By-Laws provide that the Board may establish such directorate committees as it may from time to time determine. The Board has established the following standing committees: the Executive and Finance Committee; the Audit Review Committee; the Compensation Committee; and the Board Organization Committee. The By-Laws provide that the members of each of the Audit Review Committee, the Compensation Committee, and the Board Organization Committee will be persons who are not, and who, as of the effective time of the merger of Allied into the Company, were not then, and for the preceding two years had not been, full-time employees of the Company, any of its subsidiaries, or certain other entities, including the Company's former parent company ("Non-Employee Directors"), and that a majority of the members of the Executive and Finance Committee will be Non-Employee Directors. For this purpose, any director who is elected to the Board by the stockholders and who is not at the time of such election a full-time employee of the Company or any of its subsidiaries, but who otherwise would not be a Non-Employee Director because he

or she had been such an employee during the two-year period preceding the effective time of the Federated/Allied Merger, will be deemed to be a Non-Employee Director for all purposes other than membership on the Board Organization Committee.

Messrs. Everingham, Jones, McKinley, Miller, and Questrom (Chairman) serve on the Executive and Finance Committee. Messrs. Charpie, Everingham, Jones (Chairman), McKinley, and von der Heyden serve on the Audit Review Committee. Ms. Beers and Messrs. Charpie, Everingham, Jones, McKinley (Chairman), and von der Heyden serve on the Compensation Committee. Ms. Beers and Messrs. Charpie, Everingham (Chairman), and Jones serve on the Board Organization Committee.

The Executive and Finance Committee has all authority, consistent with the Delaware General Corporation Law, granted to it by the Board. Accordingly, the Executive and Finance Committee has and may exercise all the powers and authority of the Board in the oversight of the management of the business and affairs of the Company, except that the Executive and Finance Committee does not have the power to amend the Company's Certificate of Incorporation or By-Laws (except, to the extent authorized by a resolution of the Board, to fix the designations, preferences, and other terms of any preferred stock of the Company), adopt an agreement of merger or consolidation, authorize the issuance of stock, declare a dividend, or recommend to the stockholders of the Company the sale, lease, or exchange of all or substantially all of the Company's property and assets, a dissolution of the Company, or a revocation of a dissolution.

The Audit Review Committee reviews the professional services to be provided by the Company's independent auditors and the independence of such firm from management of the Company. This Committee also reviews the scope of the audit by the Company's independent auditors, the annual financial statements of the Company, the Company's system of internal accounting controls, and such other matters with respect to the accounting, auditing, and financial reporting practices and procedures of the Company as it may find appropriate or as may be brought to its attention, and meets from time to time with members of the Company's internal audit staff.

The Compensation Committee reviews executive salaries, administers the bonus, incentive compensation, and stock option plans of the Company, and approves the salaries and other benefits of the executive officers of the Company. In addition, this Committee consults with the Company's management regarding pension and other benefit plans and compensation policies and practices of the Company.

The Board Organization Committee considers and recommends criteria for the selection of nominees for election as directors and from time to time may select for presentation to the full Board recommended candidates for director. Subject to the rights, if any, of the holders of any preferred stock of the Company which may in the future be outstanding, the full Board may also from time to time select such candidates and in all events will act in respect of the filling of any vacancies on the Board, the recommendation of candidates for nomination for election by the stockholders, and the composition of all directorate committees.

Director Nomination Procedures

The By-Laws provide that nominations for election of directors by the stockholders will be made by the Board as described above or by any stockholder entitled to vote in the election of directors generally. The By-Laws require that stockholders intending to nominate candidates for election as directors deliver written notice thereof to the Secretary of the Company not later than 60 days in advance of the meeting of stockholders; provided, however, that in the event that the date of the meeting is not publicly announced by the Company by inclusion in a report filed with the Securities and Exchange Commission (the "Commission") or furnished to stockholders, or by mail, press release, or otherwise more than 75 days prior to the meeting, notice by the stockholder to be timely must be delivered to the Secretary of the Company not later than the close of business on the tenth day following the day on which such announcement of the date of the meeting was so communicated. The By-Laws further require that the notice by the stockholder set forth certain information concerning such stockholder and the stockholder's nominees, including their names and addresses, a representation that the stockholder is entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, a description of all arrangements or understandings between the stockholder and each nominee, such other information as would

be required to be included in a proxy statement soliciting proxies for the election of the nominees of such stockholder, and the consent of each nominee to serve as a director of the Company if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with these requirements.

Director Compensation

For 1992, each director of the Company who is not an employee of the Company or any of its subsidiaries will be paid an annual base retainer fee of \$25,000, plus meeting fees of \$1,250 for attendance at each meeting of the full Board or any committee of the Board. Each such director will also receive options to purchase shares of Common Stock as described in "— Benefit Plans and Agreements" and will be eligible to participate in the Executive Merchandise Discount Program as described in "— Benefit Plans and Agreements." Members of the Board who are also employees of the Company or any of its subsidiaries will receive no additional compensation for service on the Board.

Executive Compensation

The compensation discussion that follows has been prepared based on the actual compensation paid and benefits provided for the fiscal year ended February 1, 1992 by the Company, Allied, and their respective subsidiaries on a combined basis to their executive officers who presently are executive officers of the Company. The pre-POR Effective Date employment, compensation, and benefit arrangements of the Company and Allied that are presently expected to be maintained by the Company, and certain new arrangements and modifications to existing arrangements that became effective as of or following the POR Effective Date, are also described below. Compensation and benefit arrangements of the Company and Allied that were terminated as of the POR Effective Date are not described below.

Except to the extent specifically described below, amounts paid or payable to persons who are executive officers of the Company by FSI and its subsidiaries (other than the Company, Allied, and their respective subsidiaries) pursuant to benefit plans or agreements of FSI or such other subsidiaries of FSI are not described below inasmuch as no such amounts will be payable thereunder in respect of any executive officer of the Company for any period following the POR Effective Date.

Cash Compensation. The following table sets forth the cash compensation, including bonuses, paid or payable by the Company, Allied, and their respective subsidiaries, on a combined basis, in respect of the fiscal year ended February 1, 1992 to the five most highly compensated executive officers of the Company and Allied who presently are executive officers of the Company and to all such executive officers as a group (eight persons, including the five persons named in the following table):

	<u>Position With the Company</u>	<u>Combined Cash Compensation During Fiscal Year Ended February 1, 1992</u>	
		<u>Salary and Other Except Bonus(1)</u>	<u>Bonus(2)</u>
Allen I. Questrom	Chairman of the Board and Chief Executive Officer	\$2,000,000(3)	\$ -0-(3)
James M. Zimmerman	President and Chief Operating Officer	1,000,000	300,000
Ronald W. Tysoe	Vice Chairman and Chief Financial Officer	650,000(4)	195,000
Thomas G. Cody	Executive Vice President	500,000	150,000
Dennis J. Broderick	Senior Vice President and General Counsel	250,000	75,000
All Executive Officers as a Group (8 persons)(5)		5,535,000	956,200

- (1) Personal benefits received by the individuals named in the table were less than \$25,000 for each such individual and personal benefits received by all executive officers as a group were less than \$125,000.
- (2) The bonus amounts shown were payable pursuant to a bonus plan approved by the Bankruptcy Court. That plan was replaced, on a prospective basis, by a new bonus plan effective as of February 2, 1992. See "— Benefit Plans and Agreements."
- (3) Mr. Questrom is compensated in accordance with the provisions of an employment agreement with the Company which was approved by the Bankruptcy Court, including cash payments made in addition to regular compensation. See "— Benefit Plans and Agreements — Employment Agreements" for a discussion of the agreement, including nonrefundable payments due Mr. Questrom thereunder, as well as other agreements between the Company and certain of its executive officers.
- (4) In addition, FSI paid Mr. Tysoe \$350,000 pursuant to an employment agreement for the year ended February 1, 1992.
- (5) Marvin S. Traub served as Vice Chairman of the Company and Chairman and Chief Executive Officer of Bloomingdale's during the Company's fiscal year ended February 1, 1992, and his cash compensation is included in the group information set forth in the table. However, Mr. Traub retired from all positions with the Company and its subsidiaries in February 1992. Under a consulting agreement between the Company and Mr. Traub (terminable by either party on six-months' notice after an initial one-year term), Mr. Traub is entitled to an annual fee of \$350,000 for the performance of consulting services. Mr. Traub is also entitled to an annual retirement benefit of approximately \$72,000 under the Company's existing pension plan, as well as to certain lump sum distributions under the Company's retirement income and thrift incentive plan described below.

Benefit Plans and Agreements

Employment Agreements

Upon receipt of Bankruptcy Court approval, the Company and Allied entered into an agreement with Mr. Questrom to serve as Chairman of the Board and Chief Executive Officer of the Company and Allied for a term beginning February 2, 1990 and expiring on January 28, 1995 (the "Contract Period") (with successive optional one-year renewals thereafter). The agreement, which became an obligation solely of the Company as a result of the merger of Allied into the Company, provides for combined annual base compensation of \$1.2 million. The agreement also provides that Mr. Questrom will be entitled to receive a value-added payment upon completion of the Contract Period based on the percentage of appreciation in the aggregate market value of the common stock of the Company and Allied during the Contract Period (adjusted to reflect the restructuring of the Federated/Allied Companies' debt pursuant to the POR and the sale of equity). The value-added payment will equal the amount determined by the following formula: 0.75% of the first \$500.0 million of equity appreciation; 1.5% of all equity appreciation between \$500.0 and \$1,000.0 million; and 2.0% of any equity appreciation in excess of \$1,000.0 million (less amounts previously paid as described below). An initial, nonrefundable value-added payment of \$2.0 million was made upon commencement of the Contract Period and subsequent nonrefundable value-added payments of \$800,000 were made on each of January 31, 1991 and 1992 and will be made on each subsequent January 31 during the Contract Period. These payments will be credited against the Company's contractual obligation to make any other payments under the formula described above. The obligations of the Company under the agreement with Mr. Questrom for base compensation and nonrefundable value-added payments are secured by a trust. Termination of the agreement by the Company other than for "cause" (as defined in the agreement) or termination of the agreement by Mr. Questrom for "good reason" (as defined in the agreement) would entitle Mr. Questrom to receive a lump-sum payment of all salary and annual value-added payments that would have been paid during the remaining portion of the Contract Period or any subsequent renewal period but for such termination.

Following approval by the Bankruptcy Court on April 12, 1990, the Company and Allied implemented a Key Employee Performance/Retention Program (the "Program") designed to provide severance protection and retention and performance incentives to key management and operational employees. As part of the Program, the Company and Allied provided new employment agreements for all of their officers (other than Mr. Questrom) to replace their preexisting contracts and arrangements. Those agreements provide for salary continuation until the end of the term thereof if the officer is notified that his or her services are no longer required (other than for "cause," as defined in the agreements). However, compensation received from a new employer would reduce payments due under the agreements.

Each of the employment agreements entered into pursuant to the Program provides for payment of base salary equal to at least the amount specified in the agreement for a specified term of up to three years. The agreements with Messrs. Zimmerman, Tysoe, Cody, and Broderick presently specify the following respective combined annual base salary rates and expiration dates: \$1.0 million, April 30, 1994; \$650,000, April 19, 1993; \$500,000, May 15, 1993; and \$250,000, June 30, 1993, respectively. Mr. Tysoe is also presently a party to an employment agreement with FSI (which will terminate as of August 4, 1992) providing for annual compensation of \$350,000. The employment agreements (other than Mr. Questrom's agreement with the Company and Mr. Tysoe's agreement with FSI) also provide that an officer whose services are terminated (other than for "cause," as defined therein) may elect to receive benefits under the Company's and Allied's Master Severance Plan in lieu of salary continuation pursuant to his or her employment agreement. The Master Severance Plan, which was adopted as part of the Program to provide enhanced severance protection for approximately 2,300 key employees of the Company and Allied, would provide for a lump sum payment equal to up to one year's base salary to an officer under those circumstances. The employment agreement with executives who are merchandising division principals provides for an automatic extension of the term of employment thereunder for three years upon the occurrence of a change in control (as defined in such agreements) of the Company. The POR provided that the consummation of the transactions contemplated by the POR did not constitute a change in ownership or control for purposes of such employment agreements. The employment agreements with officers who are not merchandising division principals do not include

provisions triggered by a change in ownership or control. Accordingly, the Company entered into severance agreements (the "Change-in-Control Agreements") described below.

Change-in-Control Agreements

Effective as of the POR Effective Date, the Company entered into a Change-in-Control Agreement with each of its executive officers other than Mr. Questrom (whose employment agreement contains certain severance provisions, as described above) and certain other officers and key employees. Under the Change-in-Control Agreements, if, prior to February 5, 1996, a change in control occurs and thereafter the Company or, in certain circumstances, the executive terminates the executive's employment and, in the case of a termination by the Company, cause (as defined in the Change-in-Control Agreement) therefor does not exist, the executive would be entitled to a cash severance benefit equal to 120% of the base salary that the executive would have received during the three-year period following such termination had such termination not occurred (based generally upon the executive's then-current salary). However, in the case of any termination after February 4, 1993 the cash severance benefit otherwise payable under the agreement would be reduced by an amount equal to the product of (i) the cash severance benefit otherwise payable and (ii) a fraction, the numerator of which is the number of days between February 4, 1993, and the termination date and the denominator of which is 1,095 (except that this reduction may not exceed 240% of base salary). The cash severance benefit payable under the Change-in-Control Agreements will also be reduced by all amounts actually paid to the executive pursuant to any other employment or severance agreement or plan to which the executive and the Company are parties or in which the executive is a participant. After a termination of employment under circumstances in which the executive is eligible for the cash severance benefit, the executive would be entitled to certain welfare benefits for a minimum of one year, and to a prorated portion of any long-term incentive awards under the Bonus Plan described below, if applicable. The executive would also be paid an amount pursuant to the Change-in-Control Agreement to reimburse the executive for any excise tax imposed under sections 280G and 4999 of the Internal Revenue Code, including any tax payable by reason of such reimbursements.

Loans to Executives

In August 1988, the Company made a loan in the amount of \$1.0 million to Mr. Zimmerman in connection with his relocation from Atlanta, Georgia to Cincinnati, Ohio. The loan bore interest at the rate of 7.81% per annum and was due on the earlier of August 16, 1998 or one year after Mr. Zimmerman's termination of employment. In June 1989, the Company made an additional loan to Mr. Zimmerman in the amount of \$175,000. The loan was interest free as long as he remained an employee of the Company and was due on the earlier of June 2, 1999 or the termination of his employment. FSI made a secured, interest-free loan in the original principal amount of \$500,000 to Mr. Tysoe in connection with his relocation to the United States in 1987. Under the terms of the loan and related arrangements, \$50,000 of the principal amount of such loan effectively is forgiven for each year of continuous service by Mr. Tysoe with FSI, and Mr. Tysoe is entitled to reimbursements for the amounts of any income tax payable as a result of the interest-free nature of the loan and the \$50,000 principal amounts to be forgiven each year. The principal balance of such loan was \$350,000 as of the POR Effective Date. In August 1988, the Company made a loan in the amount of \$225,000 to Rudolph V. Javosky, then a Senior Vice President of the Company, in connection with his relocation from New York, New York to Cincinnati, Ohio. The loan is interest free as long as there is no default and is payable in installments from August 1, 1989 through August 1, 1997. The principal balance of such loan was \$150,000 as of the POR Effective Date.

In connection with the POR, the loans to Mr. Zimmerman were forgiven and the Company agreed to reimburse Mr. Zimmerman for the amount of any income tax payable as a result thereof (including any tax on such reimbursement). The total amount of such reimbursement was \$741,241. The value of such loan forgiveness and income tax reimbursement was taken into account in the determination of initial awards of Restricted Stock and Options to Mr. Zimmerman under the Equity Plan. See " — The Equity Plan and Bonus Plan." Mr. Tysoe will be required to terminate his employment with FSI not later than August 4, 1992. As a result, the note evidencing the loan from FSI to Mr. Tysoe will become payable and Mr. Tysoe will no longer

be entitled to compensation under his existing employment agreement with FSI. The Company will reimburse Mr. Tysoe for the amount of the principal balance of the loan at the time of such termination and will also reimburse Mr. Tysoe for any income tax payable as a result thereof (including any tax on such reimbursement). The amount of such tax reimbursement has been estimated at \$207,414 based on current income tax rates.

Retirement Programs

The Retirement Program previously established by the Company (the "Federated Program") and the Retirement Program previously established by Allied (the "Allied Program") are the primary programs for providing retirement benefits to the Company's employees. As of January 1, 1992, approximately 31,800 employees participated in the Federated Program and approximately 18,700 employees participated in the Allied Program. The principal components of each of these programs include a defined benefit pension plan and a profit sharing savings plan. The executive officers of the Company are participants in the Federated Program. Accordingly, the Federated Program is described below.

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain maximum limitations on the amount of retirement benefits that can be provided under the Federated Program. In addition, under IRS requirements, compensation deferred pursuant to the Company's former Executive Deferred Compensation Plan ("EDCP") cannot be included in calculating a participant's benefits under the Company's pension plan. To allow the Federated Program to provide benefits based on a participant's total compensation and total years of service, the Company adopted a Supplementary Executive Retirement Plan ("SERP") when it adopted its pension plan. In part, the Company's SERP, which is a non-qualified unfunded plan, provides to eligible executives retirement benefits on compensation deferred under the EDCP and benefits in excess of ERISA maximums, in each case based on the same formula contained in the Company's pension plan. As of January 1, 1992, approximately 350 employees were eligible under the terms of the Company's SERP. The Company suspended payments under its SERP and Allied suspended payments under its SERP at the commencement of the Reorganization Proceedings. The Company reinstated its SERP and Allied's SERP as of the POR Effective Date for then-active employees. The Company has reserved the right to suspend or terminate supplemental payments as to any category of employee or former employee, or to modify or terminate any other element of the Federated Program or the Allied Program, as the case may be, in accordance with applicable law.

Under the Federated Program, a participant retiring at normal retirement age is eligible to receive monthly benefit payments calculated using a plan formula which is based on the participant's years of service and final average compensation, taking into consideration the participant's Retirement Profit Sharing Credits (as discussed below).

Prior to adoption of the pension plan under the Federated Program, the Company's primary means of providing retirement benefits to employees was through the Retirement Income and Thrift Incentive Plan (the "RITI"), a defined contribution profit sharing plan. With the pension plan in place, the Company continued, and presently expects to continue, to make contributions to the Thrift Incentive portion of RITI as described below. An employee's accumulated retirement profit sharing interests ("Retirement Profit Sharing Credits") in the Retirement Income portion of RITI, which accrued prior to January 1, 1984, continue to be maintained and invested until retirement, at which time they are distributed. It is impractical to estimate the accrued benefits upon retirement of any participant or group of participants in the Thrift Incentive portion of RITI under the Federated Program because the amount, if any, that will be contributed by the Company and credited to a participant in any year is determined by such variable factors, among others, as the amount of the income of the Company, the number of participants in the plan, their annual contributions to the plan, the amount of the matching contributions of the Company, and the earnings on participants' accounts.

The following table shows the estimated hypothetical annual benefits payable under the Company's pension plan and SERP to persons retiring at their normal retirement age on January 1, 1992 in specified eligible compensation and years of service classifications, assuming that a retiring participant under the Federated Program elects a single life annuity distribution of his or her Retirement Profit Sharing Credits and the annual payments under such distribution would not exceed the level set forth below. Bonuses paid pursuant to the bonus plan approved by the Bankruptcy Court are not included in the definition of compensation for such purpose.

Final Average Compensation	Years of Service				
	10	15	20	25	30
\$ 50,000	\$ 6,100	\$ 9,150	\$ 12,200	\$ 15,250	\$ 18,300
100,000	13,100	19,650	26,200	32,750	39,300
200,000	27,100	40,650	54,200	67,750	81,300
300,000	41,100	61,650	82,200	102,750	123,300
400,000	55,100	82,650	110,200	137,750	165,300
500,000	69,100	103,650	138,200	172,750	207,300
600,000	83,100	124,650	166,200	207,750	249,300
700,000	97,100	145,650	194,200	242,750	291,300
800,000	111,100	166,650	222,200	277,750	333,300
900,000	125,100	187,650	250,200	312,750	375,300
1,000,000	139,100	208,650	278,200	347,750	417,300
1,100,000	153,100	229,650	306,200	382,750	459,300
1,200,000	167,100	250,650	334,200	417,750	501,300
2,000,000	279,100	418,650	558,200	697,750	837,300

Messrs. Questrom, Zimmerman, Tysoc, Cody, and Broderick have completed 25, 25, 4, 9, and 5 years of credited service, respectively, and their estimated annual retirement benefits at normal retirement age from the Company's pension plan and SERP, assuming their present salaries remained unchanged, would be \$746,260, \$364,529, \$391,218, \$166,029, and \$83,356, respectively.

The Thrift Incentive portion of RITI provides for voluntary contributions by participating employees and for contributions by the Company matching a portion of the participants' contributions. All of the Company's employees who are eligible to participate in Federated's pension plan may participate in the Thrift Incentive portion of RITI. As of January 1, 1992, approximately 31,800 employees of the Company were eligible to participate in the Thrift Incentive portion of RITI. As of that date, approximately 14,500 employees of the Company were contributing participants.

For 1991, the Company allocated \$2,499 to the Thrift Incentive accounts of each of the executives named in the cash compensation table other than Mr. Tysoc (for whom no amount was allocated) and \$14,452 to the Thrift Incentive accounts of all executive officers as a group.

Certain Other Benefit Plans

The Company and Allied maintained, and the Company presently maintains, a Senior Executive Supplemental Medical Plan, which provides eligible senior executives supplemental coverage for up to \$5,000 of out-of-pocket expenses not covered by the applicable basic contributory health plan available to employees generally. The total annual cost for all health plan coverage for which executive officers of the Company are expected to be eligible is estimated at \$7,000 for each executive officer.

Divisions and subsidiaries of the Company offer their employees a discount on the purchase of merchandise sold by the division or subsidiary. The Company presently expects to continue this practice and to make available merchandise discounts based on total purchases made during the year to officers and directors of the Company. As a result of certain of these discounts being considered imputed income under the Internal Revenue Code and the rules and regulations thereunder, the Company and Allied have made, and it is anticipated that the Company will make, annual cash payments to eligible officers and directors in amounts

equal to all or a portion of the income tax liability arising as a result of the recognition of such imputed income. The total combined additional executive discounts and income tax liability payments made to the persons named in the cash compensation table and all executive officers as a group in the fiscal year ended February 1, 1992 were: Mr. Questrom, \$16,362; Mr. Zimmerman, \$21,593; Mr. Tysoe, \$16,327; Mr. Cody, \$35,835; Mr. Broderick, \$5,287; and all executive officers as a group, \$159,191.

The Equity Plan and Bonus Plan

General. One of the key elements of the Company's business plan is the development of executive compensation arrangements designed to provide appropriate incentives to the management of the Company and its subsidiaries in an effort to assure the accomplishment of the Company's business plan and to permit the Company to attract and retain top-quality management personnel. Accordingly, in connection with the POR, the Company adopted (i) an Executive Equity Incentive Plan (the "Equity Plan"), which provides for the grants of restricted stock ("Restricted Stock"), stock options ("Options"), and other rights in respect of shares of Common Stock as provided in the Equity Plan and (ii) an Incentive Bonus Plan (the "Bonus Plan") to replace the bonus plan approved by the Bankruptcy Court for the period of the Reorganization Proceedings (which plan is designed to reward key employees by awarding such persons bonuses if certain predetermined performance goals are attained).

The Equity Plan. The Equity Plan is intended to provide an equity interest in the Company to key management personnel and thereby provide additional incentives for such persons to devote themselves to the maximum extent practicable to the businesses of the Company and its subsidiaries. The Equity Plan is also intended to aid in attracting persons of outstanding ability to enter and remain in the employ of the Company and its subsidiaries.

The Equity Plan is administered by the Compensation Committee of the Board (the "Compensation Committee"), no voting member of which may be an employee of the Company or its subsidiaries or, except as described below, eligible to receive awards under the Equity Plan. Pursuant to the Equity Plan, the Compensation Committee is authorized to grant Options, Restricted Stock, and other rights (collectively, "Awards") to officers and key employees of the Company and its subsidiaries. The Equity Plan also provides for the award of Options to Non-Employee Directors on the basis described below. A maximum of 4.6 million shares of Common Stock may be issued pursuant to the Equity Plan, not more than 1.2 million of which may be awarded in the form of Restricted Stock.

The Options granted under the Equity Plan may be incentive stock options ("ISOs"), non-qualified stock options, or combinations of the foregoing. Options awarded under the Equity Plan will have a term of up to 10 years and will be subject to the vesting requirements described below. A grant of Options may provide for deferred payment of the exercise price from the proceeds of sales through a bank or broker on the exercise date of some or all of the shares of Common Stock to which such exercise relates. The exercise price (the "Exercise Price") of Options (other than those granted to Non-Employee Directors described below) may not be less than: (i) the closing sale price per share of the Common Stock as reported in the NYSE Composite Transactions Report (or any other consolidated transactions reporting system which subsequently may replace such Composite Transactions Report) for the trading day immediately preceding the date determined in accordance with the authorization of the Board, or if there are no sales on such date, on the next preceding day on which there were sales, (ii) the average (whether weighted or not) or mean price, determined by reference to the closing sales prices, average between the high and low sales prices, or any other standard for determining price adopted by the Board, per share of the Common Stock as reported in the NYSE Composite Transactions Report as of the date or for the period determined in accordance with the authorization of the Board, or (iii) in the event that the Common Stock is not listed for trading on the NYSE as of a relevant date of grant, an amount determined in accordance with standards adopted by the Board.

Pursuant to the Equity Plan, each director of the Company who is not also an employee of the Company or any of its subsidiaries will be awarded non-qualified Options on an annual basis. Initial awards of Options to purchase 2,000 shares of Common Stock will be made to each such director as of May 5, 1992. For each subsequent year commencing with 1993, Options will be awarded to each such director as of the date of each

annual meeting of stockholders of the Company. The number of shares of Common Stock to which such subsequent Options will relate will be equal to 200% of the preceding year's base retainer fee paid to such directors (annualized with respect to any partial year), divided by the Exercise Price on the award date (with such specific quotient rounded up to the nearest 100 shares). Such persons who are first elected to the Board other than at an annual meeting of stockholders (other than the initial directors with respect to the initial 2,000 share awards) will receive awards that are prorated in relation to the length of time they serve in their initial year on the Board.

While the Equity Plan provides for the grant of stock appreciation rights ("SARs") in tandem with Options, the Company does not presently intend to grant SARs. If SARs were to be granted, however, a holder of an SAR would receive, upon exercise of the SAR, in the discretion of the Compensation Committee, cash, shares of Common Stock, or a combination thereof having an aggregate value equal to all or some portion of the excess of the market price of the shares of Common Stock in respect of which the SAR is exercised over the aggregate Exercise Price of the related Option. The Option to which the SAR is related would be canceled to the extent of the exercise of the SAR.

A grant of Restricted Stock involves the immediate transfer by the Company to a participant of ownership of a specific number of shares of Common Stock in consideration of the performance of services. The participant is entitled immediately to voting, dividend, and other ownership rights in such shares. Restricted Stock will be subject for a period to be determined by the Compensation Committee at the date of grant to a "substantial risk of forfeiture" within the meaning of Section 83 of the Internal Revenue Code.

The risk of forfeiture as to shares of Restricted Stock initially awarded under the Equity Plan will lapse as to 20% of such shares as of each of the first two anniversaries of the award, 15% of such shares as of each of the next two anniversaries of the award, and 30% of such shares as of the fifth anniversary of the award. Options initially awarded to officers and key employees will vest as to 50% of the shares covered thereby on each of the first two anniversaries of the award. Options granted to directors of the Company who are not also employees of the Company or any of its subsidiaries will vest as to 25% of the shares covered thereby on each of the first four anniversaries of the award. The foregoing periods will be subject to acceleration in the event of a change-in-control of the Company and in certain other events, including death and disability. Pursuant to the Equity Plan, the Compensation Committee will review from time to time and may revise any of the foregoing vesting or other requirements as they apply to eligible participants other than directors of the Company who are not also employees of the Company or any of its subsidiaries.

Aggregate initial awards of 763,100 shares of Restricted Stock and Options to purchase an aggregate of 1,808,500 shares of Common Stock at an exercise price of \$16.875 per share have been granted to officers and key employees of the Company and its subsidiaries. In general, these initial grants were awarded to specific officers and key employees based on guidelines derived from the salary ranges applicable to such officers and employees at the time of the award. These initial grants included the following awards of Restricted Stock and Options to the executive officers named in the cash compensation table above (other than Mr. Questrom, who already has certain equity appreciation rights under his existing employment agreement as described in "— Employment Agreements" and received no awards of Restricted Stock or Options) and all executive officers as a group: Mr. Zimmerman, 60,000 shares of Restricted Stock and Options to purchase 70,000 shares of Common Stock; Mr. Tysoe, 50,000 shares of Restricted Stock and Options to purchase 60,000 shares of Common Stock; Mr. Cody, 40,000 shares of Restricted Stock and Options to purchase 50,000 shares of Common Stock; Mr. Broderick, 12,000 shares of Restricted Stock and Options to purchase 10,000 shares of Common Stock; and all executive officers as a group, 181,000 shares of Restricted Stock and Options to purchase 209,000 shares of Common Stock.

The Bonus Plan. The Bonus Plan provides for the payment of cash compensation upon the achievement of individual, operating division, and corporate performance targets. The Bonus Plan is administered by the Compensation Committee. Specific awards and performance targets under the Bonus Plan will be established for annual and long-term measurement periods. The initial performance measurement periods for awards under the Bonus Plan commenced on February 2, 1992, with initial performance targets established for the Company's 1992 fiscal year and the three-year performance measurement period commencing February 2,

1992. It is expected that subsequent long-term awards will be based on updated performance targets for subsequent three-year measurement periods, and that performance targets will not be changed retroactively.

In general, it is expected that the annual performance awards under the Bonus Plan will not be materially greater than the annual performance awards to which the executive officers of the Company and Allied who are presently executive officers of the Company would have received under the bonus plan approved by the Bankruptcy Court had such plan been extended beyond the POR Effective Date. See "Executive Compensation — Cash Compensation." No amount will be payable prior to 1995 with respect to the long-term performance awards. In general, assuming that specified performance targets are achieved, it is expected that eligible officers and key employees, including the then-eligible executive officers named in the cash compensation table above (other than Mr. Questrom), would receive long-term performance awards equal to, in general, 25% of the midpoint of the salary range applicable to such officers and key employees at the beginning of each of the three-year measurement periods ending following the Company's 1994, 1995, and 1996 fiscal years.

Certain Releases

The POR provided, as an integral part thereof, for the execution and delivery by the Federated/Allied Companies and certain related and unrelated third parties of a settlement agreement providing for, among other things, the release by the Federated/Allied Companies and such other parties of the directors and officers of the Federated/Allied Companies (including such of the foregoing as are directors and/or officers of the Company) from any and all claims arising out of or relating to specified transactions and matters alleged to have involved, among other things, fraudulent conveyances and breaches of fiduciary duty. The release of any director or officer of any Federated/Allied Company was conditioned upon the reciprocal release of all of the Federated/Allied Companies and certain related parties, including their respective directors and officers, by such director or officer. In addition, the POR provided that the recipients of equity and debt securities pursuant to the POR would release the Federated/Allied Companies and their respective directors and officers from such claims.

SECURITY OWNERSHIP

According to certain filings made with the Commission by CS First Boston, Inc., 55 East 52nd Street, New York, New York 10055 ("CSFBI"), CSFBI was the beneficial owner, through wholly owned subsidiaries, of 10,176,872 shares of Common Stock as of February 29, 1992, which shares constituted approximately 12.6% of the total number of shares of Common Stock outstanding or deemed outstanding pursuant to Rule 13d-3(d)(1) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of such date. Such number of shares includes 541,225 shares that, on the terms and subject to the conditions of the Series A Warrants, CSFBI has the right, through wholly owned subsidiaries, to acquire from the Company at a purchase price of \$25.00 per share and 1,000,000 shares that, on the terms and subject to the conditions of the Series B Warrants, CSFBI has the right, through a wholly owned subsidiary, to acquire from the Company at a purchase price of \$35.00 per share. See "Capital Stock — Future Stock Issuances." Accordingly, excluding shares purchasable upon exercise of the Series A and Series B Warrants, as of February 29, 1992, CSFBI beneficially owned 8,635,647 shares of Common Stock (approximately 10.8% of the total number of shares of Common Stock issued pursuant to the POR and under the Equity Plan as of March 31, 1992). According to a Schedule 13D, dated February 12, 1992 (the "CSFBI Schedule 13D"), filed with the Commission by CSFBI, CSFBI has sole investment power, but no voting power, over the shares of Common Stock beneficially owned by it. According to the CSFBI Schedule 13D, The Clipper Group, L.P., 55 East 52nd Street, New York, New York 10055, exercises the sole power to vote, and therefore also beneficially owns, the 8,635,647 shares of Common Stock owned directly by CSFBI's wholly owned subsidiaries.

Information regarding initial awards of Options and Restricted Stock under the Equity Plan, including non-discretionary awards to Non-Employee Directors, is set forth in "Management — Benefit Plans and Agreements." As of March 31, 1992, all directors and executive officers as a group would have owned beneficially 181,000 shares of Common Stock, or approximately 0.2% of the total number of shares of

Common Stock outstanding as of such date, as a result of awards under the Equity Plan. Certain members of management of the Company are or may be entitled to distributions of shares of Common Stock pursuant to the POR. However, the total number of such shares of Common Stock to be received by all executive officers of the Company as a group is not expected to exceed, in the aggregate, 0.1% of all of the shares of Common Stock outstanding as of the POR Effective Date.

Except for undeliverable shares and shares held on account of disputed claims, disbursing agents under the POR are required to distribute the shares of Common Stock issued as of the POR Effective Date to the persons entitled thereto within 60 days of the POR Effective Date. In general, undeliverable shares and shares held on account of disputed claims will be held by the disbursing agents until 30 days following the end of each calendar quarter after the POR Effective Date during which such shares become deliverable or the disputed claim on account of which they are held becomes allowed. Pending distribution, the disbursing agents will cause the shares of Common Stock held by it in such capacity to be: (i) represented in person or by proxy at each meeting of the stockholders of the Company; (ii) voted in any election of directors of the Company, at the option of the disbursing agents, either (a) proportionally with the votes cast by the other stockholders of the Company, taken as a whole, or (b) for the nominees recommended by the Board; and (iii) voted with respect to any other matter, at the option of the disbursing agent(s), either (a) proportionally with the votes cast by the other stockholders of the Company, taken as a whole, or (b) as recommended by the Board. The Company is presently acting as the sole disbursing agent under the POR.

CAPITAL STOCK

Authorized Capital Stock

The Company's Certificate of Incorporation provides that the authorized capital stock of the Company consists of 250 million shares of Common Stock and 125 million shares of Preferred Stock, par value \$.01 per share (the "Preferred Stock"). As of March 31, 1992, 80,009,737 shares of Common Stock had been issued and were outstanding. No shares of Preferred Stock had been issued as of that date.

Common Stock

General. The holders of the Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Subject to preferential rights that may be applicable to any preferred stock of the Company, holders of Common Stock are entitled to receive ratably such dividends as may be declared by the Board out of funds legally available therefor. See "Investment Considerations — Dividend Policy; Restrictions on Payment of Dividends." In the event of a liquidation, dissolution, or winding up of the Company, holders of Common Stock will be entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any preferred stock of the Company. Holders of Common Stock have no preemptive rights and have no rights to convert their Common Stock into any other securities and there are no redemption provisions with respect to such shares.

Trading Market. The Common Stock is listed on the NYSE under the trading symbol "FD."

Transfer Agent. The Bank of New York is the transfer agent for the Common Stock.

Restrictions on Transfer. A substantial portion (currently estimated at 67%) of the shares of Common Stock issued pursuant to the POR is, or upon actual distribution thereof to prepetition creditors pursuant to the POR, will be, subject to certain restrictions (the "Restrictions") on disposition under the Agreement and Provisions Relating to Restrictions on Transfer of Certain Shares of Common Stock of Federated Department Stores, Inc. (the "Stockholders Agreement") provided for in the POR and the By-Laws. The primary objective of the Stockholders Agreement is to aid in ensuring an orderly market for the Common Stock. However, there can be no assurance that this objective will be realized. See "Investment Considerations — Restricted Stock." None of the shares of Common Stock offered hereby will be subject to the Restrictions.

Shares of Common Stock issued to any person that became the "beneficial owner" of no more than 2,000 shares of Common Stock pursuant to the POR, 816,000 shares of Common Stock issued to FSI pursuant to

the POR, and 204,000 shares of Common Stock issuable to the U.S. Treasury pursuant to the POR (see “— Future Stock Issuances”) are not subject to the Restrictions. In addition, 25% of the total number of shares of Common Stock received by any other claimholder under the POR are not subject to the Restrictions. All other shares of Common Stock received by claimholders under the POR, together with 75% of all shares issuable upon the exercise of the Series A Warrants (collectively, the “Restricted Common Stock”) are subject to the Restrictions. In addition, any shares of Common Stock issued to any holder of Restricted Common Stock (a “Holder”) as a result of a stock dividend, stock split, or reclassification relating to Restricted Common Stock will be shares of Restricted Common Stock. For purposes of the Stockholders Agreement, “beneficial ownership” is defined to include shares of Common Stock that a person has or shares the direct or indirect power to dispose of or direct the disposition of, through any contract, arrangement, understanding, or otherwise, and shares of Common Stock that a person has a right to acquire within 60 days.

In general, the Stockholders Agreement prohibits the sale or other disposition of Restricted Common Stock by any Holder except (i) upon the death or incapacity of the Holder, (ii) pursuant to a property settlement in connection with the separation or divorce of the Holder and his or her spouse, (iii) pursuant to a pledge existing prior to the Petition Date to an unrelated third party to secure bona fide indebtedness, (iv) pursuant to a privately negotiated transaction in which the acquiring person agrees in form and substance reasonably satisfactory to the Company to be bound by, and the Restricted Common Stock to be acquired will remain subject to, the Stockholders Agreement, (v) to a person or entity that is a member of the same 80%-owned affiliated group as such Holder, provided that the acquiring person agrees in form and substance reasonably satisfactory to the Company to be bound by, and the Restricted Common Stock to be acquired will remain subject to, the Stockholders Agreement, (vi) to a nominee or custodian in a transaction in which specified conditions, including the agreement of such nominee or custodian in form and substance reasonably satisfactory to the Company to be bound by the Stockholder Agreement with respect to any subsequent transfer, are satisfied, (vii) to a constituent corporation in a merger or consolidation to which the Company is a party and which satisfies other specified criteria, (viii) pursuant to a tender offer or exchange offer to purchase at least 30% of the then-outstanding shares of Common Stock for cash or marketable securities, which is either not subject to a financing contingency or in respect of which financing commitments satisfying specified criteria have been obtained, and which is made by a person other than such Holder or any affiliate or associate thereof, and (ix) pursuant to certain “Public Sale Events.” The term “Public Sale Event” is defined for this purpose as, in general, a registered public offering through underwriters initiated either by the Company or at the request of the Holders of at least 20% of the initial Restricted Common Stock, provided that the Holders in the aggregate request the sale of a number of shares of Restricted Common Stock at least equal to the lesser of 10.0 million shares or such number of shares as has an aggregate market value of \$200.0 million. Although the Offerings constitute a Public Sale Event, Holders do not have any right to sell or dispose of Restricted Common Stock in connection therewith.

In order to effect any permitted transfer of shares of Restricted Common Stock described above, the Holder seeking to effect such transfer will be required to (i) surrender the certificate(s) evidencing the affected shares of Restricted Common Stock to the transfer agent for the Common Stock and (ii) present documentation in form and substance satisfactory to the Company evidencing compliance with the Stockholders Agreement. Without limiting the generality of the foregoing, any Holder seeking to transfer shares of Restricted Common Stock pursuant to a “privately negotiated transaction” must represent and warrant that (i) the transaction was not effected on the NYSE (or, if applicable, any other securities exchange or automatic quotation system on which Common Stock is traded), (ii) the price and other terms of such transaction were determined through negotiations between the Holder and the transferee (directly or through one or more agents for such persons or entities), and (iii) the transaction did not result from a solicitation, including a solicitation of open buy or sell orders, which was not made of a specific identifiable buyer on a direct, individualized basis by or on behalf of a specific identifiable seller, or vice versa. Upon the surrender of certificates and the presentation of the requisite documentation evidencing compliance with the Stockholders Agreement, the Company will properly modify any stop-transfer order, cause to be delivered for the account of the Holder one or more certificates evidencing the number of shares to be transferred pursuant to such permitted transfer, and cause to be delivered to the Holder one or more new certificates evidencing the remaining shares of Restricted Common Stock, if any. Shares of Restricted Common Stock transferred under

any of the circumstances described above, other than pursuant to a merger or consolidation or tender or exchange offer satisfying the criteria described above, will remain subject to the Restrictions and the transferee will be deemed to be a Holder upon receipt thereof. No service charge will be made for any transfer or exchange of certificates representing shares of Restricted Common Stock, but the Company will require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the issuance of any such certificate in the name of any person other than the person in whose name the certificate(s) presented for transfer or exchange were issued or that otherwise may be imposed by applicable law.

Subject to prorating and certain limitations, both the Company and the Holders have rights to sell up to 33% of the shares of Common Stock to be sold pursuant to a Public Sale Event initiated by the other; provided, however, that the Holders will have no right to participate in the Offerings. During the term of the Stockholders Agreement, the Company will be restricted from selling more than an aggregate of 25 million shares of newly issued Common Stock (excluding the shares of Common Stock to be sold pursuant to the Offerings) pursuant to Public Sale Events; provided, however, that a public offering of fewer than the lesser of 10.0 million shares of Common Stock and the number of shares of Common Stock having a market value of at least \$200.0 million does not constitute a Public Sale Event for purposes of the Restrictions.

Pursuant to the POR, representatives of certain of the stockholder parties to the Stockholders Agreement have arranged for the selection of five persons to serve as voting members of a committee of representatives of the Holders (the "Offering Committee") in connection with Public Sale Events (other than the Offerings). Each member of the Offering Committee will have one vote. One member representing the Company will serve as a non-voting member of the Offering Committee. The Offering Committee will have the authority and responsibility to administer certain elements of the Stockholders Agreement, including the selection of the managing underwriter or co-managing underwriter(s) for a Public Sale Event under certain circumstances. On the terms and subject to the conditions set forth in the Stockholders Agreement, the Company will reimburse the Offering Committee for its expenses, including attorneys' fees. The Offering Committee will be entitled to hire an independent financial advisor, whose reasonable advisory fees will be paid by the Company.

After any Public Sale Event (including the Offerings), no subsequent Public Sale Event may take place for 180 days and, in any case, no more than two Public Sale Events may take place in any 12-month period. Assuming that the Offerings are consummated, the Stockholders Agreement will terminate on August 4, 1994, provided that, if at least 24 million shares subject to the Restrictions have not been sold pursuant to one or more Public Sale Events within the 12-month period following the date of this Prospectus, the Offering Committee will have the authority to determine by a majority vote either to (i) pursue a Public Sale Event, if otherwise permitted by the terms of the Restrictions, such that at the consummation of such Public Sale Event a cumulative minimum of 24 million shares of Restricted Common Stock will have been sold through Public Sale Events, with the unsold shares of Restricted Common Stock remaining subject to the Restrictions for a period ending the earlier of (a) 12 months subsequent to such Public Sale Event and (b) August 4, 1994 or (ii) terminate the Stockholders Agreement 18 months after the consummation of the Offerings.

Notwithstanding the foregoing, the Stockholders Agreement will be terminated if (i) less than 10% of the shares of the initial Restricted Common Stock remain subject to the Agreement or (ii) a resolution terminating the Stockholders Agreement is adopted by the Board. The Board has the authority to release shares of Restricted Common Stock, on a pro rata basis, from the Restrictions and to waive any of the Restrictions as to all shares of Restricted Common Stock or a portion of such shares on a pro rata basis at any time and from time to time.

On the terms and subject to the conditions set forth in the Stockholders Agreement, the Company will use reasonable efforts to prepare and file with the Commission such registration statement as may be required in connection with any Public Sale Event, and will bear the expenses associated therewith. However, any underwriting fees, fees of counsel for selling stockholders, and other specified offering expenses will be borne by the selling stockholders on a pro rata basis. The Stockholders Agreement contains certain specified limitations on the liability of the Offering Committee, the Company, and certain other persons, including the directors and officers of the Company, to Holders under the Stockholders Agreement. In general, such

limitations apply to certain procedural and ministerial provisions of the Stockholders Agreement relating to the potential participation by Holders in Public Sale Events.

Preferred Stock

The Board has the authority to issue 125 million shares of Preferred Stock in one or more series and to fix the designations, relative powers, preferences, rights, qualifications, limitations, and restrictions of all shares of each such series, including without limitation dividend rates, conversion rights, voting rights, redemption and sinking fund provisions, liquidation preferences, and the number of shares constituting each such series, without any further vote or action by the stockholders. The issuance of the Preferred Stock could decrease the amount of earnings and assets available for distribution to holders of Common Stock or adversely affect the rights and powers, including voting rights, of the holders of Common Stock. The issuance of the Preferred Stock could have the effect of delaying, deferring, or preventing a change in control of the Company without further action by the stockholders. As of the date of this Prospectus, no Preferred Stock has been issued, and the Company has no present plans to issue any Preferred Stock.

Preferred Share Purchase Rights

As authorized by the Company's Certificate of Incorporation and provided for in the POR, each share of Common Stock issued pursuant to the POR as of the POR Effective Date was accompanied by one right ("a Right") issued pursuant to the Share Purchase Rights Agreement between the Company and The Bank of New York, as Rights Agent (the "Share Purchase Rights Agreement"). Similarly, each share of Common Stock issued and sold pursuant to the Offerings will be accompanied by one Right. Each Right entitles the registered holder thereof to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value \$0.01 per share (the "Series A Preferred Shares"), of the Company at a price (the "Purchase Price") of \$62.50 per one one-hundredth of a Series A Preferred Share, subject to adjustment.

Until the earliest to occur of the following dates (the earliest of such dates being hereinafter called the "Rights Distribution Date"), the Rights will be evidenced by the certificates evidencing shares of Common Stock: (i) the close of business on the tenth business day (or such later date as may be specified by the Board) following the first date of public announcement by the Company that a person (other than the Company or a subsidiary or employee benefit or stock ownership plan of the Company), together with its affiliates and associates, has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of the outstanding Common Stock (any such person being hereinafter called an "Acquiring Person"); (ii) the close of business on the tenth business day (or such later date as may be specified by the Board) following the commencement of a tender offer or exchange offer by a person (other than the Company or a subsidiary or employee benefit or stock ownership plan of the Company), the consummation of which would result in beneficial ownership by such person of 20% or more of the outstanding Common Stock; and (iii) the close of business on the tenth business day following the first date of public announcement by the Company that a Flip-in Event or a Flip-over Event (as such terms are hereinafter defined) has occurred.

The Share Purchase Rights Agreement provides that, until the Rights Distribution Date, the Rights may be transferred with and only with the Common Stock. Until the Rights Distribution Date (or earlier redemption or expiration of the Rights), any certificate evidencing shares of Common Stock issued upon transfer or new issuance of Common Stock will contain a notation incorporating the Share Purchase Rights Agreement by reference. Until the Rights Distribution Date (or earlier redemption or expiration of the Rights), the surrender for transfer of any certificates evidencing Common Stock will also constitute the transfer of the Rights associated with such certificates. As soon as practicable following the Rights Distribution Date, separate certificates evidencing the Rights ("Rights Certificates") will be mailed to holders of record of Common Stock as of the close of business on the Rights Distribution Date and such separate Rights Certificates alone will evidence the Rights. No Right is exercisable at any time prior to the Rights Distribution Date. The Rights will expire on February 5, 2002 (the "Final Expiration Date") unless earlier redeemed or exchanged by the Company as described below. Until a Right is exercised, the holder thereof, as

such, will have no rights as a stockholder of the Company, including without limitation the right to vote or to receive dividends.

The Purchase Price payable, and the number of Series A Preferred Shares or other securities issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination, or reclassification of, the Series A Preferred Shares, (ii) upon the grant to holders of the Series A Preferred Shares of certain rights or warrants to subscribe for or purchase Series A Preferred Shares at a price, or securities convertible into Series A Preferred Shares with a conversion price, less than the then-current market price of the Series A Preferred Shares, or (iii) upon the distribution to holders of the Series A Preferred Shares of evidences of indebtedness or cash (excluding regular periodic cash dividends), assets, stock (excluding dividends payable in Series A Preferred Shares) or of subscription rights or warrants (other than those referred to above). The number of outstanding Rights and the number of one one-hundredths of a Series A Preferred Share issuable upon exercise of each Right also is subject to adjustment in the event of a stock dividend on the Common Stock payable in shares of Common Stock or a subdivision, combination, or reclassification of the Common Stock occurring, in any such case, prior to the Rights Distribution Date.

The Series A Preferred Shares issuable upon exercise of the Rights will not be redeemable. Each Series A Preferred Share will be entitled to a minimum preferential quarterly dividend payment equal to the greater of (i) \$1.00 per share and (ii) an amount equal to 100 times the aggregate dividends declared per share of Common Stock during the related quarter. In the event of liquidation, the holders of the Series A Preferred Shares will be entitled to a preferential liquidation payment equal to the greater of (a) \$100 per share and (b) an amount equal to 100 times the liquidation payment made per share of Common Stock. Each Series A Preferred Share will have 100 votes, voting together with the Common Stock. Finally, in the event of any merger, consolidation, or other transaction in which shares of Common Stock are exchanged, each Series A Preferred Share will be entitled to receive 100 times the amount received per share of Common Stock. These rights will be protected by customary antidilution provisions. Because of the nature of the Series A Preferred Shares' dividend, voting, and liquidation rights, the value of the one one-hundredth interest in a Series A Preferred Share purchasable upon exercise of each Right should approximate the value of one share of Common Stock.

Rights may be exercised to purchase Series A Preferred Shares only after the Rights Distribution Date occurs and prior to the occurrence of a Flip-in Event or Flip-over Event. A Rights Distribution Date resulting from the commencement of a tender offer or exchange offer described in clause (ii) of the definition of "Rights Distribution Date" could precede the occurrence of a Flip-in Event or Flip-over Event and thus result in the Rights being exercisable to purchase Series A Preferred Shares. A Rights Distribution Date resulting from any occurrence described in clause (i) or clause (iii) of the definition of "Rights Distribution Date" would necessarily follow the occurrence of a Flip-in Event or Flip-over Event and thus result in the Rights being exercisable to purchase shares of Common Stock or other securities as described below. In addition, no person will be deemed to own beneficially any shares of Common Stock solely by reason of being subject to the Stockholders Agreement.

In the event (a "Flip-in Event") that (i) any person, together with its affiliates and associates, becomes the beneficial owner of 20% or more of the outstanding Common Stock, (ii) any Acquiring Person merges into or combines with the Company and the Company is the surviving corporation or any Acquiring Person effects certain other transactions with the Company, as described in the Share Purchase Rights Agreement, or (iii) during such time as there is an Acquiring Person, there is any reclassification of securities or recapitalization or reorganization of the Company which has the effect of increasing by more than 1% the proportionate share of the outstanding shares of any class of equity securities of the Company or any of its subsidiaries beneficially owned by the Acquiring Person, proper provision will be made so that each holder of a Right, other than Rights that are or were owned beneficially by the Acquiring Person (which, from and after the later of the Rights Distribution Date and the date of the earliest of any such events, will be void), will thereafter have the right to receive, upon exercise thereof at the then-current exercise price of the Right, that number of shares of Common Stock (or, under certain circumstances, an economically equivalent security or securities of the Company) that have a market value of two times the exercise price of the Right.

In the event (a "Flip-over Event") that, following the first date of public announcement by the Company that a person has become an Acquiring Person, (i) the Company merges with or into any person and the Company is not the surviving corporation, (ii) any person merges with or into the Company and the Company is the surviving corporation, but all or part of the Common Stock is changed or exchanged, or (iii) 50% or more of the Company's assets or earning power, including without limitation securities creating obligations of the Company, are sold, proper provision will be made so that each holder of a Right will thereafter have the right to receive, upon the exercise thereof at the then-current exercise price of the Right, that number of shares of common stock (or, under certain circumstances, an economically equivalent security or securities) of such other person which at the time of such transaction would have a market value of two times the exercise price of the Right.

Following the occurrence of any Flip-in Event or Flip-over Event, Rights (other than any Rights which have become void) may be exercised as described above, upon payment of the exercise price or, at the option of the holder thereof, without the payment of the exercise price that would otherwise be payable. If a holder of Rights elects to exercise Rights without the payment of the exercise price that would otherwise be payable, such holder will be entitled to receive upon the exercise of such Rights securities having a market value equal to the exercise price of the Rights. In addition, at any time after the later of the Rights Distribution Date and the first occurrence of a Flip-in Event or a Flip-over Event and prior to the acquisition by any person or group of affiliated or associated persons of 50% or more of the outstanding Common Stock, the Company may exchange the Rights (other than any Rights which have become void), in whole or in part, at an exchange ratio of one share of Common Stock per Right (subject to adjustment).

With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments require an adjustment in the Purchase Price of at least 1%. The Company is not required to issue fractional Series A Preferred Shares (other than fractions that are integral multiples of one one-hundredth of a Series A Preferred Share, which may, at the option of the Company, be evidenced by depositary receipts) or fractional shares of Common Stock or other securities issuable upon the exercise of Rights. In lieu of issuing such securities, the Company may make a cash payment, as provided in the Share Purchase Rights Agreement.

The Company may redeem the Rights in whole, but not in part, at a price of \$0.03 per Right, subject to adjustment and, in the event that the payment of such amount would be prohibited by loan agreements or indentures to which the Company is a party, deferral (the "Redemption Price"), at any time prior to the close of business on the later of (i) the Rights Distribution Date and (ii) the first date of public announcement that a person has become an Acquiring Person. Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price. The Board will be required to determine during 1993, upon the recommendation of a special committee of the Board (the "Special Committee"), whether the continuation or redemption of the Rights, or the amendment of the Share Purchase Rights Agreement, is in the best interests of the Company and its stockholders at the time of such determination. A majority of the members of the Special Committee must be Non-Employee Directors. The Special Committee's recommendation may be made only after consulting with a nationally recognized investment banking firm and outside counsel, and the decision of the Board must be publicly announced not less than 30 calendar days prior to the last date for the submission of stockholder proposals to be included in the Company's proxy solicitation materials for its 1994 annual meeting of stockholders.

The Share Purchase Rights Agreement may be amended by the Company without the approval of any holders of Rights Certificates, including amendments which add other events requiring adjustment to the Purchase Price payable and the number of Series A Preferred Shares or other securities issuable upon the exercise of the Rights or which modify procedures relating to the redemption of the Rights, provided that no amendment may be made which decreases the stated Redemption Price to an amount less than \$0.01 per Right, decreases the period of time remaining until the Final Expiration Date, or modifies a time period relating to when the Rights may be redeemed at such time as the Rights are not then redeemable.

Certain Corporate Governance Matters

In addition to the provisions relating to the classification of the Board and the nomination procedures described in "Management — Board of Directors," the Company's Certificate of Incorporation and By-Laws provide, in general, that (i) the number of directors of the Company will be fixed, within a specified range, by a majority of the total number of the Company directors (assuming no vacancies) or by the holders of at least 80% of the Company's voting stock, (ii) the directors of the Company in office from time to time will fill any vacancy or newly created directorship on the Board, with any new director to serve in the class of directors to which he or she is so elected, (iii) directors of the Company may be removed only for cause by the holders of at least 80% of the Company's voting stock, (iv) stockholder action can be taken only at an annual or special meeting of stockholders and not by written consent in lieu of a meeting, (v) except as described below, special meetings of stockholders may be called only by the Company's Chief Executive Officer or by a majority of the total number of directors of the Company (assuming no vacancies) and the business permitted to be conducted at any such meeting is limited to that brought before the meeting by the Company's Chief Executive Officer or by a majority of the total number of directors of the Company (assuming no vacancies), and (vi) subject to certain exceptions, the Board may postpone and reschedule any previously scheduled annual or special meeting of stockholders. The By-Laws also require that stockholders desiring to bring any business before an annual meeting of stockholders deliver written notice thereof to the Secretary of the Company not later than 60 days in advance of the meeting of stockholders; provided, however, that in the event that the date of the meeting is not publicly announced by the Company by press release or inclusion in a report filed with the Commission or furnished to stockholders more than 75 days prior to the meeting, notice by the stockholder to be timely must be delivered to the Secretary of the Company not later than the close of business on the tenth day following the day on which such announcement of the date of the meeting was so communicated. The By-Laws further require that the notice by the stockholder set forth a description of the business to be brought before the meeting and the reasons for conducting such business at the meeting and certain information concerning the stockholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made, including their names and addresses, the class and number of shares of the Company that are owned beneficially and of record by each of them, and any material interest of either of them in the business proposed to be brought before the meeting. Upon the written request of the holders of not less than 15% of the Company's voting stock, the Board will be required to call a meeting of stockholders for the purpose specified in such written request and fix a record date for the determination of stockholders entitled to notice of and to vote at such meeting (which record date may not be later than 60 days after the date of receipt of notice of such meeting), provided that in the event that the Board calls an annual or special meeting of stockholders to be held not later than 90 days after receipt of any such written request, no separate special meeting of stockholders as so requested will be required to be convened provided that the purposes of such annual or special meeting called by the Board include (among others) the purposes specified in such written request of the stockholders.

Under applicable provisions of Delaware law, the approval of a Delaware company's board of directors, in addition to stockholder approval, is required to adopt any amendment to the company's certificate of incorporation, but a company's by-laws may be amended either by action of its stockholders or, if the company's certificate of incorporation so provides, its board of directors. The Company's Certificate of Incorporation and By-Laws provide that (i) except as described below, the provisions summarized above and the provisions relating to the classification of the Board, nominating procedures, and the Stockholders Agreement may not be amended by the stockholders, nor may any provision inconsistent therewith be adopted by the stockholders, without the affirmative vote of the holders of at least 80% of the Company's voting stock, voting together as a single class, except that if any such action (other than any direct or indirect amendments to the provision requiring that stockholder action be taken at a meeting of stockholders rather than by written consent in lieu of a meeting or the provision relating to the Stockholders Agreement) is approved by the holders of a majority, but less than 80%, of the then-outstanding voting stock (in addition to any other approvals required by law, including approval by the Board with respect to any amendment to the Company's Certificate of Incorporation), such action will be effective as of one year from the date of adoption, (ii) the By-Law provisions relating to the scheduling of the Company's first annual meeting of stockholders may not be amended without the approval of a majority of the Non-Employee Directors then in office, (iii) the By-

Law provisions relating to the right of stockholders to cause special meetings of stockholders to be called and to the composition of certain directorate committees may not be amended by the Board without stockholder approval, and (iv) the By-Law provision relating to the Stockholders Agreement may not be amended by the Board.

The Company is subject to section 203 of the Delaware General Corporation Law, which restricts the consummation of certain business combination transactions in certain circumstances. Because the Board approved (or pursuant to section 303 of the Delaware General Corporation Law was deemed to have approved) the issuance of the Common Stock and certain warrants and convertible notes issued pursuant to the POR, and the implementation of the Stockholders Agreement described in " — Common Stock — Restrictions on Transfer," the statutory restrictions on business combination transactions are not applicable to any person or group (an "Initial 15% Stockholder") that became or is deemed to have become the beneficial owner of 15% or more of the voting stock of the Company as a result of its receipt of Common Stock, warrants, or convertible notes, or the implementation of the Stockholders Agreement, pursuant to the POR. However, the Company's Certificate of Incorporation contains provisions that are substantially similar to those contained in section 203 of the Delaware General Corporation Law that restrict business combination transactions with (i) any Initial 15% Stockholder that becomes the beneficial owner of an additional 1% or more of the voting stock of the Company and (ii) any other person or group that becomes the beneficial owner of 15% or more of the voting stock of the Company. Based on information currently available to the Company, no person or group is the beneficial owner of 15% of more of the voting stock of the Company. See "Security Ownership."

The foregoing provisions of the Company's Certificate of Incorporation, the provisions of the By-Laws relating to advance notice of stockholder nominations, the provisions of the Share Purchase Rights Agreement (see " — Preferred Share Purchase Rights"), and the limitations on transfer of shares of Common Stock that are subject to the Stockholders Agreement (see " — Common Stock — Restrictions on Transfer") may discourage or make more difficult the acquisition of control of the Company by means of a tender offer, open market purchase, proxy contest, or otherwise. These provisions are intended to discourage, or may have the effect of discouraging, certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of the Company first to negotiate with the Company. The Company's management believes that the foregoing measures, many of which are substantially similar to the takeover-related measures in effect for many other publicly held companies and were reviewed and negotiated with representatives of certain of the official creditors' committees appointed in connection with Reorganization Proceedings, provide benefits by enhancing the Company's potential ability to negotiate with the proponent of any unfriendly or unsolicited proposal to take over or restructure the Company that outweigh the disadvantages of discouraging such proposals because, among other things, negotiation of such proposals could result in an improvement of their terms.

Future Stock Issuances

In addition to the Common Stock issued pursuant to the POR as of the POR Effective Date, the Company will issue an aggregate of 204,000 shares of Common Stock to the U.S. Treasury in five equal annual installments as a part of a settlement of a claim provided for in the POR, and the Company has a contingent obligation under the POR to issue one share of Common Stock for each \$25.00 recovered from such insurer under a policy having an aggregate maximum recovery limitation of \$30.0 million. There can be no assurance than any such recovery will be achieved.

The Company has also granted Options to purchase an aggregate of 1,808,500 shares of Common Stock pursuant to the Equity Plan (see "Management — Benefit Plans and Agreements — The Equity Plan and Bonus Plan") and may become obligated to issue approximately 8,564,100 shares of Common Stock (subject to adjustment) upon the conversion of the Convertible Notes (see "Indebtedness — Reorganization Indebtedness") and 5.0 million shares of Common Stock (subject to adjustment) upon the exercise of the Series A Warrants and Series B Warrants. The Series A Warrants were issued under the Series A Warrant Agreement between the Company and The Bank of New York, as Warrant Agent (the "Series A Warrant Agreement").

The Series B Warrants were issued under the Series B Warrant Agreement between the Company and The First Boston Corporation ("First Boston"), as the initial holder of the Series B Warrants (the "Series B Warrant Agreement"). Each Warrant, when exercised, will entitle the holder thereof to acquire one share of Common Stock at an exercise price of (i) \$25.00 per share, in the case of the Series A Warrants, or (ii) \$35.00 per share, in the case of the Series B Warrants. The Series A Warrants, which expire February 15, 1996, are not transferable until the earlier of (i) February 4, 1994 and (ii) six months after the first post-POR Effective Date sale by the Company of shares of its capital stock for cash, other than pursuant to the exercise of any option, warrant, or other right to purchase shares of capital stock of the Company issued or granted pursuant to the POR, the Equity Plan (or any other employee benefit plan), or the Share Purchase Rights Agreement (or any similar successor agreement). The Series B Warrants, which expire February 15, 2000, are not transferable before February 4, 1995. Four million shares of Common Stock are subject to the Series A Warrants and 1.0 million shares of Common Stock are subject to the Series B Warrants, in each case subject to adjustment in certain events to prevent dilution of the rights conferred thereby as set forth in the applicable Warrant Agreement.

The Company is also authorized to issue additional shares of capital stock from time to time. There are no specific restrictions upon such issuances, except for those described in " — Common Stock — Restrictions on Transfer" and except for a restriction that not more than 4.6 million shares of Common Stock may be issued pursuant to the Equity Plan (not more than 1.2 million shares of which may be shares of Restricted Stock), subject to adjustment in certain circumstances. Under Delaware law, in the absence of actual fraud in the transaction, the judgment of the directors as to the value of consideration received upon the issuance of a corporation's capital stock is conclusive. In addition, as permitted by Delaware law, under the Company's Certificate of Incorporation, the Company's stockholders will not have preemptive rights to purchase additional shares of the Company capital stock upon any issuance of such shares authorized by the Board. See "Investment Considerations — Certain Provisions of the Company's Certificate of Incorporation, By-Laws, and Other Agreements."

INDEBTEDNESS

The following summaries of certain provisions of certain indebtedness of the Company and its subsidiaries are generalized, do not purport to be complete, and are qualified in their entirety by reference to the provisions of the various agreements and indentures related thereto, which are filed as exhibits to the Registration Statement of which this Prospectus forms a part and to which exhibits reference is hereby made.

Reorganization Indebtedness

General. Pursuant to the POR, the Company issued (i) approximately \$472.8 million aggregate principal amount of Series A Notes, (ii) approximately \$554.2 million aggregate principal amount of Series B Notes, (iii) approximately \$182.6 million aggregate principal amount of Series C Notes, (iv) approximately \$305.6 million aggregate principal amount of Series D Notes, (v) approximately \$93.0 million aggregate principal amount of Series E Notes, and (vi) approximately \$307.4 million aggregate stated principal amount (\$256.9 million aggregate discount amount as of the POR Effective Date) of Convertible Notes to certain prepetition creditors of the Company and Allied. In addition, in consideration of certain distributions under the POR, the Series F LC Facility, which provides for the issuance from time to time prior to February 2, 1995 of up to \$150.0 million aggregate face amount of letters of credit, was made available to the Company. As of March 31, 1992, there were \$114.5 million face amount of letters of credit outstanding under the Series F LC Facility.

Subject to certain exceptions, the Company is required to apply to the prepayment of the debt securities issued pursuant to the POR (other than the Convertible Notes), in the manner described below, 100% of the net cash proceeds of any sale for its own account of any shares of its capital stock for cash until \$600.0 million aggregate principal amount of such debt securities has been prepaid, repurchased, or redeemed from the proceeds of such stock sales; after \$600.0 million aggregate principal amount of such debt securities has been so prepaid, repurchased, or redeemed, 50% of the net cash proceeds of any such stock sale must be so applied.

Such net cash proceeds are to be applied as follows: (a) 25% of such net cash proceeds are to be applied to the prepayment of the Series E Notes and (b) 75% of such net cash proceeds are to be applied ratably to the prepayment of the Series C Notes and to the prepayment, redemption, or repurchase of the Series D Notes until all such indebtedness has been retired. Thereafter, the portion of such net cash proceeds required to be applied to the prepayment of POR indebtedness as described above is to be applied to the prepayment of the Series A Notes and to the prepayment, redemption, or repurchase of the Series B Notes on a pro rata basis.

As described in "Use of Proceeds," it is anticipated that the Offerings will result in (i) the prepayment in full of the Series C Notes, the Series D Notes, and the Series E Notes, and (ii) together with the Additional Debt Prepayments described in Note 2 of Notes to Pro Forma Financial Information, a reduction in the aggregate principal amount of Series A Notes and Series B Notes outstanding to approximately \$306.9 million and \$359.8 million, respectively. In addition, it is anticipated that the Series F LC Facility will be terminated in connection with the entry into the Working Capital Facilities Agreement. Certain provisions of the Series C Notes, the Series D Notes, the Series E Notes, and the Series F LC Facility are described in Note 12 to the Consolidated Financial Statements. Certain provisions of the Series A Notes, the Series B Notes, and the Convertible Notes (collectively, the "POR Notes"), and of the instruments pursuant to which the POR Notes were issued (collectively, the "POR Debt Instruments"), are described below, giving effect to the consummation of the Offerings and the Additional Debt Prepayments and the entry into a definitive Working Capital Facilities Agreement.

The Series A Notes. The Series A Notes are secured obligations of the Company maturing on February 15, 2000 and bearing interest at the rate per annum equal to, at the Company's option, either (i) Citibank's Alternate Base Rate III plus 1.5% (the "Base Rate") or (ii) LIBOR plus 2.5% (the "LIBOR Rate"). Interest at the Base Rate is payable quarterly on March 15, June 15, September 15, and December 15. Interest at the LIBOR Rate is payable at the end of each one-, two-, three-, or six-month period (a "LIBOR Interest Period"), as selected by the Company, except that, with respect to any LIBOR Interest Period of six months, accrued and unpaid interest will be payable at the end of the third and sixth months of such LIBOR Interest Period. The collateral securing the Series A Notes equally and ratably with the Series B Notes is described below in "— Collateral Security."

Giving effect to the assumed prepayment of \$165.9 million aggregate principal amount of Series A Notes as a result of the Offerings and the Additional Debt Prepayments (see "Use of Proceeds" and "Capitalization"), the Company is required to pay on the dates indicated below the principal amounts of Series A Notes indicated below, together with accrued interest to the date of payment (subject to adjustment to reflect any additional prepayments and decreases in aggregate principal amount of Series A Notes outstanding resulting from the exchange of Series A Notes for Series B Notes at the option of the holders of the Series A Notes in accordance with the terms of the applicable POR Debt Instruments):

	<u>(millions)</u>
February 15, 1996	\$ —
February 15, 1997	\$ 43.8
February 15, 1998	\$ 80.4
February 15, 1999	\$ 80.4
February 15, 2000	\$102.3

In addition to the prepayments required in connection with certain sales by the Company of its capital stock as described above, the Company is required to apply the net proceeds, after specified deductions, realized from any sale, conveyance, or other disposition of the collateral securing the Series A Notes and the Series B Notes to the prepayment thereof on a pro rata basis. Subject to such limitations as may be contained in other debt instruments to which the Company is a party, the Series A Notes are prepayable at any time at the option of the Company, in whole or in part; provided, however, that voluntary prepayments must be made pro rata with the Series B Notes.

The Series B Notes. The Series B Notes are secured obligations of the Company, maturing on February 15, 2000 and bearing interest at the rate of 10.00% per annum, payable semiannually on June 15 and December 15. The collateral securing the Series B Notes equally and ratably with the Series A Notes is described below in "— Collateral Security."

Giving effect to the assumed prepayment of \$194.4 million aggregate principal amount of Series B Notes as a result of the Offerings and the Additional Debt Prepayments (see "Use of Proceeds" and "Capitalization"), the Company is required to prepay or redeem on the dates indicated below the principal amounts of Series B Notes indicated below, together with accrued interest to the date of payment (subject to adjustment to reflect any additional prepayments and increases in the aggregate principal amount of Series B Notes outstanding resulting from the exchange of Series A Notes for Series B Notes at the option of the holders of the Series A Notes in accordance with the terms of the applicable POR Debt Instruments):

	(millions)
February 15, 1996	\$ —
February 15, 1997	\$ 51.3
February 15, 1998	\$ 94.2
February 15, 1999	\$ 94.2
February 15, 2000	\$120.1

In addition to the prepayments required in connection with certain sales by the Company of its capital stock as described above, the Company is required to apply the net proceeds, after specified deductions, realized from any sale, conveyance, or other disposition of the collateral securing the Series A Notes and the Series B Notes to the prepayment thereof on a pro rata basis. Subject to such limitations as may be contained in other debt instruments to which the Company is a party, the Series B Notes are prepayable at any time at the option of the Company, in whole or in part; provided, however, that voluntary prepayments must be made pro rata with prepayments of the Series A Notes.

The Convertible Notes. The Convertible Notes are unsecured obligations of the Company maturing on February 15, 2004 and bearing interest at the rate of 6.0% per annum, payable semiannually on February 15 and August 15, commencing August 15, 1995; provided, however, that such interest rate will be reset effective as of February 15, 1995 to a rate (not to exceed 10% per annum) equal to the sum of (i) the average rate for hypothetical Eight-Year Treasury Notes during the 20 consecutive trading days ending February 15, 1995 and (ii) 200 basis points, unless the per share closing price of the Common Stock is at least equal to \$30.00, \$32.00, or \$35.00, respectively, for 20 consecutive trading days in any of the first, second, or third 12-month periods following February 15, 1992. The Convertible Notes will not bear cash interest prior to February 15, 1995 but will accrete original issue discount (the difference between the deemed issue price as of the POR Effective Date of \$835.81 per \$1,000 of stated principal amount and such stated principal amount) semiannually at the rate of 6.0% per annum compounded semiannually during the period from February 3, 1992 to February 15, 1995.

On each of February 15, 2002 and 2003, the Company will pay an amount equal to 33.3% of the aggregate stated principal amount of the Convertible Notes initially outstanding, and will pay any remaining balance on February 15, 2004, in each case together with accrued interest to the date of payment. In addition, subject to such limitations as may be contained in other debt instruments to which the Company is a party, at any time on or after February 15, 1995, the Company may make optional prepayments or redemptions of the Convertible Notes in whole or in part. All such prepayments will be made at 100% of the stated principal amount so prepaid or redeemed, together with interest accrued to the date of prepayment or redemption.

At any time at the option of a holder of Convertible Notes, such holder will have the right to convert the principal of such holder's Convertible Notes that is \$100,000 stated principal amount or an integral multiple of such amount (or such lesser stated principal amount that represents all of such holder's Convertible Notes) into fully-paid and nonassessable shares of Common Stock at the rate of 27.86 shares of Common Stock for each \$1,000 stated principal amount of Convertible Notes, provided that such conversion rate will be appropriately adjusted in order to prevent dilution of such conversion rights in the event of certain changes in or events affecting the Common Stock and certain consolidations, mergers, sales, leases, transfers, or other dispositions to which the Company is a party. In addition, if at any time the closing per share price of the Common Stock is \$42.00 or more for 20 consecutive trading days, or if the aggregate outstanding stated principal amount of the Convertible Notes is \$12.5 million or less, the Company may require the conversion of all outstanding Convertible Notes into Common Stock. Shares of Common Stock issued upon conversion of

the Convertible Notes will not be Restricted Common Stock. See "Capital Stock — Common Stock — Restrictions on Transfer."

Collateral Security. Pursuant to the terms of various security documents (collectively, the "Shared Collateral Security Documents"), the Company and certain of its subsidiaries granted to the collateral trustees named therein, for the equal and ratable benefit of the holders of the Series A Notes and the Series B Notes, a first priority security interest in: (i) all of the outstanding capital stock of Bloomingdale's, Burdines, Rich's, Federated Real Estate, Inc., and Federated Credit Holdings Corporation (collectively, the "A/B First Priority Shared Collateral Subsidiaries"), (ii) all of the outstanding capital stock of Abraham & Straus and Lazarus (together, the "A/B Second Priority Shared Collateral Subsidiaries"), and (iii) certain real property of certain subsidiaries of Federated Real Estate, Inc. (such subsidiaries being collectively referred to as "FREI"). It is anticipated that, pursuant to the terms of the Shared Collateral Security Documents, all of the rights of the holders of the Series A Notes and the Series B Notes in respect of the collateral trustees' security interests in the capital stock of the A/B Second Priority Shared Collateral Subsidiaries will be subordinated in favor of the lenders under the Working Capital Facilities Agreement, which will have the benefit of the collateral trustees' security interests therein on a first priority basis.

Events of Default. In general, the following events (subject in certain instances to "grace" or "cure" periods), among others, constitute events of default under one or more of the POR Debt Instruments: (i) the failure to pay principal of or interest on the POR Notes when due; (ii) the breach of any covenant contained in the POR Debt Instruments or the Shared Collateral Security Documents; (iii) the failure of the POR Notes or of any material provision of the POR Debt Instruments or Shared Collateral Security Documents to remain in full force and effect, any lien granted pursuant to the applicable Shared Collateral Security Documents ceasing to be perfected with the specified priority, or the institution by the Company or any of its subsidiaries of any suit or proceeding challenging the legality, validity, or enforceability of any of the foregoing; (iv) any nonpayment at maturity or other default (beyond any applicable grace period) under any agreement or instrument relating to any indebtedness of the Company, or under any letter of credit facility, the principal amount of which exceeds \$25.0 million, which default results in the acceleration of the maturity of such indebtedness or obligation prior to its stated maturity; (v) certain events of bankruptcy or insolvency; (vi) the material falsity or incorrectness of any officer's certificate delivered by the Company pursuant to the POR Debt Instruments; (vii) the entry of one or more final, nonappealable judgments against the Company or any subsidiary of the Company in excess of \$10.0 million and the failure of the Company or such subsidiary to discharge such judgment(s) or provide for the discharge thereof within 60 days of the entry thereof; (viii) the occurrence of a material adverse change, or an event reasonably likely to constitute a material adverse change, in the business, financial position, results of operations, or prospects of the Company and its subsidiaries that could reasonably be expected to have a material adverse effect on the ability of the Company and its subsidiaries to perform their obligations under the POR Debt Instruments or the Shared Collateral Security Documents, in each case from that which existed as of February 5, 1992; and (ix) the occurrence of certain ERISA events.

Restrictive Covenants. In general, one or more of the POR Debt Instruments prohibits the Company and each of its subsidiaries from (i) creating or permitting to exist any debt other than (a) debt incurred pursuant to the POR or otherwise existing as of February 5, 1992 or any refinancing of such debt on terms not materially less favorable to the Company than the terms of the debt being refinanced, provided that, with certain exceptions, the total principal amount of the senior indebtedness of the Company and its subsidiaries (other than Federated Credit, Federated Credit Holdings Corporation, Allied Credit, and Allied Stores Credit Holdings Corporation (collectively, the "Finance Subsidiaries")) does not exceed the amount thereof as of February 5, 1992, (b) debt among the Company and its subsidiaries incurred in the ordinary course of business or pursuant to the cash management system of the Company and its subsidiaries, (c) debt in respect of the deferred purchase price of property or arising under any conditional sale or other title retention agreement incurred in the ordinary course of business of the Company and its subsidiaries, (d) capital lease obligations incurred after February 5, 1992 not to exceed \$100.0 million, (e) debt in respect of construction advances, (f) obligations pursuant to interest rate hedge agreements covering Series A Notes to the extent such contracts constitute debt, (g) other debt to an unaffiliated third party not described above, not to exceed

an aggregate outstanding principal amount of \$50.0 million, and (h) (1) debt incurred for working capital or other corporate purposes in any amount not to exceed \$700.0 million, subject to specified adjustments, and (2) debt of FREI (subject to mandatory prepayment obligations); (ii) creating or permitting to exist liens on or security interests in any of their respective assets, including without limitation, inventory, other than liens securing debt referred to in subclauses (a) through (h)(1) of the preceding clause (i) and other customary permitted liens; (iii) declaring, making, or paying any dividend, distribution, or payment on account of any capital stock of the Company, except that from and after February 5, 1995 the Company may do so to the extent that it has maintained a fixed charge coverage ratio equal to not less than 2.0 to 1 for four consecutive fiscal quarters, provided that the amount of any such dividends, distributions, or payments may not exceed 20% of net income for such four consecutive fiscal quarters; (iv) voluntarily prepaying, purchasing, redeeming, defeasing, or otherwise acquiring any debt or Subsidiary Trade Obligation in excess of \$10.0 million per fiscal year, other than replacements or refinancings of POR Notes or any debt existing on February 5, 1992 permitted under such POR Debt Instrument; (v) merging or consolidating with another person, except that Allied Stores Credit Holdings Corporation and Federated Credit Holdings Corporation may merge under specified circumstances and Allied Credit and Federated Credit may merge contemporaneously with or subsequent to the merger of their respective parent corporations and, if no event of default has occurred and is continuing thereunder, (a) the Company may merge or consolidate with any person provided that the Company is the surviving corporation and no event of default under such POR Debt Instrument will result therefrom and (b) the Company may merge or consolidate with, or transfer substantially all of its assets to, any person if, among other things, in each case, the surviving or acquiring person is a United States corporation and it assumes all of the Company's liabilities and obligations, the Company delivers a legal opinion and an officer's certificate as to specified legal and factual matters, and the consolidated net worth of the surviving corporation immediately upon giving effect to the merger or consolidation is not less than the consolidated net worth of the Company immediately prior to the effective time of such merger or consolidation; (vi) entering into transactions with affiliates other than (a) transactions in the ordinary course of business and on an arm's-length basis or otherwise not detrimental to the Company or any of the relevant pledged operating subsidiaries (as defined in the applicable POR Debt Instrument) and determined by the Board to be fair, (b) sales of accounts receivable to the Finance Subsidiaries pursuant to receivables purchase agreements substantially similar in all material respects to the receivables purchase agreements in effect as of December 20, 1991, (c) ordinary course of business asset transfers and the provision of services between the Company and its subsidiaries or between such subsidiaries, and (d) matters relating to the cash and other compensation of and benefits provided to any officer or director of the Company or any of its subsidiaries approved by the Board (excluding any employee-directors) or the Compensation Committee thereof; (vii) making any investment in any other person or entity, except for the conversion of the Company's FACS and/or SABRE divisions into wholly owned subsidiaries of the Company and the making of specified permitted investments; (viii) making any material amendments to the POR Debt Instruments or the mortgage facility described below; (ix) engaging in certain speculative transactions; (x) making any change in accounting treatment or reporting practices, except as permitted or required by generally accepted accounting principles; and (xi) creating or suffering to exist any reimbursement, payment, or similar obligations, contingent or otherwise, under letter of credit or similar facilities except (a) any such obligations under the Series F LC Facility or any replacement or additional facilities not to exceed \$200.0 million (subject to increase), (b) any such obligations having the purpose of enhancing the credit of any Finance Subsidiary not to exceed \$210.0 million, and (c) any obligations other than those set forth in clauses (a) and (b) not to exceed \$50.0 million at any time. The Series A Note Agreement also prohibits the Company and each of its subsidiaries from selling, leasing, or transferring any of its property or assets other than (i) sales of inventory or other transactions in the ordinary course of business, (ii) sales of accounts receivable in the ordinary course of business pursuant to receivables purchase agreements substantially similar in all material respects to the receivables purchase agreements in effect as of December 20, 1991, (iii) sales and other dispositions of certain specified assets of the Company and its subsidiaries, (iv) sales or other dispositions of certain real property in which (a) the Board determines that specified "fair market value" tests are satisfied, (b) at least 75% of the proceeds are received in cash at closing, and (c) less than all or substantially all of the A/B First Priority Shared Collateral Subsidiaries' assets are sold or otherwise disposed of, and (v) sales or other dispositions of any other assets in any fiscal year with an aggregate fair market value of \$25.0 million. The Series A Note

Agreement also prohibits the inclusion of certain provisions in any instrument, agreement, or other document governing or evidencing other debt granting any holder of such debt the right to require repurchase or repayment of such debt upon the occurrence of a change in control or recapitalization (other than with respect to Allied Stores General Real Estate Company) unless the Series A Note Agreement is amended to include substantially similar provisions.

Financial Covenants. The Series A Note Agreement requires the Company and its subsidiaries to comply with the following financial covenants, all of which apply to the Company and its subsidiaries on a consolidated basis:

(i) Maintain a leverage ratio (*i.e.*, a ratio of senior indebtedness to tangible net worth) (a) at the end of each fiscal quarter through the fiscal quarter ending in January 1995 not in excess of the ratio derived by dividing (1) the aggregate principal amount of senior indebtedness of the Company and its subsidiaries (other than the Finance Subsidiaries) outstanding on February 5, 1992 (with the principal amount of the Convertible Notes being the stated principal amount thereof) by (2) adjusted tangible net worth as at the end of such fiscal quarter, (b) at the end of each of the first three fiscal quarters of fiscal year 1995 not in excess of the ratio derived by dividing (1) the aggregate principal amount of senior indebtedness of the Company and its subsidiaries (other than the Finance Subsidiaries) outstanding on February 5, 1992 (with the principal amount of the Convertible Notes being the stated principal amount thereof) by (2) adjusted tangible net worth as at the end of the fiscal quarter ending in January 1995, and (c) at the end of each fiscal quarter from and after the fiscal quarter ending in January 1996, not in excess of the ratio set forth below opposite each such fiscal quarter:

<u>Fiscal Quarter Ending In</u>	<u>Maximum Leverage Ratio</u>
January 1996	1.70 to 1
April 1996	1.70 to 1
July 1996	1.70 to 1
October 1996	1.70 to 1
January 1997 and thereafter.....	1.45 to 1

(ii) Maintain for each fiscal quarter set forth below and each of three fiscal quarters immediately preceding such fiscal quarter (or the period since February 1, 1992, if shorter) a fixed charge coverage ratio not less than the ratio set forth below opposite such fiscal quarter:

<u>Fiscal Quarter Ending In</u>	<u>Minimum Fixed Charge Coverage Ratio</u>
April 199240 to 1
July 199240 to 1
October 199240 to 1
January 199385 to 1
April 199386 to 1
July 199393 to 1
October 199394 to 1
January 1994	1.0 to 1
April 1994	1.0 to 1
July 1994	1.0 to 1
October 1994	1.0 to 1
January 199571 to 1
April 199571 to 1
July 199571 to 1
October 199571 to 1
January 1996 and thereafter95 to 1

(iii) Maintain for each fiscal quarter set forth below and each of three fiscal quarters immediately preceding such fiscal quarter (or the period since February 1, 1992, if shorter) an interest coverage ratio not less than the ratio set forth below opposite such fiscal quarter:

<u>Fiscal Quarter Ending In</u>	<u>Minimum Interest Coverage Ratio</u>
April 199260 to 1
July 199260 to 1
October 199280 to 1
January 1993	1.50 to 1
April 1993	1.50 to 1
July 1993	1.50 to 1
October 1993	1.50 to 1
January 1994	1.85 to 1
April 1994	1.85 to 1
July 1994	1.85 to 1
October 1994	1.85 to 1
January 1995 and thereafter	2.0 to 1

(iv) Not permit cash capital expenditures made during each of the fiscal years set forth below to exceed the maximum amount set forth below for such fiscal year:

<u>Fiscal Year Ending In</u>	<u>Maximum Amount of Cash Capital Expenditures</u>
January 1993	\$228,234,000
January 1994	263,711,000
January 1995	240,416,000
January 1996	244,800,000
January 1997	243,500,000

However, commencing with the fiscal year ending in January 1994, the Company may permit cash capital expenditures to exceed the maximum amount set forth above for such fiscal year by an amount equal to the lesser of (a) 25% of the amount set forth above for the fiscal year preceding such fiscal year and (b) the excess of (1) the amount of cash capital expenditures permitted under this covenant for the fiscal year immediately preceding such fiscal year (after giving effect to this proviso) over (2) the actual amount of cash capital expenditures made during such preceding fiscal year.

Interest Rate Protection. The Company is a party to certain interest rate hedge agreements designed to mitigate the consequences of potential increases in variable or "floating" interest rates applicable to certain of its indebtedness. Pursuant to the Series A Note Agreement, the Company was required to enter into an interest rate hedge agreement designed to put the Company in an economically equivalent position to that which would result if the maximum rate at which interest could accrue on at least 74.7% of the aggregate original principal amount of the Series A Notes were limited to 10% per annum for a period beginning on or before February 3, 1992 and ending on February 3, 1995. For each subsequent year, the Company is required to have in effect at the beginning of such year interest rate hedge agreements in an amount equal to at least 75% of the then-unpaid aggregate principal amount of all Series A Notes, less principal payments scheduled for such year, for a period of at least such year.

Accounts Receivable Facility

Federated Credit and Allied Credit are parties to receivables-backed credit facilities to finance the purchase of accounts receivable from their respective operating subsidiaries. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

Borrowings under these facilities are secured by security interests in the accounts receivable purchased by Federated Credit and Allied Credit, as the case may be, and certain other collateral, and bear interest at rates based upon the rates paid by the respective lenders under the facilities on commercial paper sold by such lenders from time to time to finance their loans under the facilities.

Mortgage Facility

Certain of the Company's real estate subsidiaries are parties to a mortgage loan agreement. As of February 1, 1992, approximately \$365.2 million was outstanding under this agreement. Under an amendment entered into pursuant to the POR, borrowings under the agreement will mature in 2002 and bear interest at a rate per annum equal to 260 basis points over the average rate for 12-year treasury notes determined no later than May 4, 1992. Borrowings under the agreement are secured by liens on certain real property.

Subsidiary Trade Obligations

In addition to the cash distributions made on the POR Effective Date, the holders of certain allowed general unsecured prepetition claims against certain of the Company's subsidiaries are entitled pursuant to the POR to receive an additional cash payment on February 4, 1995.

The obligations of the applicable subsidiaries of the Company (the "Subsidiary Trade Obligors") to make such payments (the "Subsidiary Trade Obligations") have been estimated by the Federated/Allied Companies at \$101.5 million in the aggregate, exclusive of interest. There can be no assurance, however, that the actual amounts thereof will not exceed such estimate by a material amount. See "Investment Considerations — Disputed Claims Reserves." The Subsidiary Trade Obligations bear interest at the rate of 6.94% per annum, payable annually on February 15, commencing on February 15, 1993. The Subsidiary Trade Obligations are unsecured obligations of the applicable Subsidiary Trade Obligors, guaranteed by the Company on a subordinated basis. The terms of the POR relating to the Subsidiary Trade Obligations include certain restrictions (which are not presently expected materially to affect the Company or its financial position or results of operations) on, among other things, the incurrence of indebtedness by the Subsidiary Trade Obligors and the payment of dividends by the Subsidiary Trade Obligors or the Company.

Note Monetization Facility

On May 3, 1988, the Company sold its Filene's and Foley's divisions to May Department Stores for consideration consisting in part of a \$400.0 million promissory note (the "May Note"). The Company subsequently transferred the May Note to a grantor trust of which the Company and a wholly owned subsidiary of the Company are the beneficiaries. The trust borrowed \$352.0 million under a note monetization facility, using the May Note as collateral, and distributed the proceeds of such borrowing to the Company. The trust's borrowing under the note monetization facility matures in two equal installments on May 3, 1997 and 1998, and bears interest at fluctuating interest rates based on LIBOR, subject to certain adjustments. Neither the Company nor any subsidiary of the Company is an obligor on the borrowing under the note monetization facility, and the lender's recourse thereunder is limited to the trust's assets and the Company's interest in the trust.

CERTAIN UNITED STATES TAX CONSEQUENCES FOR NON-U.S. SHAREHOLDERS

General

The following is a general discussion of certain U.S. federal income and estate tax consequences of the ownership and disposition of shares of Common Stock by a person that is a Non-U.S. Shareholder. For purposes of this discussion, a "Non-U.S. Shareholder" means any person other than (i) an individual who is a citizen or resident of the United States, (ii) a corporation, partnership, or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

This discussion is for general information only and does not consider all aspects of U.S. federal tax consequences that may be relevant to a particular Non-U.S. Shareholder in light of such shareholder's particular tax position, and does not deal with state, local, or foreign tax consequences. This discussion is based on the Internal Revenue Code, existing and proposed Treasury regulations, and judicial and administrative interpretations as of the date hereof, all of which are subject to change. Prospective investors are urged to consult their own tax advisors with respect to the U.S. federal, state, and local tax consequences of owning and disposing of shares of Common Stock, as well as any tax consequences arising under the laws of any other taxing jurisdiction.

Dividends

The Company does not anticipate paying dividends on the Common Stock in the foreseeable future. See "Dividend Policy." In the event that dividends are paid on the Common Stock, any such dividends paid to a Non-U.S. Shareholder will be subject to withholding of U.S. federal income tax at a rate of 30% of the amount of the dividend (or such lower rate as may be prescribed by an applicable income tax treaty). However, if the dividend is effectively connected with the conduct of a U.S. trade or business by the Non-U.S. Shareholder and the Non-U.S. Shareholder properly files Internal Revenue Service Form 4224 (or such other applicable form required by the IRS) with the Company or its dividend-paying agent, then the dividend (i) will not be subject to income tax withholding, and (ii) except to the extent that an applicable income tax treaty provides otherwise, will be subject to U.S. federal income tax at progressive rates of tax. In the case of a Non-U.S. Shareholder that is a corporation, such effectively connected dividend income may also be subject to the branch profits tax (which generally is imposed on a foreign corporation on the repatriation from the United States of effectively connected earnings and profits) at a 30% rate (or such lower rate as may be prescribed by an applicable income tax treaty).

To determine the applicability of an income tax treaty providing for a lower rate of income tax withholding, dividends paid to an address in a foreign country are presumed under current Treasury regulations to be paid to a resident of that country. The Company or its dividend-paying agent may generally rely on the Non-U.S. Shareholder's foreign address of record as the basis for allowing the benefit of a reduced treaty rate with respect to the dividends being paid. However, proposed Treasury regulations which have not been finally adopted would require Non-U.S. Shareholders to satisfy certain certification and other requirements to obtain the benefit of any applicable income tax treaty providing for a lower rate of withholding tax on dividends.

A Non-U.S. Shareholder that is eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts currently withheld by filing an appropriate claim for refund with the IRS.

The Company is required to report annually to the IRS and each Non-U.S. Shareholder the amount of dividends paid to, and the income tax withheld with respect to, such shareholder. Such information may also be made available by the IRS to the tax authorities of the country in which the Non-U.S. Shareholder resides.

Disposition of Common Stock

Generally, a Non-U.S. Shareholder will not be subject to U.S. federal income tax on the gain realized upon the disposition of such shareholder's shares of Common Stock unless (i) the Company is or has been a "U.S. real property holding corporation" for federal income tax purposes (which the Company does not believe that it is or is likely to become) and the Non-U.S. Shareholder held, directly or indirectly, at any time during the five-year period ending on the date of disposition, more than 5% of any class of stock of the Company that is regularly traded on an established securities market, (ii) the gain is effectively connected with a U.S. trade or business carried on by the Non-U.S. Shareholder and, if an income tax treaty applies, attributable to a U.S. permanent establishment maintained by the Non-U.S. Shareholder, (iii) the Non-U.S. Shareholder is an individual who holds the Common Stock as a capital asset, such shareholder is present in the United States for 183 days or more in the taxable year of the disposition and either the Non-U.S. Shareholder has a "tax home" in the United States for U.S. federal income tax purposes or the sale is

attributable to an office or other fixed place of business maintained by the Non-U.S. Shareholder in the United States, or (iv) the Non-U.S. Shareholder is subject to tax pursuant to the provisions of U.S. tax law applicable to certain U.S. expatriates.

Estate Tax

Shares of Common Stock owned or treated as owned by an individual who is not a citizen or resident (as specifically defined for U.S. federal estate tax purposes) of the United States at the time of his or her death will be includable in the individual's gross estate for U.S. federal estate tax purposes and thus subject to U.S. federal estate tax, unless an applicable estate tax treaty provides otherwise.

U.S. Information Reporting Requirements and Backup Withholding Tax

U.S. information reporting requirements (other than the reporting of dividend payments for purposes of the 30% income tax withholding discussed under "— Dividends" above) and backup withholding tax generally will not apply to a dividend payment made outside the United States to a Non-U.S. Shareholder if the dividend is subject either to the 30% withholding discussed above or a reduced rate of withholding tax as may be prescribed under an applicable income tax treaty. Otherwise, information reporting and backup withholding tax at a 20% rate may apply to dividends paid on the Common Stock to a Non-U.S. Shareholder who fails to certify its non-U.S. status under penalties of perjury in the manner required by U.S. law or otherwise fails to establish an exemption.

In addition, the payment of the proceeds of the sale of shares of Common Stock to or through the U.S. office of a broker will be subject to information reporting and possible 20% backup withholding unless the owner certifies its non-U.S. status under penalties of perjury or otherwise establishes an exemption. The payment of the proceeds of the sale of shares of Common Stock to or through the foreign office of a broker generally will not be subject to this backup withholding tax. In the case of the payment of proceeds from the disposition of shares of Common Stock through a foreign office of a broker that is a U.S. person or a U.S. Related Person, existing Treasury regulations require information reporting but not backup withholding on the payment unless the broker has documentary evidence in its files that the owner is a Non-U.S. Shareholder and the broker has no actual knowledge to the contrary. For this purpose, a "U.S. Related Person" is (i) a "controlled foreign corporation" for U.S. federal income tax purposes or (ii) a foreign person, 50% or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the broker has been in existence) is derived from activities that are effectively connected with the conduct of a U.S. trade or business. Proposed Treasury regulations which have not been finally adopted contain a similar rule with respect to information reporting by a broker that is a U.S. person or a U.S. Related Person. However, under the proposed regulations, such a person may only rely on documentary evidence to avoid information reporting if the foreign office "effects" the sale at such foreign office. Any amounts withheld under the backup withholding rules from a payment to a Non-U.S. Shareholder will be allowed as a refund or a credit against such Non-U.S. Shareholder's U.S. federal income tax, provided that the required information is furnished to the IRS.

These information reporting and backup withholding rules are under review by the IRS, and their application to the Common Stock could be changed by future regulations.

UNDERWRITING

On the terms of and subject to the conditions contained in the U.S. Underwriting Agreement, the form of which has been filed as an exhibit to the Registration Statement, the underwriters of the offering of the Common Stock in the United States (the "U.S. Underwriters"), for whom Shearson Lehman Brothers Inc., Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, and Smith Barney, Harris Upham & Co. Incorporated are acting as representatives (the "Representatives"), have severally agreed to purchase from the Company, and the Company has agreed to sell to each U.S. Underwriter, the aggregate number of shares of Common Stock set forth opposite the name of such U.S. Underwriter below:

<u>U.S. Underwriters</u>	<u>Number of Shares</u>
Shearson Lehman Brothers Inc.
Goldman, Sachs & Co.
Morgan Stanley & Co. Incorporated
Smith Barney, Harris Upham & Co. Incorporated
Total	<u>32,000,000</u>

On the terms of and subject to the conditions contained in the International Underwriting Agreement, the form of which has been filed as an exhibit to the Registration Statement, the managers named below of the concurrent offering of the Common Stock outside the United States (the "International Managers"), for whom Lehman Brothers International Limited, Goldman Sachs International Limited, Morgan Stanley International, and Smith Barney, Harris Upham & Co. Incorporated are acting as lead managers (the "Lead Managers"), have severally agreed to purchase from the Company, and the Company has agreed to sell to each International Manager, the aggregate number of shares of Common Stock set forth opposite the name of such International Manager below:

<u>International Managers</u>	<u>Number of Shares</u>
Lehman Brothers International Limited
Goldman Sachs International Limited
Morgan Stanley International
Smith Barney, Harris Upham & Co. Incorporated
Total	<u>8,000,000</u>

The U.S. Underwriting Agreement and the International Underwriting Agreement provide that the obligations of the U.S. Underwriters and the International Managers to purchase shares of Common Stock are subject to certain conditions, and that, if any of the foregoing shares of Common Stock are purchased by the

U.S. Underwriters pursuant to the U.S. Underwriting Agreement or by the International Managers pursuant to the International Underwriting Agreement, all the shares of Common Stock agreed to be purchased by either the U.S. Underwriters or the International Managers, as the case may be, pursuant to their respective underwriting agreements must be so purchased. The offering price and underwriting discounts and commissions for the U.S. offering and the international offering are identical. The closing under the International Underwriting Agreement is a condition to the closing under the U.S. Underwriting Agreement, and the closing under the U.S. Underwriting Agreement is a condition to the closing under the International Underwriting Agreement.

The Company has been advised by the Representatives and the Lead Managers that the U.S. Underwriters and the International Managers, respectively, propose to offer part of the shares to the public at the public offering price set forth on the cover page hereof and part to certain dealers at such public offering price less a selling concession not in excess of \$ per share. The U.S. Underwriters and the International Managers may allow, and such dealers may reallow, a concession not in excess of \$ per share to certain other U.S. Underwriters or International Managers, respectively, or to certain other brokers or dealers. After the initial offering to the public, the offering price and other selling terms may be changed by the Representatives and the Lead Managers.

The Company has agreed to indemnify the U.S. Underwriters and International Managers against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act").

The Company has granted to the U.S. Underwriters and the International Managers options to purchase up to an additional 4,800,000 and 1,200,000 shares of Common Stock, respectively, exercisable solely to cover over-allotments, at the initial offering price to the public, less the underwriting discounts and commissions, shown on the cover page of this Prospectus. Either or both of such options may be exercised at any time until 30 days after the date of the U.S. Underwriting Agreement and the International Underwriting Agreement, respectively. To the extent that either option is exercised, each U.S. Underwriter or International Manager, as the case may be, will be committed, subject to certain conditions, to purchase a number of the additional shares of Common Stock proportionate to such U.S. Underwriter's or International Manager's initial commitment as indicated in the preceding tables.

The U.S. Underwriters and the International Managers have entered into an Agreement Between U.S. Underwriters and International Managers, pursuant to which each U.S. Underwriter has agreed that as part of the distribution of the 32,000,000 shares of Common Stock (plus any of the 4,800,000 shares of Common Stock to cover over-allotments) offered in the U.S. offering, (i) it is not purchasing any such shares for the account of anyone other than a U.S. Person (as defined below) and (ii) it has not offered or sold, and will not offer, sell, resell, or deliver, directly or indirectly, any of such shares to anyone other than a U.S. Person. In addition, pursuant to such agreement each International Manager has agreed that, as a part of the distribution of the 8,000,000 shares of Common Stock (plus any of the 1,200,000 shares of Common Stock to cover over-allotments) offered in the international offering, (i) it is not purchasing any such shares for the account of a U.S. Person and (ii) it has not offered or sold, and will not offer, sell, resell, or deliver, directly or indirectly, any of such shares to any U.S. Person.

The foregoing limitations do not apply to stabilization transactions or to certain other transactions specified in the U.S. Underwriting Agreement, the International Underwriting Agreement, and the Agreement Between the U.S. and International Managers, including (i) certain purchases and sales between U.S. Underwriters and International Managers, (ii) certain offers, sales, resales, deliveries, or distributions to or through investment advisors or other persons exercising investment discretion, (iii) purchases, offers, or sales by a U.S. Underwriter who is also acting as an International Manager or by an International Manager who is also acting as a U.S. Underwriter and (iv) other transactions specifically approved by the Representatives and the Lead Managers. As used herein, (a) the term "United States" means the United States of America (including the District of Columbia) and its territories, its possessions, and other areas subject to its jurisdiction and (b) the term "U.S. Person" means any resident or national of the United States, any corporation, partnership, or other entity created or organized in or under the laws of the United States or any estate or trust the income of which is subject to United States income taxation regardless of the source of its

income (other than the foreign branch of any U.S. Person), and includes any United States branch of a person other than a U.S. Person.

Pursuant to the Agreement Between U.S. Underwriters and International Managers, sales may be made between the U.S. Underwriters and the International Managers of such number of shares of Common Stock as may be mutually agreed upon. The price of any shares sold shall be the public offering price then in effect for Common Stock being sold by the U.S. Underwriters and the International Managers, less the selling concession unless otherwise determined by mutual agreement. To the extent that there are sales between the U.S. Underwriters and the International Managers pursuant to the Agreement Between U.S. Underwriters and International Managers, the number of shares initially available for sale by the U.S. Underwriters or by the International Managers may be more or less than the amount appearing on the cover page of this Prospectus.

Each International Manager has represented and agreed that (i) it has not offered or sold, and will not offer or sell, in the United Kingdom, by means of any document, any shares of Common Stock other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent (except under circumstances which do not constitute an offer to the public within the meaning of the Companies Act 1985), (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 (the "1986 Act") with respect to anything done by it in relation to the shares of Common Stock in, from or otherwise involving the United Kingdom, and (iii) it has only issued or passed on, and will only issue or pass on to any person in the United Kingdom, any investment advertisement (within the meaning of the 1986 Act) relating to the shares of Common Stock if that person falls within Article 9(3) of the 1986 Act (Investment Advertisements) (Exemptions) Order 1988.

Purchasers of the shares of Common Stock offered hereby may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page hereof.

The Company has agreed not to issue or sell any shares of Common Stock or securities convertible into or exchangeable for shares of Common Stock (other than shares of Common Stock issuable (i) upon conversion or exercise of the Convertible Notes, Series A Warrants, or Series B Warrants, (ii) in connection with the Company's 1992 Executive Equity Incentive Plan, or (iii) in connection with shares issuable on a delayed basis pursuant to the POR) for a period of 180 days after the date of this Prospectus without the prior written consent of the Representatives and the Lead Managers.

Lehman Brothers acted as financial advisor to the Company in connection with the POR, for which it received or is due fees of approximately \$5.7 million in the aggregate. In addition, Lehman Brothers renders investment banking and financial advisory services to the Company and its subsidiaries from time to time and receives customary fees for such services. Smith Barney, Upham Harris & Co., Incorporated acted as financial adviser to an official creditors' committee in connection with the POR, for which it received or is due fees of approximately \$2.6 million in the aggregate.

LEGAL MATTERS

The validity of the Common Stock will be passed upon by Jones, Day, Reavis & Pogue, Dallas, Texas, counsel to the Company. Certain legal matters in connection with the Offerings will be passed upon for the U.S. Underwriters and the International Managers by Simpson Thacher & Bartlett (a partnership which includes professional corporations), New York, New York.

EXPERTS

The consolidated financial statements of the Company as of February 1, 1992 and February 2, 1991 and for the years ended February 1, 1992, February 2, 1991, and February 3, 1990 included in this Prospectus and related supplemental schedules included elsewhere in the Registration Statement have been audited by KPMG Peat Marwick, independent auditors, as stated in their reports appearing herein and elsewhere in the Registration Statement, and have been so included in reliance upon such reports given upon the authority of that firm as experts in accounting and auditing.

AVAILABLE INFORMATION

The Company has filed with the Commission a Registration Statement on Form S-1 (the "Registration Statement") pursuant to the Securities Act and the rules and regulations promulgated thereunder, covering the Common Stock offered hereby. This Prospectus does not contain all the information set forth in the Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission, and to which reference is hereby made. Statements made in this Prospectus as to the contents of any contract, agreement, or other document referred to are not necessarily complete. With respect to each such contract, agreement, or other document filed as an exhibit to the Registration Statement, reference is made to the exhibit for a more complete description of the matter involved, and each such statement is qualified in its entirety by such reference.

The Company is subject to the information and reporting requirements of the Exchange Act, and in accordance therewith files periodic reports and other information with the Commission. The Registration Statement, as well as such reports and other information filed by the Company with the Commission, may be inspected at the Public Reference Room maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and should also be available for inspection and copying at the regional offices of the Commission located at 75 Park Place, New York, New York 10007 and The Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The Common Stock and certain other securities of the Company are listed on the NYSE. Reports and other information concerning the Company can also be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Independent Auditors' Report	F-2
Consolidated Statements of Operations for the years ended February 1, 1992, February 2, 1991, and February 3, 1990	F-3
Consolidated Balance Sheets at February 1, 1992 and February 2, 1991	F-4
Consolidated Statements of Cash Flows for the years ended February 1, 1992, February 2, 1991, and February 3, 1990	F-5
Notes to Consolidated Financial Statements	F-6

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Federated Department Stores, Inc.:

We have audited the accompanying consolidated balance sheets of Federated Department Stores, Inc. and subsidiaries (the "Company") as of February 1, 1992 and February 2, 1991 and the related consolidated statements of operations and cash flows for the fifty-two weeks ended February 1, 1992, the fifty-two weeks ended February 2, 1991 and the fifty-three weeks ended February 3, 1990. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Federated Department Stores, Inc. and subsidiaries at February 1, 1992 and February 2, 1991 and the results of their operations and their cash flows for the fifty-two weeks ended February 1, 1992, the fifty-two weeks ended February 2, 1991 and the fifty-three weeks ended February 3, 1990, in conformity with generally accepted accounting principles.

On February 4, 1992 the Company emerged from bankruptcy. As described in Notes 1 and 3 to the consolidated financial statements, the Company accounted for the reorganization as of February 1, 1992 and adopted "fresh-start reporting." As a result, the Company's February 1, 1992 consolidated balance sheet is not comparable to the Company's February 2, 1991 consolidated balance sheet since it presents the consolidated financial position of the reorganized entity.

As discussed in Note 6 to the consolidated financial statements, the Company has adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions," and changed its method of accounting for income taxes to adopt the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

KPMG Peat Marwick
KPMG PEAT MARWICK

Cincinnati, Ohio
March 30, 1992

FEDERATED DEPARTMENT STORES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(thousands)

	52 Weeks Ended February 1, 1992	52 Weeks Ended February 2, 1991	53 Weeks Ended February 3, 1990
Net Sales, including leased department sales	<u>\$ 6,932,323</u>	<u>\$7,141,983</u>	<u>\$ 7,577,586</u>
Cost of sales, including occupancy and buying costs	4,964,471	5,172,892	5,447,121
Selling, publicity, delivery and administrative expenses	1,700,880	1,833,918	1,881,017
Interest expense (excludes interest on unsecured prepetition debt obligations of \$301,576, \$290,979, and \$11,300, respectively)	504,257	639,527	914,557
Interest income	(67,260)	(83,585)	(107,892)
Unusual items	—	—	1,067,817
Total costs and expenses	<u>7,102,348</u>	<u>7,562,752</u>	<u>9,202,620</u>
Loss Before Reorganization Items, Income Taxes, Extraordinary Item and Cumulative Effect of Change in Accounting Principle	(170,025)	(420,769)	(1,625,034)
Reorganization items	<u>(1,679,936)</u>	<u>(127,032)</u>	<u>(142,110)</u>
Loss Before Income Taxes, Extraordinary Item, and Cumulative Effect of Change in Accounting Principle ..	(1,849,961)	(547,801)	(1,767,144)
Federal, state and local income tax benefit (expense)	613,989	276,355	(6,783)
Net Loss Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle	<u>(1,235,972)</u>	<u>(271,446)</u>	<u>(1,773,927)</u>
Extraordinary item — gain on debt discharge	2,165,515	—	—
Cumulative effect of change in accounting for postretirement benefits other than pensions	(93,151)	—	—
Net Income (Loss)*	<u>\$ 836,392</u>	<u>\$ (271,446)</u>	<u>\$ (1,773,927)</u>

* Earnings per share are not presented because there were no publicly held shares of common stock of the Company during the periods presented.

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

FEDERATED DEPARTMENT STORES, INC.

CONSOLIDATED BALANCE SHEETS
(thousands)

ASSETS

	<u>February 1, 1992</u>	<u>February 2, 1991</u>
Current Assets:		
Cash	\$1,002,482	\$ 453,560
Accounts receivable	1,515,378	1,629,219
Merchandise inventories	1,167,346	1,291,533
Supplies and prepaid expenses	42,615	43,475
Deferred income tax benefit	113,342	—
Total Current Assets	3,841,163	3,417,787
Property and Equipment — net	2,499,700	2,749,867
Excess of Cost Over Net Assets Acquired	—	1,856,914
Reorganization Value in Excess of Amounts Allocable to		
Identifiable Assets	375,244	—
Notes Receivable	420,575	815,779
Other Assets	364,463	309,709
Total Assets	\$7,501,145	\$ 9,150,056

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Current Liabilities:		
Short-term borrowings and long-term debt due within one year	\$ 771,605	\$ 309,268
Accounts payable and accrued liabilities	1,111,011	897,249
Income taxes	34,735	254,233
Total Current Liabilities	1,917,351	1,460,750
Liabilities Subject to Settlement Under Reorganization Proceedings	—	6,475,129
Long-Term Debt	3,176,687	1,004,000
Deferred Income Taxes	746,627	1,192,053
Other Liabilities	206,348	58,874
Redeemable Cumulative Exchangeable Preferred Stock	—	357,778
Shareholders' Equity (Deficit)	1,454,132	(1,398,528)
Total Liabilities and Shareholders' Equity (Deficit)	\$7,501,145	\$ 9,150,056

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

FEDERATED DEPARTMENT STORES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(thousands)

	52 Weeks Ended February 1, 1992	52 Weeks Ended February 2, 1991	53 Weeks Ended February 3, 1990
Cash flows from operations:			
Net income (loss)	\$ 836,392	\$(271,446)	\$(1,773,927)
Adjustments to reconcile net income (loss) to net cash provided/(used) by operating activities:			
Depreciation and amortization	212,186	227,695	235,454
Amortization of financing costs	7,893	54,365	80,907
Amortization of goodwill	48,698	50,532	82,121
Amortization of debt discount	—	—	46,463
Write down of excess of cost over net assets acquired	—	—	1,150,000
Cumulative effect of change in accounting for postretirement benefits other than pensions	93,151	—	—
Gain on sale of subsidiary	—	—	(82,183)
Change in assets and liabilities:			
(Increase)/Decrease in accounts receivable	111,174	61,048	(67,128)
Decrease in merchandise inventories	183,840	106,502	24,437
(Increase)/Decrease in supplies and prepaid expenses	860	1,583	(334)
Decrease in notes receivable	400,383	—	—
Decrease in excess of cost over net assets acquired	133,000	—	—
(Increase)/Decrease in other assets not separately identified	69,090	(86,680)	17,431
Decrease in accounts payable and accrued liabilities due to reorganization activities	—	—	(389,464)
Increase/(Decrease) in accounts payable and accrued liabilities not separately identified	154,787	183,322	(30,197)
Increase/(Decrease) in current income taxes	170,942	183,386	(103,394)
Increase/(Decrease) in deferred income taxes	(524,829)	(251,499)	168,832
Decrease in other liabilities due to reorganization activities	—	—	(330,633)
Decrease in other liabilities not separately identified	(12,692)	(79)	(41,222)
Changes due to reorganization activities:			
Write-off of financing costs	—	—	139,886
Gain on discharge of pre-petition liabilities and settlement of tax claims	—	—	—
Net adjustment in accounts for fair value	(2,568,265)	—	—
Net cash provided/(used) by operating activities	1,231,389	—	—
Net cash provided/(used) by operating activities	547,999	258,729	(872,951)
Cash flows from investing activities:			
Purchase of property and equipment	(201,631)	(93,143)	(177,792)
Disposition of property and equipment	8,465	28,191	61,611
Property and equipment transferred to other assets	169,515	121,713	3,288
Decrease in divisional transfer notes	—	—	25,000
Other changes in excess of cost over net assets acquired	—	—	(38,906)
Proceeds from sale of subsidiary	—	—	430,000
Net cash provided/(used) by investing activities	(23,651)	56,761	303,201
Cash flows from financing activities:			
Capital contribution	—	—	27,465
Issuance of redeemable cumulative exchangeable preferred stock	—	—	43,726
Accretion of deferred issuance costs on redeemable cumulative exchangeable preferred stock	—	—	1,036
Dividend paid	—	—	(500,000)
Debt issued	684,153	376,000	1,324,505
Debt issue costs	(45,774)	(22,266)	(145,848)
Debt repaid	(502,999)	(881,198)	(724,478)
Increase in debt due to court approval of prepetition debt	—	438,250	—
Deferral of debt due to reorganization activities	—	—	(6,009,071)
Notes receivable and restricted cash	—	—	255,696
Increase/(Decrease) in outstanding checks	24,194	35,128	(105,736)
Net cash provided/(used) by financing activities	159,574	(54,086)	(5,832,705)
Cash flow effect of reorganization activities:			
Increase/(Decrease) in liabilities subject to settlement under reorganization proceedings	244,102	(254,039)	6,729,168
Settlement of liabilities subject to settlement	(379,102)	—	—
Net cash effect of reorganization activities	(135,000)	(254,039)	6,729,168
Net increase in cash	548,922	7,365	326,713
Cash beginning of period	453,560	446,195	119,482
Cash end of period	<u>\$ 1,002,482</u>	<u>\$ 453,560</u>	<u>\$ 446,195</u>
Supplemental cash flow information:			
Cash paid during the year:			
Interest paid	\$ 190,207	\$ 374,258	\$ 714,353
Interest received	\$ 67,601	\$ 82,173	\$ 100,802
Income taxes (net of refunds received)	\$ 18	\$(109,350)	\$ 19,450

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

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Reorganization and Emergence from Chapter 11.

Federated Department Stores, Inc. (the "Company") is a retail organization operating department stores selling a wide range of merchandise including women's, men's and children's apparel, cosmetics, home furnishings, and other consumer goods.

On February 4, 1992 (the "POR Effective Date"), the Company emerged from Chapter 11 ("Chapter 11") of the United States Bankruptcy Code as the surviving corporation resulting from the Joint Plan of Reorganization (the "POR") of its predecessor companies, Federated Department Stores, Inc. ("Federated") and Allied Stores Corporation ("Allied"), and substantially all of their respective subsidiaries (collectively, the "Federated/Allied Companies"). The POR, which was confirmed by the Bankruptcy Court on January 10, 1992, resulted in an approximately \$5.0 billion net reduction in the total indebtedness, liabilities subject to reorganization, and redeemable preferred stock of the Federated/Allied Companies.

The POR provided for, among other things, the cancellation of certain indebtedness in exchange for cash, new indebtedness, and/or new equity securities, the discharge of other prepetition claims, the cancellation of all prepetition ownership interests in Federated and Allied, the settlement of certain claims and mutual releases of certain claims of the Federated/Allied Companies and other persons or entities (including certain affiliated persons or entities), the assumption or rejection of executory contracts and unexpired leases to which any Federated/Allied Company was a party, and the election of a board of directors for the Company (the "Board of Directors").

In addition to the foregoing, on the POR Effective Date and in accordance with the POR, Allied was merged into the Company. The merger was accounted for as a combination of entities under common control. The financial statements for the 52 weeks ended February 1, 1992, therefore, present the combined financial position, results of operations, and cash flows for the Company and Allied. The financial statements for prior periods have been restated on a combined basis to furnish comparative information. As of February 1, 1992, in accordance with AICPA Statement of Position 90-7 "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" (SOP 90-7), the Company adopted "fresh-start reporting" and reflected the effects of such adoption in the financial statements for the 52 weeks then ended.

The Chapter 11 cases of the Federated/Allied Companies were commenced on January 15, 1990 (the "Petition Date"). For financial reporting purposes, those liabilities and obligations whose disposition was dependent upon the outcome of the Chapter 11 cases have been segregated and reclassified as liabilities subject to settlement under reorganization proceedings on the Consolidated Balance Sheet as of February 2, 1991. During the pendency of their Chapter 11 cases, the Federated/Allied Companies discontinued accruing interest on their unsecured prepetition obligations. The net expense occurring as a result of the Chapter 11 filings and subsequent reorganization efforts of the Federated/Allied Companies have been segregated from ordinary operations in the Consolidated Statements of Operations.

2. Summary of Significant Accounting Policies

The Company has implemented the recommended accounting for entities emerging from Chapter 11 reorganization set forth in SOP 90-7. Accordingly, the February 1, 1992 Consolidated Balance Sheet is not comparable to the February 2, 1991 Consolidated Balance Sheet. (See Note 3.)

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated.

Cash includes cash and liquid investments with maturities of three months or less.

Installments of deferred payment accounts receivable maturing after one year are included in current assets in accordance with industry practice. Such accounts are accepted on customary revolving credit terms

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

and offer the customer the option of paying the entire balance on a thirty-day basis without incurring finance charges. Alternatively, customers may make scheduled minimum payments and incur competitive finance charges. Minimum payments vary from 4.2% to 100.0% of the account balance, depending on the size of the balance. Profits on installment sales are included in income when the sales are made. Finance charge revenues are included as a reduction of selling, publicity, delivery, and administrative expenses.

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

Depreciation and amortization are provided primarily on a straight-line basis over the shorter of estimated asset lives or related 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 the related depreciable assets.

Reorganization value in excess of amounts allocable to identifiable assets is being amortized on a straight-line basis over 20 years. The excess of cost over net assets acquired was amortized on a straight-line basis over 40 years.

In connection with the adoption of fresh-start reporting, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). Prior to the adoption of fresh-start reporting, the Company accounted for income taxes under Statement of Financial Accounting Standards No. 96 ("SFAS No. 96"). Under both SFAS No. 109 and SFAS No. 96, deferred income taxes are provided for at the statutory rates on the difference between financial statement basis and tax basis of assets and liabilities and, under SFAS No. 109, are classified in the balance sheet as current or non-current consistent with the assets and liabilities which give rise to such deferred income taxes.

Also in connection with the adoption of fresh-start reporting, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions" ("SFAS No. 106"), which requires that the cost of these benefits be recognized in the financial statements over an employee's term of service with the Company. (See Note 6).

Financing costs are amortized over the life of the related debt.

3. Fresh-Start Reporting

The primary valuation methodology employed to determine the reorganization value of the Company was a net present value approach, based on the Company's forecasts of unleveraged, after-tax cash flows calculated for each year over the five-year period from 1992 to 1996, capitalizing projected earnings before interest and taxes at multiples ranging from 8.5 to 10.0 selected to value earnings and cash flows beyond 1996, and discounting the resulting amounts to present value at rates ranging from 15.0% to 17.0% selected to approximate the Company's projected weighted average cost of capital.

The adjustments to reflect the consummation of the POR, including the subsequent gain on debt discharge of prepetition liabilities and the adjustment to record assets and liabilities at their fair values (including the establishment of reorganization value in excess of amounts allocable to identifiable assets), have been reflected in the accompanying consolidated financial statements. Accordingly, a black line is shown to separate the February 1, 1992 Consolidated Balance Sheet from the prior year since it is not prepared on a comparable basis.

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The effect of the POR on the Company's Consolidated Balance Sheet as of February 1, 1992 is as follows:

Adjustments to Record Plan of Reorganization					
	Pre-Fresh Start Balance Sheet February 1, 1992	Debt Discharge(a)	Fresh-Start Accounting Changes(b) (millions)	Fair Value Adjustments(c)	Fresh-Start Balance Sheet February 1, 1992
ASSETS					
Current Assets:					
Cash	\$ 1,401.3	\$ (398.8)	\$	\$	\$1,002.5
Accounts receivable	1,518.1	(2.7)	\$	\$	1,515.4
Merchandise inventories	1,107.7			59.6	1,167.3
Supplies and prepaids	42.6				42.6
Deferred income tax benefit	—			(23.3)	113.3
Total Current Assets	<u>4,069.7</u>	<u>(401.5)</u>	<u>136.6</u>	<u>36.3</u>	<u>3,841.1</u>
Property and Equipment, net	2,561.3			(61.6)	2,499.7
Reorganization Value in Excess of Amounts Allocable to Identifiable Assets				375.2	375.2
Excess of Costs Over Net Assets					
Acquired	1,675.2			(1,675.2)	
Notes Receivable	415.4	5.2			420.6
Other Assets	257.8	16.0		90.7	364.5
Total Assets	<u>\$ 8,979.4</u>	<u>\$ (380.3)</u>	<u>\$136.6</u>	<u>\$ (1,234.6)</u>	<u>\$7,501.1</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities:					
Short-term borrowings and long-term debt due within one year	\$ 742.4	\$ 29.2	\$	\$	\$ 771.6
Accounts payable and accrued liabilities	1,076.2	34.8			
Income taxes payable	425.2	(473.8)	48.7	34.7	1,111.0
Total Current Liabilities	<u>2,243.8</u>	<u>(409.8)</u>	<u>48.7</u>	<u>34.7</u>	<u>1,917.4</u>
Liabilities Subject to Settlement Under Reorganization					
Proceedings	6,719.2	(6,719.2)			
Long-Term Debt	752.0	2,424.7			
Deferred Income Taxes	667.2	81.7	28.4	(30.7)	746.6
Other Liabilities	46.2	14.6	152.7	(7.2)	206.3
Redeemable Cumulative Exchangeable Preferred Stock	357.8	(357.8)			
Shareholders' Equity (Deficit):					
Common Stock		0.8			0.8
Additional Paid in Capital	915.3	2,015.4			
Retained Earnings	(2,722.1)	2,569.3	(93.2)	(1,477.4)	1,453.3
Total Shareholders' Equity ..	<u>(1,806.8)</u>	<u>4,585.5</u>	<u>(93.2)</u>	<u>246.0</u>	<u>1,454.1</u>
Total Liabilities and Shareholders' Equity (Deficit)	<u>\$ 8,979.4</u>	<u>\$ (380.3)</u>	<u>\$136.6</u>	<u>\$ (1,234.6)</u>	<u>\$7,501.1</u>

- (a) To record the settlement of liabilities subject to settlement under reorganization proceedings, the settlement of certain income tax claims, and other transactions in connection with the POR.
- (b) To record the cumulative effect of adopting SFAS No. 106 and SFAS No. 109 as of the POR Effective Date.
- (c) To record the adjustments to state assets and liabilities at fair value and to eliminate the deficit in accumulated earnings against additional paid-in capital.

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following unaudited Consolidated Pro Forma Statement of Operations reflects the financial results of the Company as if the POR and change in accounting principle had been effective February 2, 1991.

	For the 52 Weeks Ended February 1, 1992		
	<u>As Reported</u>	<u>Adjustments (millions)</u>	<u>Pro Forma</u>
Net Sales, including leased department sales	<u>\$ 6,932.3</u>	\$ —	<u>\$ 6,932.3</u>
Cost of sales, including occupancy and buying costs	4,964.5	(5.2)(a)	4,959.3
Selling, publicity, delivery and administrative expenses	1,700.8	(5.5)(b)	1,695.3
Interest expense	504.3	(157.1)(c)	347.2
Interest income	(67.3)	26.4 (c)	(40.9)
Total costs and expenses	7,102.3	(141.4)	6,960.9
Income (Loss) Before Reorganization Items, Income Taxes, Extraordinary Item and Cumulative Effect of Change in Accounting Principle	(170.0)	141.4	(28.6)
Reorganization items	<u>(1,679.9)</u>	<u>1,679.9 (d)</u>	<u>—</u>
Income (Loss) Before Income Taxes, Extraordinary Item and Cumulative Effect of Change in Accounting Principle	(1,849.9)	1,821.3	(28.6)
Federal, state and local income tax benefit (expense)	<u>614.0</u>	<u>(610.2)(e)</u>	<u>3.8</u>
Income (Loss) Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle	(1,235.9)	1,211.1	(24.8)
Extraordinary item — gain on debt discharge	2,165.5	(2,165.5)(f)	—
Cumulative effect of change in accounting for postretirement benefits other than pensions	(93.2)	93.2 (g)	—
Net Income (Loss)	<u>\$ 836.4</u>	<u>\$ (861.2)</u>	<u>\$ (24.8)</u>

- (a) To reflect the projected savings in personnel and operating expenses from the consolidation of merchandising and marketing operations for Burdines and Maas.
- (b) To reflect the net effect of the following: the reversal of the historical amortization of the excess of cost over net assets acquired, the projected cost savings in personnel and operating expenses from the consolidation of operations for Burdines and Maas, the amortization of reorganization value in excess of amounts allocable to identifiable assets, the incremental expense impact of adopting SFAS No. 106, the amortization of awards of restricted stock granted under the Equity Plan, and the reclassification of expenses under the pre-POR Effective Date bonus plan from reorganization expense.

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- (c) To reverse historical interest expense and interest income and record interest expense on the debt incurred in connection with the POR and interest income from remaining notes receivable after giving effect to the POR. The assumed interest expense, amortization of deferred debt expense, and interest rates are as follows:

	For the 52 Weeks Ended February 1, 1992 (millions)	Assumed Interest Rate
Interest expense:		
Receivables facilities	\$ 67.2	6.60%
Note monetization facility	37.5	10.61%
Series A secured notes	35.7	7.50%
Series B secured notes	55.3	10.00%
Series C secured notes	13.8	7.50%
Series D secured notes	30.5	10.00%
Series E secured notes	7.0	7.50%
Mortgage facility	37.3	10.25%
Senior convertible discount notes	15.4	6.00%
Other secured real estate	0.5	8.30%
Capitalized leases	5.7	9.57%
Subsidiary trade obligations	7.0	6.94%
Administrative tax notes	2.9	8.50%
Other	<u>7.4</u>	<u>10.82%</u>
	323.2	
Amortization of deferred debt expense	<u>24.0</u>	
Total interest expense	<u>\$ 347.2</u>	

The Company intends to maintain and invest cash balances in the ordinary course of its business. Such anticipated cash balances are subject to seasonal variations and other uncertainties, however, and the consolidated pro forma statement of income does not reflect any estimate of interest income thereon.

- (d) To reverse historical reorganization expense which will not be incurred subsequent to the POR Effective Date and to reclassify pre-POR Effective Date bonus plan expense to selling, publicity, delivery, and administrative expenses.
- (e) To reverse the income tax effect of fresh-start adjustments and record the income tax effect of pro forma adjustments for items that are deductible for income tax purposes, using an assumed effective income tax rate of 39%.
- (f) To reverse the gain on debt discharged pursuant to the POR.
- (g) To reverse the cumulative effect of adopting SFAS No. 106.

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Reorganization Items

The net expense incurred as a result of the Chapter 11 filings and subsequent reorganization efforts has been segregated from ordinary operations in the Consolidated Statements of Operations.

	52 Weeks Ended <u>February 1, 1992</u>	52 Weeks Ended <u>February 2, 1991</u> (millions)	53 Weeks Ended <u>February 3, 1990</u>
Adjustments to fair value	\$1,231.4	\$ —	\$ —
Restructuring costs	378.8	96.5	—
Professional fees and other expenses related to bankruptcy	110.8	68.7	2.9
Financing costs	—	—	139.9
Interest income	<u>(41.1)</u>	<u>(38.2)</u>	<u>(0.7)</u>
	<u><u>\$1,679.9</u></u>	<u><u>\$ 127.0</u></u>	<u><u>\$142.1</u></u>

Adjustments to fair value reflect the net change to state assets and liabilities at fair value. Restructuring costs include costs and expenses from closing of facilities, consolidation of operations, and certain expenses related to the rejection of executory contracts as well as gains or losses from the disposition of related assets. Financing costs consist of the write-off of the unamortized portion of deferred financing costs relating to unsecured debt as of the Petition Date. Interest income is attributable to the accumulation of cash and short-term investments subsequent to the Petition Date.

5. Extraordinary Item — Gain On Debt Discharge

The POR resulted in the discharge of approximately \$5.0 billion of pre-petition claims against the Federated/Allied Companies during Chapter 11 through the distribution of \$398.8 million in cash and the issuance of 79.2 million shares of new common stock to creditors. The value of cash and securities distributed was \$2.2 billion less than the allowed claims, and the resultant gain was recorded as an extraordinary item.

6. Cumulative Effect of Accounting Changes

In connection with the adoption of fresh-start reporting, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions," as of February 1, 1992. The cumulative effect of the change on retained earnings prior to the adoption of fresh-start reporting at February 1, 1992 was \$152.7 million, net of income taxes of \$59.5 million. (See Note 17.) The Company also adopted SFAS No. 109, "Accounting for Income Taxes," as of February 1, 1992. The cumulative effect of the change to SFAS No. 109 was not material. (See Note 15.)

7. Unusual Items

Unusual items for the 53 weeks ended February 3, 1990 represent a \$1,150.0 million write down of excess of costs over net assets acquired, net of a gain on the sale of Allied's AnnTaylor subsidiary of \$82.2 million.

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. Accounts Receivable

	February 1, 1992	February 2, 1991
	(millions)	
Due from customers	\$1,473.3	\$1,453.9
Less: Allowance for doubtful accounts	<u>59.2</u>	<u>39.1</u>
	<u>1,414.1</u>	<u>1,414.8</u>
Other receivables	101.3	214.4
Net receivables	<u>\$1,515.4</u>	<u>\$1,629.2</u>
Allowance for doubtful accounts as % of customer receivables	4.0%	2.7%

Sales through the Company's credit plans were \$3.5 billion, \$3.7 billion, and \$4.0 billion for the 52 weeks ended February 1, 1992, the 52 weeks ended February 2, 1991, and the 53 weeks ended February 3, 1990, respectively.

Finance charge revenues amounted to \$225.7 million, \$217.9 million, and \$220.8 million for the 52 weeks ended February 1, 1992, the 52 weeks ended February 2, 1991, and the 53 weeks ended February 3, 1990, respectively.

9. Inventories

Merchandise inventories were \$1.2 billion at February 1, 1992, compared to \$1.3 billion at February 2, 1991. As a result of the adoption of fresh-start reporting, merchandise inventories were adjusted to the estimated fair market value as of February 1, 1992, and the LIFO inventory cost, therefore, approximated the cost of such inventory using the first-in, first-out method. Inventories were \$28.7 million lower at February 2, 1991, than they would have been had the retail method been used without the application of the LIFO method.

10. Properties and Leases

	February 1, 1992	February 2, 1991
	(millions)	
Land	\$ 455.0	\$ 495.0
Buildings on owned land	850.2	1,130.0
Buildings on leased land and leasehold improvements	512.8	696.8
Store fixtures and equipment	634.8	966.2
Property not used in operations	6.0	7.0
Leased properties under capitalized leases	<u>40.9</u>	<u>75.5</u>
	<u>2,499.7</u>	<u>3,370.5</u>
Less accumulated depreciation and amortization	<u>—</u>	<u>620.6</u>
	<u>\$2,499.7</u>	<u>\$2,749.9</u>

The Company adopted fresh-start reporting, as of February 1, 1992, which required fixed assets to be adjusted to fair value. Such adjustment resulted in a \$61.6 million decrease in net property and equipment.

The adoption of fresh-start reporting did not result in any material change in the remaining useful lives of the Company's property and equipment.

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Buildings on leased land and leasehold improvements includes approximately \$203.4 million at February 1, 1992 and \$215.6 million at February 2, 1991 of intangible assets relating to favorable leases which are being amortized over the related lease terms.

In connection with various shopping center agreements, the Company is obligated to operate certain 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.

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 also require additional payments based on percentages of sales and some contain purchase options.

Minimum rental commitments (excluding executory costs) at February 1, 1992, for noncancelable leases are:

	<u>Capital Leases</u>	<u>Operating Leases</u> (millions)	<u>Total</u>
Fiscal year:			
1992	\$ 10.7	\$ 68.8	\$ 79.5
1993	9.7	70.4	80.1
1994	7.7	66.2	73.9
1995	6.6	62.5	69.1
1996	6.4	59.1	65.5
After 1996	61.1	544.3	605.4
Total minimum lease payments	\$102.2	\$871.3	\$973.5
Less amount representing interest	46.6		
Present value of net minimum capital lease payments	\$ 55.6		

Capitalized leases are included in the Consolidated Balance Sheets as property and equipment while the related obligation is included as short-term (\$5.7 million) and long-term (\$49.9 million) debt. Amortization of capitalized leases is included in depreciation and amortization expense. Total minimum lease payments shown above have not been reduced by minimum sublease rentals of approximately \$0.7 million on capital leases and \$8.4 million on operating leases.

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Rental expense consists of:

	52 Weeks Ended <u>February 1, 1992</u>	52 Weeks Ended <u>February 2, 1991</u> (millions)	53 Weeks Ended <u>February 3, 1990</u>
Capital leases —			
Contingent rentals	\$ 3.0	\$ 2.8	\$ 3.5
Operating leases —			
Minimum rentals	61.2	61.2	78.6
Contingent rentals	<u>8.9</u>	<u>10.0</u>	<u>10.2</u>
	<u>73.1</u>	<u>74.0</u>	<u>92.3</u>
Less income from subleases —			
Capital leases	0.7	1.7	1.5
Operating leases	<u>9.3</u>	<u>5.9</u>	<u>10.8</u>
	<u>10.0</u>	<u>7.6</u>	<u>12.3</u>
	<u>\$63.1</u>	<u>\$66.4</u>	<u>\$80.0</u>
Personal property —			
Operating leases	<u>\$38.9</u>	<u>\$37.1</u>	<u>\$27.6</u>

11. Notes Receivable

On May 3, 1988, Federated sold its Bullock's/Bullock's Wilshire, Filene's, Foley's, and I. Magnin divisions. The proceeds from the sales included \$800.0 million in notes receivable. The Company obtained \$704.0 million in cash by transferring the notes to grantor trusts, which borrowed such amount under note monetization facilities (see Note 12) and distributed the proceeds to the Company. At the end of fiscal year 1991, Federated received \$400.0 million pursuant to a letter of credit which secured the payment of a \$400.0 million promissory note (the "Macy Note") from R. H. Macy & Co. ("Macy") for the sale of Federated's Bullock's/Bullock's Wilshire and I. Magnin divisions.

The remaining \$400.0 million note receivable bears interest at 9½% and is supported by a letter of credit. The interest rate on the Macy Note was ½% over LIBOR.

12. Financing

Pursuant to the POR, the Company issued new debt (along with new common stock) to settle liabilities classified as "Liabilities Subject to Settlement Under Reorganization Proceedings."

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Short-term and long-term debt as of February 1, 1992 consisted of the following:

	(millions)
Short-term debt:	
Receivables facilities	<u>\$ 742.4</u>
Current portion of long-term debt	29.2
Total short-term debt and current portion of long-term debt	<u><u>\$ 771.6</u></u>
Long-term debt:	
Series A secured notes	472.8
Series B secured notes	554.2
Series C secured notes	182.6
Series D secured notes	305.6
Series E secured notes	93.0
Senior convertible discount notes	256.9
Receivables facilities	400.0
Mortgage facility	365.2
Subsidiary trade obligations	101.5
Note monetization facility	352.0
Other secured real estate	6.3
Capitalized leases	49.9
Administrative tax notes	35.2
Other	1.5
Total long-term debt	<u><u>\$3,176.7</u></u>

Future maturities of long-term debt, other than receivables facilities and capitalized leases, are shown below:

	(millions)
Fiscal year:	
1993	\$ 13.0
1994	12.1
1995	295.8
1996	138.7
1997	646.8
After 1997	1,620.4

Short-term debt outstanding as of February 2, 1991 consisted of receivables facilities of \$309.3 million and long-term debt consisted of note monetization facilities of \$704.0 million and receivables facility of \$300.0 million. The remainder of Federated's and Allied's debt at February 2, 1991 was classified as "Liabilities Subject to Settlement Under Reorganization Proceedings."

Pursuant to the POR, the Company issued the Series A Notes, Series B Notes, Series C Notes, Series D Notes, Series E Notes, and the Senior Convertible Discount Notes (the "Convertible Notes") (collectively, the "New Debt"). In addition, in consideration of certain distributions under the POR, a letter of credit facility (the "LC Facility") providing for the issuance from time to time until February 2, 1995, of up to \$150.0 million aggregate face amount of letters of credit was made available to the Company.

The capital stock of the Company's principal subsidiaries, substantially all of the Company's cash, and certain of the Company's real property have been pledged or mortgaged, as the case may be, as security for various components of the New Debt (other than the Convertible Notes, which are unsecured) and the LC

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Facility on a shared basis. In addition, the debt instruments pursuant to which the New Debt was issued contain a number of restrictive covenants and events of default, including covenants limiting capital expenditures, incurrence of debt, and sales of assets, and require the Company to achieve certain financial ratios, some of which become more restrictive over time.

Under certain circumstances, the Company will be required to apply to the repayment or redemption of the Series A Notes, Series B Notes, Series C Notes, Series D Notes, and Series E Notes, a portion of the net proceeds realized from (i) the sale, conveyance, or other disposition of collateral securing such debt or (ii) the sale by the Company for its own account of shares of its capital stock.

The following discussion summarizes certain provisions of the New Debt and the LC Facility.

The Series A Secured Notes

The Series A Notes are secured obligations of the Company which mature on February 15, 2000 and bear interest at the rate per annum equal to, at the Company's option, either (i) Citibank's Alternate Base Rate III plus 1.5% (the "Base Rate") or (ii) LIBOR plus 2.5% (the "LIBOR Rate"). Interest at the Base Rate is payable quarterly on March 15, June 15, September 15, and December 15, commencing March 15, 1992. Interest at the LIBOR Rate is payable at the end of each one-, two-, three-, or six-month period (a "LIBOR Interest Period"), as selected by the Company, except that, with respect to any LIBOR Interest Period of six months, accrued and unpaid interest will be payable at the end of the third and sixth months of such LIBOR Interest Period.

The Company is required to pay on the dates indicated below the percentages of the originally outstanding principal amount of the Series A Notes indicated below, together with accrued interest to the date of payment (subject to adjustment to reflect prior prepayments and decreases in aggregate principal amount of Series A Notes outstanding resulting from the exchange of Series A Notes for Series B Notes at the option of the holders of the Series A Notes, as described below):

February 15, 1996	12.2%
February 15, 1997	14.6%
February 15, 1998	17.0%
February 15, 1999	17.0%
February 15, 2000	Remaining balance

The Series B Secured Notes

The Series B Notes are secured obligations of the Company which mature on February 15, 2000 and bear interest at the rate of 10.0% per annum, payable semiannually on June 15 and December 15 of each year, commencing June 15, 1992.

The Company is required to prepay or redeem on the dates indicated below the following percentages of the originally outstanding principal amount of Series B Notes indicated below, together with accrued interest to the date of payment (subject to adjustment to reflect prior prepayments and increases in the aggregate principal amount of Series B Notes outstanding resulting from the exchange of Series A Notes for Series B Notes at the option of the holders of the Series A Notes, as described below):

February 15, 1996	12.2%
February 15, 1997	14.6%
February 15, 1998	17.0%
February 15, 1999	17.0%
February 15, 2000	Remaining balance

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Each holder of Series A Notes may at any time deliver to the Company all or a portion of such holder's Series A Notes and receive in exchange therefor an equal aggregate principal amount (except for amounts not evenly divisible by \$1,000) of Series B Notes, provided that the interest rate on the Series B Notes for each of the 20 trading days preceding the date on which such holder notifies the Company of its intention to effect such exchange is less than or equal to the interest rate then in effect on such Series A Notes. The minimum aggregate principal amount of Series A Notes that may be so exchanged is \$1.0 million or an integral multiple of \$1,000 in excess thereof, other than in connection with an exchange of all of such holder's Series A Notes. If at any time the aggregate outstanding principal balance of all Series A Notes is less than \$12.5 million, the Company may require all remaining Series A Notes to be exchanged for Series B Notes.

The Series C Secured Notes

The Series C Notes are secured obligations of the Company which mature on February 4, 1995 and bear interest at the rate per annum equal to, at the Company's option, either (i) the Base Rate or (ii) the LIBOR Rate. Interest at the Base Rate is payable quarterly on March 15, June 15, September 15, and December 15 of each year, commencing March 15, 1992. Interest at the LIBOR Rate is payable at the end of each LIBOR Interest Period, as selected by the Company, except, with respect to any LIBOR Interest Period of six months, accrued and unpaid interest will be payable at the end of the third and sixth months of such LIBOR Interest Period. The Series C Notes are convertible, at the holder's option, into Series D Notes as described below.

The Series D Secured Notes

The Series D Notes are secured obligations of the Company which mature on August 15, 1997 and will bear interest at the rate of 9.0% per annum, payable June 15 and December 15 of each year, commencing June 15, 1992; provided, however, that from and after February 15, 1995, each Series D Note will bear interest at a rate per annum equal to 350 basis points above the average interest rate for 2-Year Treasury Notes during the 20 trading days immediately preceding February 15, 1995.

In addition, the Company is required to pay to the holders of the Series D Notes annual financing fees, payable annually in arrears, (i) in an amount equal to 1.0% of the aggregate principal amount of Series D Notes outstanding on February 15, 1993, 1994, and 1995 and (ii) in an amount equal to 2.0% of the aggregate principal amount of Series D Notes outstanding on February 15, 1996 and 1997.

Each holder of Series C Notes may at any time deliver to the Company all or a portion of such holder's Series C Notes and receive in exchange therefor an equal aggregate principal amount (except for amounts not evenly divisible by \$1,000) of Series D Notes, provided that the interest rate on the Series D Notes for each of the 20 trading days preceding the date on which such holder notifies the Company of its intention to effect such exchange is less than or equal to the interest rate then in effect on such Series C Notes. The minimum aggregate principal amount of Series C Notes that may be so exchanged is \$1.0 million or an integral multiple of \$1,000 in excess thereof, other than in connection with an exchange of all of such holder's Series C Notes. If at any time the aggregate outstanding principal balance of all Series C Notes is less than \$12.5 million, the Company may require all remaining Series C Notes to be exchanged for Series D Notes.

The Series E Secured Notes

The Series E Notes are secured obligations of the Company which mature on February 15, 2000 and bear interest at the rate per annum equal to, at the Company's option, either (i) the Base Rate or (ii) the LIBOR Rate. Interest at the Base Rate is payable quarterly on March 15, June 15, September 15, and December 15, commencing March 15, 1992. Interest at the LIBOR Rate is payable at the end of each LIBOR Interest Period, as selected by the Company, except, with respect to any LIBOR Interest Period of six months, accrued and unpaid interest will be payable at the end of the third and sixth months of such LIBOR Interest Period.

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company is required to pay on the dates indicated below the percentages of the originally outstanding principal amount of Series E Notes indicated below, together with accrued interest to the date of payment (subject to adjustment to reflect prior prepayments):

February 15, 1996	12.2%
February 15, 1997	14.6%
February 15, 1998	17.0%
February 15, 1999	17.0%
February 15, 2000	Remaining balance

The Senior Convertible Discount Notes

The Convertible Notes are unsecured obligations of the Company which mature on February 15, 2004 and bear interest at the rate of 6.0% payable semiannually on February 15 and August 15, commencing August 15, 1995; provided, however, that such interest rate will be reset effective as of February 15, 1995 to a rate (not to exceed 10% per annum) equal to the sum of (i) the average rate for hypothetical Eight-Year Treasury Notes during the 20 consecutive trading days ending February 15, 1995 and (ii) 200 basis points, unless the per share closing price of the Common Stock is at least equal to \$30.00, \$32.00 or \$35.00, respectively, for 20 consecutive trading days in any of the first, second, or third 12-month periods following February 15, 1995. The Convertible Notes will not bear cash interest prior to February 15, 1995, but will accrete original issue discount (the difference between the deemed issue price as of the POR Effective Date of \$835.81 per \$1,000 of stated principal amount and such stated principal amount) semiannually at the rate of 6.0% per annum compounded semiannually during the period from February 3, 1992 to February 15, 1995.

On each of February 15, 2002 and 2003, the Company is required to pay an amount equal to 33.3% of the aggregate stated principal amount of the Convertible Notes initially outstanding, and is required to pay any remaining balance on February 15, 2004, in each case together with accrued interest to the date of payment. In addition, subject to the limitations contained in certain other debt instruments to which the Company is a party, at any time on or after February 15, 1995, the Company may make optional prepayments or redemptions of the Convertible Notes in whole or part. All such prepayments will be made at 100% of the stated principal amount so prepaid or redeemed, together with interest accrued to the date of prepayment or redemption.

At any time at the option of a holder of Convertible Notes, such holder will have the right to convert the principal of any such holder's Convertible Notes that is \$100,000 stated principal amount or an integral multiple of such amount (or such lesser stated principal amount that represents all of such holder's Convertible Notes) into fully-paid and non-assessable shares of Common Stock at the rate of 27.86 shares of Common Stock for each \$1,000 stated principal amount of Convertible Notes, provided that such conversion rate will be appropriately adjusted in order to prevent dilution of such conversion rights in the event of certain changes in or events affecting the Common Stock and certain consolidations, mergers, sales, leases, transfers, or other dispositions to which the Company is a party. In addition, if at any time the closing per share price of the Company's Common Stock is \$42.00 or more for 20 consecutive trading days, or if the aggregate outstanding stated principal amount of the Convertible Notes is \$12.5 million or less, the Company may require the conversion of all outstanding Convertible Notes into Common Stock.

LC Facility

The LC Facility provides for the issuance for the benefit of the Company and its eligible subsidiaries from time to time until February 2, 1995, of up to \$150.0 million aggregate face amount of letters of credit. The Company will pay letter of credit fees in the amount of 2.0% per annum for each trade letter of credit and 2.5% per annum for each standby letter of credit, which fees will be payable quarterly in arrears with respect to the

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

actual number of days any such letter of credit is outstanding during the preceding quarter. Interest on the unreimbursed drawn amounts under any letter of credit will accrue at the Base Rate.

Accounts Receivable Facility

Federated Credit Corporation ("Federated Credit"), an indirect wholly owned subsidiary of the Company, is a party to a receivables-backed credit facility to finance the purchase of accounts receivable from Abraham & Straus, Bloomingdale's, Burdines, Lazarus, and Rich's. Pursuant to this facility, Federated Credit may borrow from time to time until August 5, 1993 amounts equal to up to 88% of eligible accounts receivable, subject to an overall maximum of \$1,000.0 million and subject to reduction in certain circumstances. As of February 1, 1992, Federated Credit had \$684.1 million outstanding under this facility. Allied Stores Credit Corporation ("Allied Credit"), an indirect wholly owned subsidiary of the Company, is a party to a receivables-backed credit facility to finance the purchase of accounts receivable from Jordan Marsh, Stern's, and The Bon Marché. Pursuant to the facility, Allied Credit may borrow from time to time until May 5, 1993 amounts equal to up to 88% of eligible accounts receivable, subject to an overall maximum of \$525.0 million and subject to reduction in certain circumstances. As of February 1, 1992, Allied Credit had \$458.3 million outstanding under this facility. Borrowings under these facilities are secured by security interests in the accounts receivable purchased by Federated Credit and Allied Credit, as the case may be, and certain other collateral, and bear interest at rates based upon the rates paid by the respective lenders under the facilities on commercial paper sold by such lenders from time to time to finance their loans under the facilities.

Mortgage Facility

Certain of the Company's real estate subsidiaries are parties to a mortgage loan agreement. As of February 1, 1992, approximately \$365.2 million was outstanding under this agreement. Under an amendment entered into pursuant to the Plan of Reorganization, borrowings under the agreement will mature in 2002 and bear interest at a rate per annum equal to 260 basis point over the average rate for 12-year treasury notes determined no later than May 4, 1992. Borrowings under the agreement are secured by liens on certain real property.

Subsidiary Trade Obligations

In addition to the cash distribution made on the POR Effective Date, the holders of certain allowed general unsecured prepetition claims against certain of the Company's subsidiaries are entitled to receive an additional cash payment on February 4, 1995.

The obligations of the applicable subsidiaries of the Company (the "Subsidiary Trade Obligors") to make such payments (the "Subsidiary Trade Obligations") have been estimated by the Company at \$101.5 million in the aggregate, exclusive of interest. The Subsidiary Trade Obligations bear interest at the rate of 6.94% per annum, payable annually on February 15, commencing on February 15, 1993. The Subsidiary Trade Obligations are unsecured obligations of the applicable Subsidiary Trade Obligors, guaranteed by the Company on a subordinated basis.

Note Monetization Facility

On May 3, 1988, Federated sold certain divisions for consideration consisting of two \$400.0 million promissory notes. Federated subsequently transferred the notes to grantor trusts of which it is the beneficiary. The trusts borrowed \$704.0 million under note monetization facilities, using the notes as collateral, and distributed the proceeds of such borrowing to Federated. At the end of fiscal year 1991, Federated received \$400.0 million pursuant to a letter of credit which secured the payment of a \$400.0 million promissory note received from Macy in connection with the sale to Macy of Federated's Bullock's/Bullock's Wilshire and I. Magnin divisions. In connection therewith, the entire \$352.0 million of indebtedness incurred by one of the

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

grantor trusts was defeased. The other trust's borrowing under the remaining note monetization facility matures in two equal installments on May 3, 1997 and 1998, and bears interest at fluctuating interest rates based on LIBOR, subject to certain adjustments. The Company is not an obligor on the borrowing under the note monetization facility, and the lender's recourse thereunder is limited to the trust's assets and the Company's interest in the trust.

Interest and financing costs are as follows:

	<u>52 Weeks Ended February 1, 1992</u>	<u>52 Weeks Ended February 2, 1991</u> (millions)	<u>53 Weeks Ended February 3, 1990</u>
Interest on debt	\$479.8	\$578.7	\$ 835.8
Amortization of financing costs.....	18.3	54.4	80.9
Interest on capitalized leases.....	6.4	7.4	7.7
Subtotal	<u>504.5</u>	<u>640.5</u>	<u>924.4</u>
Less:			
Interest capitalized relating to sold or transferred divisions	—	—	(8.6)
Interest capitalized on construction	(0.2)	(1.0)	(1.2)
Interest income	(67.3)	(83.6)	(107.9)
	<u>\$437.0</u>	<u>\$555.9</u>	<u>\$ 806.7</u>

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. Accounts Payable and Accrued Liabilities

	February 1, 1992	February 2, 1991
	(millions)	
Merchandise and expense accounts payable	\$ 709.2	\$562.9
Restructuring and other merger costs.....	147.3	72.8
Accrued interest	10.2	13.0
Taxes other than income taxes	62.3	45.2
Other	182.0	203.3
	\$1,111.0	\$897.2

14. Liabilities Subject to Settlement Under Reorganization Proceedings

With the exception of payments required in respect of the Subsidiary Trade Obligations (see Note 12) and with respect to disputed general unsecured claims against certain of the Company's subsidiaries (see Note 21), all payments and distributions required by the POR to be made by the Company or any of its subsidiaries in respect of prepetition claims against the Federated/Allied Companies have been made or provided for, and no further recourse to the Company or any of its subsidiaries may be had by any person with respect to such prepetition claims.

Those petition date liabilities which were paid or compromised under the POR were separately classified in the Consolidated Balance Sheet prior to the POR Effective Date. As of February 2, 1991 Liabilities Subject to Settlement Under Reorganization Proceedings consisted of:

	February 2, 1991	
	(millions)	
Long-term debt.....	\$5,615.6	
Merchandise and expense accounts payable	338.2	
Accrued interest expense	350.5	
Other accounts payable and accrued liabilities	154.1	
Deferred compensation	16.7	
	\$6,475.1	

15. Taxes

Income tax (benefit) expense is as follows:

	52 Weeks Ended February 1, 1992			52 Weeks Ended February 2, 1991			53 Weeks Ended February 3, 1990		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
Federal	\$(25.9)	\$(457.5)	\$(483.4)	\$(69.4)	\$(187.6)	\$(257.0)	\$(36.8)	\$ 51.7	\$ 14.9
State and local	42.6	(173.2)	(130.6)	0.6	(20.0)	(19.4)	5.9	(14.0)	(8.1)
	\$ 16.7	\$(630.7)	\$(614.0)	\$(68.8)	\$(207.6)	\$(276.4)	\$(30.9)	\$ 37.7	\$ 6.8

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The income tax expense (benefit) reported differs from the expected tax computed by applying the federal income tax statutory rate of 34% to loss before income taxes, extraordinary item and cumulative effect of change in accounting principle. The reasons for this difference and their tax effects are as follows:

	<u>52 Weeks Ended February 1, 1992</u>	<u>52 Weeks Ended February 2, 1991 (millions)</u>	<u>53 Weeks Ended February 3, 1990</u>
Expected tax	\$(629.0)	\$(186.2)	\$(600.8)
Permanent differences arising from:			
Acquisition financing	—	—	17.3
Write down and amortization of goodwill	16.6	17.1	418.9
Certain non-deductible reorganization items	13.3	16.3	—
Effect of consummation of POR	68.2	—	—
Effect of carrying back net operating losses to years with higher federal income tax rates	—	(20.0)	—
(Reinstatement) Exclusion of cumulative net operating loss carry forwards	—	(90.5)	153.7
State and local income taxes, net of federal income tax benefit	(86.2)	(12.9)	(9.4)
Other	<u>3.1</u>	<u>(0.2)</u>	<u>27.1</u>
	<u><u>\$(614.0)</u></u>	<u><u>\$(276.4)</u></u>	<u><u>\$ 6.8</u></u>

As of February 1, 1992, deferred income taxes and deferred income tax benefit are comprised of the tax effects of the following cumulative temporary differences: merchandise inventories — \$77.9 million, items accounted for on a cash basis for tax purposes — (\$189.5 million), the excess of book basis over tax basis of property and equipment — \$595.7 million, the deferred tax gains from the sales of divisions — \$79.6 million and other items — \$69.6 million.

In connection with the POR and the plan of reorganization of Federated Stores, Inc. ("FSI"), formerly Campeau's United States holding company for the Company and Allied, the FSI consolidated tax group (which, with respect to periods prior to the POR Effective Date, included the Federated/Allied Companies) triggered certain gains (the "Gains") estimated at approximately \$1.8 billion. Under applicable federal tax law, each member of the FSI consolidated tax group would be severally liable for the entire amount of any tax liability incurred by any other member of the group, generally, prior to February 4, 1992. Under an indemnification agreement entered into pursuant to the POR, among other things, Ralphs Grocery Company ("Ralphs"), a former subsidiary of FSI, would generally be liable to the Company for 21% of the first \$71.43 million in tax liability with respect to the Gains and the Company would indemnify Ralphs for any tax liability above that amount. The Company believes that net operating and capital losses and carryforwards ("NOLs") sufficient to offset the Gains were available at the time the Gains were triggered and, accordingly, that the Company will have no regular federal income tax liability in respect thereof and that it has adequately provided for its estimated alternative minimum tax liability. However, there are a number of issues that may arise which, if determined adversely, could limit the amount of available NOLs, and therefore result in tax liability to the Company. These issues include, without limitation, the availability of certain deductions previously claimed by the FSI consolidated tax group and the applicability of certain provisions of the Internal Revenue Code of 1986, as amended, generally limiting the availability of NOL carryforwards following certain changes in ownership. While there can be no assurance with respect thereto, management does not expect that the resolution of these issues will have a material adverse effect on the Company's financial position.

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In connection with the Chapter 11 cases, the Internal Revenue Service ("IRS") audited the tax returns of the Federated/Allied Companies for tax years 1984 through 1989 and asserted certain claims against the Federated/Allied Companies and other members of the FSI consolidated tax group. The issues raised by the IRS audit were resolved by agreement with the IRS in the Chapter 11 cases except for two issues involving the use by the Federated/Allied Companies of an aggregate of \$27.0 million of NOLs of an acquired company and the deductibility of approximately \$176.3 million of so-called "break-up fees." These issues were litigated before the Bankruptcy Court and resolved in favor of the Federated/Allied Companies; however, the IRS has appealed the Bankruptcy Court's determination of these issues. While there can be no assurance with respect thereto, management does not expect that the resolution of these issues will have a material adverse effect on the Company's financial position.

16. Retirement Plans

The Company has defined benefit plans ("Pension Plans") and defined contribution plans ("Profit Sharing Plans") which cover substantially all employees who work 1,000 hours or more per year. In addition, the Company has a supplementary retirement plan which includes benefits, for certain employees, in excess of qualified plan limitations. Net retirement income for these plans totaled \$2.0 million for the 52 weeks ended February 1, 1992, \$0.5 million for the 52 weeks ended February 2, 1991, and \$1.7 million for the 53 weeks ended February 3, 1990.

Pension Plans

Net pension income for the Company's Pension Plans amounted to \$10.0 million for the 52 weeks ended February 1, 1992, \$8.3 million for the 52 weeks ended February 2, 1991, and \$8.5 million for the 53 weeks ended February 3, 1990, and included the following actuarially determined components:

	<u>52 Weeks Ended February 1, 1992</u>	<u>52 Weeks Ended February 2, 1991</u>	<u>53 Weeks Ended February 3, 1990</u>
		(millions)	
Service Cost	\$ 16.7	\$ 17.8	\$ 15.4
Interest cost.....	37.4	35.7	31.5
Actual return on assets	(138.6)	(3.4)	(76.4)
Net amortization and deferrals	74.5	(58.4)	21.0
	<u>\$ (10.0)</u>	<u>\$ (8.3)</u>	<u>\$ (8.5)</u>

Service cost and interest cost were calculated using discount rates ranging from 8.5% to 9.0% and the rate of increase in future compensation levels was 6%. The long-term rate of return on assets was 10% for the 52 weeks ended February 1, 1992 and February 2, 1991 and ranged from 8% to 10% for the 53 weeks ended February 3, 1990.

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth the projected actuarial present value of benefit obligations and funded status at December 31, 1991 and 1990, for the Pension Plans:

	December 31, 1991	December 31, 1990
	(millions)	
Accumulated benefit obligations	\$477.8	\$431.4
Less: Present value of net accumulated benefits available under the Profit Sharing Plan	63.1	58.4
Net accumulated benefit obligations, including vested benefits of \$401.4 million and \$362.9 million, respectively	414.7	373.0
Projected compensation increases	66.7	68.0
Projected benefit obligations	481.4	441.0
Plan assets (primarily stocks, bonds and U.S. government securities)	700.1	601.9
Unrecognized loss/(gain)	—	10.8
Unrecognized prior service cost	—	2.3
Unrecognized net transition asset	—	(30.0)
	700.1	585.0
Prepaid pension expense	\$218.7	\$144.0

The discount rate used in determining the actuarial present value of projected benefit obligations was 8.0% for December 31, 1991 and ranged from 8.5% to 9.0% for December 31, 1990 and the rate of increase in future compensation levels was 4.5% for December 31, 1991 and 6.0% for December 31, 1990.

The Company's policy is to fund the Pension Plans at or above the minimum required by law. At December 31, 1991 and 1990, the Company had met the full funding limitation. Plan assets are held by independent trustees.

The adoption of fresh-start reporting required the pension assets to be adjusted to fair value which resulted in a \$64.7 million increase to net pension assets as of February 1, 1992.

Supplementary Retirement Plan

Net pension expense for the supplementary retirement plan included the following actuarially determined components:

	52 Weeks Ended February 1, 1992	52 Weeks Ended February 2, 1991 (millions)	53 Weeks Ended February 3, 1990
Service cost	\$1.0	\$1.1	\$1.1
Interest cost on projected benefit obligations	2.0	1.9	1.3
Net amortization and deferral	0.9	0.9	0.8
	\$3.9	\$3.9	\$3.2

Service cost and interest cost were calculated using discount rates ranging from 8.5% to 9.0% and a rate of increase in future compensation levels of 6%.

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth the projected actuarial present value of benefit obligations at December 31, 1991 and 1990, for the supplementary retirement plan:

	December 31, 1991	December 31, 1990
	(millions)	
Accumulated benefit obligations, including vested benefits of \$4.4 million and \$12.0 million, respectively	\$ 4.4	\$12.3
Projected compensation increases	7.2	11.8
Projected benefit obligations	11.6	24.1
Unrecognized gain (loss)	—	(3.6)
Unrecognized prior service cost	—	(4.7)
Unrecognized net transition obligation	—	(1.0)
Accrued supplementary retirement liability	<u>\$11.6</u>	<u>\$14.8</u>

The discount rate used in determining the actuarial present value of projected benefit obligations was 8.0% for December 31, 1991 and ranged from 8.5% to 9.0% for December 31, 1990. The rate of increase in future compensation levels was 4.5% for December 31, 1991 and 6.0% for December 31, 1990. The supplementary retirement plan is not funded.

In connection with the POR, the Company reinstated the supplementary retirement plan for the then current employees and, through a \$7.2 million adjustment, reduced the accrued liability for the supplementary retirement plan to its fair value.

Profit Sharing Plans

The Profit Sharing Plans include a voluntary savings feature for eligible employees. The contribution is a percentage of the Company's pre-tax earnings for the year with a minimum contribution by the Company which ranged from 12.5% to 20% of employee's eligible savings. Profit sharing expense amounted to \$4.1 million for the 52 weeks ended February 1, 1992, \$3.9 million for the 52 weeks ended February 2, 1991, and \$3.6 million for the 53 weeks ended February 3, 1990. The Profit Sharing Plans had net assets at December 31, 1991, aggregating \$703.5 million held in independent trusts.

17. Postretirement Health Care and Life Insurance Benefits

In addition to providing pension and other supplemental benefits, certain retired employees are currently provided with specified health care, life insurance, and merchandise purchase discount benefits. Eligibility requirements for such benefits vary by division and subsidiary, but generally state that benefits are available to employees who retire after a certain age with specified years of service, and if they agree to contribute a portion of the cost (except for the merchandise purchase discount). The Company has the right to modify or terminate these benefits. Health care and life insurance benefits are provided to both retired and active employees through medical benefit trusts, group life trusts, and insurance companies with insurance premiums based on benefits paid.

The Company adopted SFAS No. 106 as of February 1, 1992, which requires that the cost of these benefits be recognized in the financial statements over an employee's service period with the Company. The Company has therefore recognized a transition obligation of \$152.7 million in postretirement benefits it sponsors in accordance with SFAS No. 106 as of February 1, 1992. Previously, except for a \$43.7 million remaining liability recorded in a purchase business combination, such costs were recorded under the cash method.

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth the plans' combined financial status included in the Company's Consolidated Balance Sheet at February 1, 1992, after fresh-start reporting:

	(millions)
Accumulated postretirement benefit obligation:	
Retirees	\$145.0
Fully eligible active plan participants	25.5
Other active plan participants	<u>25.9</u>
Total	<u>\$196.4</u>
Plan assets at fair value.....	<u>—</u>
Accrued postretirement benefit obligation.....	<u>\$196.4</u>

For measurement purposes, a 12% annual rate of increase in the cost of covered health care benefits was assumed for 1992. The rate is assumed to decrease gradually to 5% in the year 2004 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the health care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1991 by \$5.8 million and the net periodic cost by \$0.9 million for the year.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 8.0%.

18. Employee Equity Plan

The Company has implemented an Equity Plan intended to provide an equity interest in the Company to key management personnel and thereby provide additional incentives for such persons to devote themselves to the maximum extent practicable to the businesses of the Company and its subsidiaries. The Equity Plan is administered by the Compensation Committee of the Board of Directors (the "Compensation Committee"). The Compensation Committee is authorized to grant options, stock appreciation rights and restricted stock to officers and key employees of the Company and its subsidiaries. The Equity Plan also provides for the award of options to non-employee directors. A maximum of 4.6 million shares of Common Stock may be issued pursuant to the Equity Plan, not more than 1.2 million of which may be awarded in the form of restricted stock.

Aggregate initial awards of 763,100 shares of restricted stock and options to purchase an aggregate of 1,808,500 shares of Common Stock at an exercise price of \$16.875 per share were granted to officers and key employees of the Company and its subsidiaries subsequent to the POR Effective Date.

19. Shareholders' Equity

The Company's Certificate of Incorporation provides (i) that the authorized capital stock of the Company consists of 250 million shares of Common Stock and 125 million shares of preferred stock, par value \$.01 per share ("Preferred Stock"). No shares of Preferred Stock were issued pursuant to the POR. Pursuant to the POR, 79,246,637 shares of Common Stock were issued as of the POR Effective Date. In addition, the POR provided for the issuance of an additional 204,000 shares of Common Stock to the U.S. Treasury in five equal annual installments.

Common Stock

The holders of the Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Subject to preferential rights that may be applicable to any Preferred

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Stockholders of Common Stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor. However, it is not presently anticipated that dividends will be paid on Common Stock in the foreseeable future and certain of the debt instruments to which the Company is a party restrict the payment of dividends. All of the outstanding shares of Common Stock issued pursuant to the POR are fully paid and nonassessable.

A substantial portion of the shares of Common Stock issued pursuant to the POR is subject to certain restrictions on disposition under the Agreement and Provisions Relating to Restrictions on Transfer of Certain Shares of Common Stock of Federated Department Stores, Inc. provided for in the POR and the By-Laws.

Preferred Share Purchase Rights

Each share of Common Stock is accompanied by one right (a "Right") issued pursuant to the Share Purchase Rights Agreement between the Company and The Bank of New York, as Rights Agent (the "Share Purchase Rights Agreement"). Each Right entitles the registered holder thereof to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value \$.01 per share (the "Series A Preferred Shares"), of the Company at a price (the "Purchase Price") of \$62.50 per one one-hundredth of a Series A Preferred Share, subject to adjustment.

In general, the Rights will not become exercisable or transferable apart from the shares of Common Stock with which they were issued unless a person or group of affiliated or associated persons becomes the beneficial owner of, or commences a tender offer that would result in beneficial ownership of, 20% or more of the outstanding Common Stock (any such person or group of persons being referred to as an "Acquiring Person"). Thereafter, under certain circumstances, each Right (other than any Rights that are or were beneficially owned by an Acquiring Person, which Rights will be void) could become exercisable to purchase at the Purchase Price a number of shares of Common Stock having a market value equal to two times the Purchase Price. The Rights will expire on February 4, 2002, unless earlier exercised by the holders or redeemed by the Company prior to becoming exercisable at a redemption price of \$.03 per Right (subject to adjustment).

Future Stock Issuances

In addition to the Common Stock issued pursuant to the POR as of the POR Effective Date, the Company has a contingent obligation under the POR to issue one share of Common Stock for each \$25.00 recovered from certain of Allied's insurers under policies having an aggregate maximum recovery limitation of \$30.0 million. There can be no assurance than any such recovery will be achieved. In addition, the Company's stockholders will not have preemptive rights to purchase additional shares of the Company's capital stock upon any issuance of such shares authorized by the Board of Directors.

The Company is also authorized to issue 8,564,107 shares of Common Stock (subject to adjustment) upon the conversion of the Convertible Notes and five million shares of Common Stock (subject to adjustment) upon the exercise of the Series A Warrants and Series B Warrants. The Series A Warrants were issued under the Series A Warrant Agreement between the Company and The Bank of New York, as Warrant Agent (the "Series A Warrant Agreement"). The Series B Warrants were issued under the Series B Warrant Agreement between the Company and The First Boston Corporation, as the initial holder of the Series B Warrants (the "Series B Warrant Agreement"). Each Warrant, when exercised, will entitle the holder thereof to acquire one share of Common Stock at an exercise price of (i) \$25.00 per share, in the case of the Series A Warrants, or (ii) \$35.00 per share, in the case of the Series B Warrants.

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Series A Warrants are not transferable until the earlier of (i) February 4, 1994 and (ii) six months after the first post-POR Effective Date sale by the Company of shares of its capital stock for cash, other than pursuant to the exercise of any option, warrant, or other right to purchase shares of capital stock of the Company issued or granted pursuant to the POR, the Equity Plan (or any other employee benefit plan), or the Share Purchase Rights Agreement (or any similar successor agreement). The Series B Warrants are not transferable prior to February 4, 1995. Four million shares of Common Stock are subject to the Series A Warrants and one million shares of Common Stock are subject to the Series B Warrants, in each case subject to adjustment in certain events to prevent dilution of the rights conferred thereby as set forth in the applicable Warrant Agreement. The Series A Warrants expire February 15, 1996 and the Series B Warrants expire February 15, 2000.

	52 Weeks Ended <u>February 1, 1992</u>	52 Weeks Ended <u>February 2, 1991</u> (millions)	53 Weeks Ended <u>February 3, 1990</u>
Preferred stock	\$ —	\$ —	\$ —
Common stock:			
Balance, beginning of period	—	—	—
Issuance of common stock	<u>0.8</u>	—	—
Balance, end of year	<u>0.8</u>	—	—
Additional paid-in capital:			
Balance, beginning of period	915.3	915.3	1,399.4
Capital contribution	—	—	67.0
Dividends accrued and paid and accretion of deferred issuance costs on preferred stock ...	—	—	(39.5)
Write-off of unamortized portion of deferred costs on preferred stock issuance	—	—	(11.6)
Issuance of common stock	<u>2,015.4</u>	—	—
Dividend	—	—	(500.0)
Eliminate deficit in accumulated earnings	<u>(1,477.4)</u>	—	—
Balance, end of year	<u>1,453.3</u>	<u>915.3</u>	<u>915.3</u>
Accumulated equity (deficit):			
Balance, beginning of period	(2,313.8)	(2,042.4)	(268.5)
Net income (loss)	<u>836.4</u>	<u>(271.4)</u>	<u>(1,773.9)</u>
Eliminate deficit in accumulated earnings	<u>1,477.4</u>	—	—
Balance, end of year	—	<u>(2,313.8)</u>	<u>(2,042.4)</u>
Total shareholders' equity (deficit)	<u>\$ 1,454.1</u>	<u>\$ (1,398.5)</u>	<u>\$ (1,127.1)</u>

FEDERATED DEPARTMENT STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

20. Quarterly Results (unaudited)

Quarterly results for the 52 weeks ended February 1, 1992 and the 52 weeks ended February 2, 1991, were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(millions)			
52 Weeks Ended February 1, 1992:				
Net sales	\$1,593.4	\$1,495.7	\$1,708.9	\$ 2,134.3
Cost of sales, including occupancy and buying costs	1,142.9	1,088.3	1,218.9	1,514.4
Loss before income taxes, extraordinary item and cumulative effect of change in accounting principle ...	(85.0)	(210.4)	(80.0)	(1,474.5)
Federal, state and local income tax benefit.....	20.8	66.6	19.0	507.6
Extraordinary item — gain on debt discharge.....	—	—	—	2,165.5
Cumulative effect of change in accounting principle	—	—	—	(93.2)
Net income (loss)	\$ (64.2)	\$ (143.8)	\$ (61.0)	\$ 1,105.4
52 Weeks Ended February 2, 1991:				
Net sales	\$1,590.4	\$1,525.7	\$1,767.2	\$ 2,258.7
Cost of sales, including occupancy and buying costs	1,149.5	1,140.3	1,266.0	1,617.1
Loss before income taxes	(143.4)	(186.4)	(121.4)	(96.6)
Federal, state and local income tax benefit.....	43.9	60.1	34.7	137.7
Net income (loss)	\$ (99.5)	\$ (126.3)	\$ (86.7)	\$ 41.1

21. Legal Proceedings

Notwithstanding the confirmation and effectiveness of the POR, the Bankruptcy Court continues to have jurisdiction to, among other things, resolve disputed prepetition claims against the Federated/Allied Companies, resolve matters related to the assumption, assumption and assignment, or rejection of executory contracts pursuant to the POR, and to resolve other matters that may arise in connection with or relate to the POR. Pursuant to the POR, and based on the Company's estimate of the amount of such claims that ultimately will be allowed by the Bankruptcy Court, the Company has provided for the payment of approximately \$285.0 million in respect of certain classes of claims against certain subsidiaries of the Company. Approximately \$183.5 million of this amount was segregated on the POR Effective Date, while the remaining \$101.5 million is reflected as "subsidiary trade obligations" on the Company's Consolidated Balance Sheet as of February 1, 1992. (See Note 12.) Both the cash portion and the deferred portion of this amount include amounts in respect of claims that have been allowed as well as amounts in respect of claims that are still being disputed by the Company. The total face amount of such claims which are still being disputed by the Company is approximately \$358.4 million. While there can be no assurance that the actual amounts of such claims that are ultimately allowed by the Bankruptcy Court will not exceed the estimated amounts thereof, management does not expect that any variance between such actual and estimated amounts will have a material adverse effect on the Company's financial position.

The Company and its subsidiaries are also involved in various proceedings incidental to the normal course of their business. Management does not expect that any of such proceedings will have a material adverse effect on the Company's financial position.

No dealer, salesman, or any other person has been authorized to give any information or to make any representations not contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or any of the U.S. Underwriters. This Prospectus does not constitute an offer of any securities other than those to which it relates or an offer to sell, or a solicitation of an offer to buy, to any person in any jurisdiction where such an offer or solicitation would be unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

40,000,000 Shares

Federated DEPARTMENT STORES, INC.

Common Stock

TABLE OF CONTENTS

	<u>Page</u>
Summary	3
Investment Considerations	9
The Company	11
Price Range of Common Stock	12
Dividend Policy	12
Use of Proceeds	12
Capitalization	13
Pro Forma Financial Information	14
Selected Consolidated Financial Data	19
Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Business	24
Management	32
Security Ownership	44
Capital Stock	45
Indebtedness	53
Certain United States Tax Consequences for Non-U.S. Shareholders	60
Underwriting	63
Legal Matters	65
Experts	66
Available Information	66
Index to Consolidated Financial Statements	F-1

PROSPECTUS , 1992

LEHMAN BROTHERS

GOLDMAN, SACHS & Co.

MORGAN STANLEY & Co.
INCORPORATED

SMITH BARNEY, HARRIS UPHAM & Co.
INCORPORATED

PROSPECTUS

40,000,000 Shares

Federated DEPARTMENT STORES, INC.

Common Stock

All of the 40,000,000 shares of Common Stock being offered are to be issued and sold by the Company. Of these shares, 8,000,000 are being offered hereby initially outside the United States by the International Managers and 32,000,000 are being offered initially in the United States by the U.S. Underwriters. Such offerings are referred to collectively as the "Offerings." The initial offering price and the aggregate underwriting discount per share are identical for both Offerings. See "Underwriting."

The net proceeds of the Offerings, together with other funds available to the Company, will be used to prepay certain indebtedness of the Company. See "Use of Proceeds."

The Common Stock is listed on the New York Stock Exchange under the symbol "FD." On March 31, 1992, the last sale price of the Common Stock as reported on the New York Stock Exchange Composite Tape was \$14 1/4 per share. See "Price Range of Common Stock."

See "Investment Considerations" for certain factors that should be considered by prospective investors.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Company(2)
Per Share.....	\$	\$	\$
Total(3)	\$	\$	\$

- (1) The Company has agreed to indemnify the International Managers and the U.S. Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
- (2) Before deducting estimated expenses of \$ payable by the Company.
- (3) The Company has granted the International Managers a 30-day option to purchase up to 1,200,000 additional shares of Common Stock on the same terms and conditions set forth above, solely to cover over-allotments, if any. The U.S. Underwriters have been granted a similar option to purchase up to 4,800,000 additional shares, solely to cover over-allotments, if any. If such options are exercised in full, the total Price to Public, Underwriting Discounts and Commissions, and Proceeds to Company will be \$, \$, and \$, respectively. See "Underwriting."

The shares of Common Stock offered by this Prospectus are offered by the International Managers subject to prior sale, to withdrawal, cancellation, or modification of the offering without notice, to delivery to and acceptance by the International Managers, and to certain further conditions. It is expected that delivery of the shares of Common Stock offered by this Prospectus will be made at the offices of Shearson Lehman Brothers Inc., New York, New York on or about , 1992.

LEHMAN BROTHERS INTERNATIONAL

GOLDMAN SACHS INTERNATIONAL LIMITED

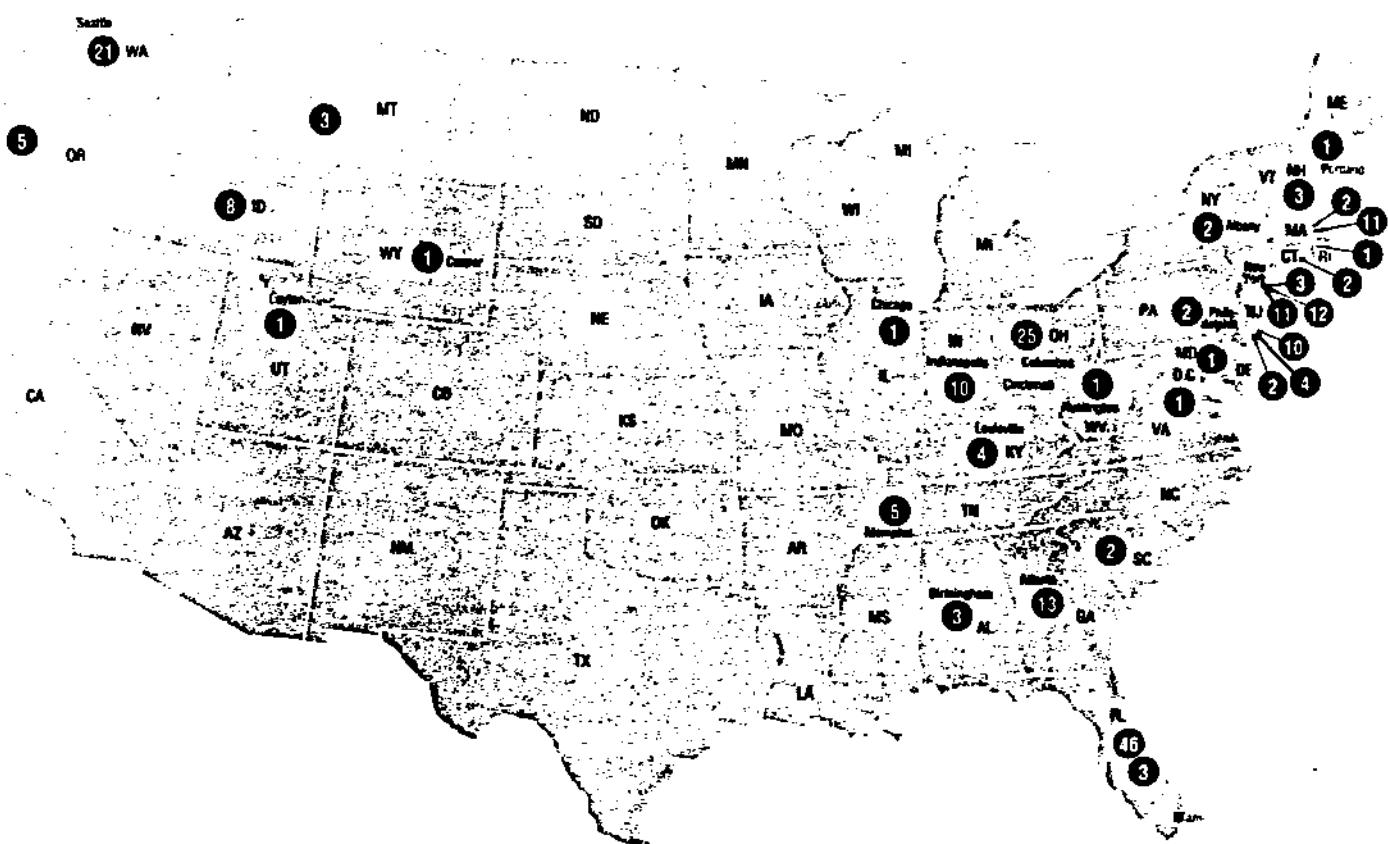
MORGAN STANLEY INTERNATIONAL

SMITH BARNEY, HARRIS UPHAM & CO.
INCORPORATED

[Alternate Page for International Prospectus]

Federated DEPARTMENT STORES, INC.

The following map identifies the locations of the Company's 220 stores in 26 states as of March 31, 1992.



- | | |
|-----------------------|----------------|
| ⑩ The BON MARCHÉ | ⑪ jordan marsh |
| ⑯ bloomingdale's | ⑫ STERN'S |
| ⑭ LAZARUS | ⑮ AS |
| ⑬ RICH'S / Goldsmiths | ⑯ Burdines |

This Prospectus may not be passed on to any person in the United Kingdom unless that person is of a kind described in Article 9(3) of the United Kingdom Financial Services Act of 1986 (Investment Advertisements) (Exemptions) Order 1988.

IN CONNECTION WITH THE OFFERINGS, THE INTERNATIONAL MANAGERS AND U.S. UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, salesman, or any other person has been authorized to give any information or to make any representations not contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or any of the International Managers. This Prospectus does not constitute an offer of any securities other than those to which it relates or an offer to sell, or a solicitation of an offer to buy, to any person in any jurisdiction where such an offer or solicitation would be unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

40,000,000 Shares

Federated DEPARTMENT STORES, INC.

Common Stock

TABLE OF CONTENTS

	<u>Page</u>
Summary	3
Investment Considerations	9
The Company	11
Price Range of Common Stock	12
Dividend Policy	12
Use of Proceeds	12
Capitalization	13
Pro Forma Financial Information	14
Selected Consolidated Financial Data	19
Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Business	24
Management	32
Security Ownership	44
Capital Stock	45
Indebtedness	53
Certain United States Tax Consequences for Non-U.S. Shareholders	60
Underwriting	63
Legal Matters	65
Experts	66
Available Information	66
Index to Consolidated Financial Statements	F-1

PROSPECTUS
, 1992

LEHMAN BROTHERS INTERNATIONAL

GOLDMAN SACHS INTERNATIONAL
LIMITED

MORGAN STANLEY INTERNATIONAL

SMITH BARNEY, HARRIS UPHAM & CO.
INCORPORATED

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

Registration fee	\$209,335.94
NASD fee	30,500.00
Blue Sky fees and expenses	*
Printing and engraving expenses.....	*
Legal fees and expenses	*
Accounting fees and expenses	*
Miscellaneous	*
Total	<u>\$ * </u>

* To be provided by amendment.

Item 14. Indemnification of Directors and Officers.

The Company's Certificate of Incorporation provides, as do the charters of many other publicly held companies, that the personal liability of directors of the Company to the Company is eliminated to the maximum extent permitted by Delaware law. The Company's Certificate of Incorporation and the By-Laws provide for the indemnification of the directors, officers, employees, and agents of the Company and its subsidiaries to the full extent that may be permitted by Delaware law from time to time, and the By-Laws provide for various procedures relating thereto. Certain provisions of the Company's Certificate of Incorporation protect the Company's directors against personal liability for monetary damages resulting from breaches of their fiduciary duty of care, except as set forth below. Under Delaware law, absent these provisions, directors could be held liable for gross negligence in the performance of their duty of care, but not for simple negligence. The Company's Certificate of Incorporation absolves directors of liability for negligence in the performance of their duties, including gross negligence. However, the Company's directors remain liable for breaches of their duty of loyalty to the Company and its stockholders, as well as for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law and transactions from which a director derives improper personal benefit. The Company's Certificate of Incorporation also does not absolve directors of liability under section 174 of the Delaware General Corporation Law, which makes directors personally liable for unlawful dividends or unlawful stock repurchases or redemptions in certain circumstances and expressly sets forth a negligence standard with respect to such liability.

Under Delaware law, directors, officers, employees, and other individuals may be indemnified against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement in connection with specified actions, suits, or proceedings, whether civil, criminal, administrative, or investigative (other than an action by or in the right of the corporation — a "derivative action") if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe their conduct was unlawful. A similar standard of care is applicable in the case of a derivative action, except that indemnification only extends to expenses (including attorneys' fees) incurred in connection with defense or settlement of such an action and Delaware law requires court approval before there can be any indemnification of expenses where the person seeking indemnification has been found liable to the Company.

The Company's Certificate of Incorporation provides, among other things, that each person who was or is made a party to, or is threatened to be made a party to, or is involved in, any action, suit, or proceeding by reason of the fact that he or she is or was a director or officer of the Company (or was serving at the request of the Company as a director, officer, employee, or agent for another entity), will be indemnified and held harmless by the Company to the full extent authorized by Delaware law, as in effect on February 4, 1992 (or, to the extent indemnification is thereafter broadened, as it may be amended), against all expense, liability, or loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties, and amounts to be paid in settlement) reasonably incurred by such person in connection therewith. The rights conferred thereby will be

deemed to be contract rights and will include the right to be paid by the Company for the expenses incurred in defending the proceedings specified above in advance of their final disposition. Such rights will not apply in respect of service in any capacity with any of the Company's predecessors except, and only to the same extent as, the Company would be obligated to indemnify under the provisions of the POR summarized below.

Under the POR, the obligations of each Federated/Allied Company to indemnify any person serving as one of its directors, officers, or employees as of or following the Petition Date, by reason of such person's past or future service in such a capacity, or as a director, officer, or employee of another corporation, partnership, or other legal entity, including FSI, Ralphs, any other subsidiary of FSI, Campeau Corp., or any of their respective post-reorganization affiliates (as defined in section 101(2) of the Bankruptcy Code), to the extent provided in the applicable certificates of incorporation, by-laws, or similar constituent documents or by statutory law or written agreement of or with such Federated/Allied Company, were, except as provided below, deemed and treated as executory contracts that were assumed by the applicable Federated/Allied Company pursuant to the POR and section 365 of the Bankruptcy Code, upon the confirmation of the POR. Accordingly, such indemnification obligations survived and were unaffected by entry of the confirmation order, irrespective of whether such indemnification is owed for an act or event occurring before or after the Petition Date; provided, however, that the indemnity obligations of any Federated/Allied Company terminated and were discharged as of the POR Effective Date as to any person who (i)(a) is or was a director, officer, or employee of FSI, Ralphs, any other subsidiary of FSI, Campeau Corp., or any of their respective post-reorganization affiliates (as defined above) other than Gold Circle, Inc. or any Federated/Allied Company and (b) had not, as of the POR Effective Date, ceased to be a director, officer, or employee of any subsidiary of FSI, Campeau Corp., or any of their respective post-reorganization affiliates (as defined above), other than FSI, Gold Circle, Inc., Ralphs, or any Federated/Allied Company, or had not ceased to be an officer or employee of Ralphs, or (ii) is or becomes a director, officer, or employee of Campeau Corp. or any subsidiary of FSI or an officer or employee of Ralphs following the POR Effective Date. Under the Company's Certificate of Incorporation, persons in respect of whom indemnity obligations were assumed by the Company pursuant to the POR and section 365 of the Bankruptcy Code, or in respect of whom indemnity obligations arise in the future by reason of service as a director, officer, or employee of the Company, will be deemed to have served at the request of the predecessors of the Company to the extent that they served as a director, officer, or employee of FSI or any of its affiliates (as defined above) prior to the POR Effective Date; provided, however, that such indemnity will not apply to any person who continues to serve as a director of Ralphs as of or following the POR Effective Date to the extent that the action, suit, or proceeding relates to or arises out of such person's service as a director, officer, or employee of Ralphs at any time after the POR Effective Date.

As authorized by the Company's Certificate of Incorporation and the order of the Bankruptcy Court confirming the POR, the Company entered into indemnification agreements, effective as of the POR Effective Date, with each of its directors and officers. These indemnification agreements provide for, among other things, (i) the indemnification by the Company of the indemnitees thereunder to the extent described above, (ii) the advancement of attorneys' fees and other expenses, and (iii) the establishment, upon approval by the Board, of trusts or other funding mechanisms to fund the Company's indemnification obligations thereunder. Accordingly, the Company will in certain circumstances be obligated to indemnify the persons serving as its directors and officers from and after the POR Effective Date, including as to matters arising out of service as directors or officers of certain entities other than the Federated/Allied Companies prior to the POR Effective Date.

Item 15. Recent Sales of Unregistered Securities.

Pursuant to the POR, (i) approximately 79.2 million shares of Common Stock (together with an equal number of Rights) were issued for distribution to certain prepetition bank lenders, holders of prepetition debt securities, and other prepetition creditors of the Company and Allied, (ii) 4.0 million Series A Warrants were issued for distribution to holders of certain prepetition debt securities of the Company, (iii) 1.0 million Series B Warrants were issued to First Boston, as a holder of certain prepetition debt securities of Allied, (iv) approximately \$472.8 million aggregate principal amount of Series A Notes, approximately \$182.6

million aggregate principal amount of Series C Notes, and approximately \$307.4 million aggregate stated principal amount (\$256.9 million discount amount as of the POR Effective Date) of Convertible Notes were issued to certain prepetition bank lenders of the Company, (v) approximately \$554.2 million aggregate principal amount of Series B Notes and approximately \$305.6 million aggregate principal amount of Series D Notes were issued for distribution to the holders of certain prepetition debt securities of the Company, and (vi) approximately \$93.0 million aggregate principal amount of Series E Notes were issued to a prepetition bank lender of Allied. All such securities were issued as of the POR Effective Date in satisfaction of various prepetition claims allowed by the Bankruptcy Court. In reliance on the exemptions provided by section 1145 of the Bankruptcy Code and, in the case of the Series A Notes, the Series C Notes, and the Series E Notes, the exemption provided by section 4(2) of the Securities Act, none of such securities were registered under the Securities Act in connection with their issuance and distribution pursuant to the POR.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits:

- 1.1 — Form of Underwriting Agreement relating to the U.S. Offering.
- 1.2 — Form of Underwriting Agreement relating to the International Offering.
- 2.1 — Third Amended Joint Plan of Reorganization of Federated Department Stores, Inc., Allied Stores Corporation, and Certain of Their Subsidiaries, dated October 28, 1991 (incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form 10, filed November 27, 1991, as amended (the "Form 10"))
- 2.1.1 — Modifications to the Third Amended Joint Plan of Reorganization of Federated Department Stores, Inc., Allied Stores Corporation and Certain of Their Subsidiaries, as filed in the Bankruptcy Court on January 8 and January 10, 1992 (incorporated by reference to Exhibit 2.1.1 to the Company's Current Report on Form 8-K dated January 22, 1992)
- 2.1.2 — Findings of Fact, Conclusions of Law and Order Confirming Third Amended Joint Plan of Reorganization of Federated Department Stores, Inc., Allied Stores Corporation and Certain of Their Subsidiaries, as Modified (incorporated by reference to Exhibit 2.1.2 to the Company's Current Report on Form 8-K dated January 22, 1992)
- 3.1 — Certificate of Incorporation of the Company (Annex A to the Agreement and Plan of Merger, dated as of February 4, 1992, by and between Federated Department Stores, Inc. and Allied Stores Corporation) (incorporated by reference to Exhibit 3.1 to the Form 10)
- 3.1.1 — Certificate of Designation of Series A Junior Participating Preferred Stock of the Company (incorporated by reference to Exhibit 3.1.1 to the Form 10)
- 3.2 — By-Laws of the Company (incorporated by reference to Exhibit 3.2 to the Form 10)
- 4.1 — Certificate of Incorporation of the Company (See Exhibit 3.1)
- 4.2 — By-Laws of the Company (See Exhibit 3.2)
- 4.3 — Rights Agreement between the Company and the Rights Agent thereunder (incorporated by reference to Exhibit 4.3 to the Form 10)
- 4.4 — Specimen Stock Certificate
- 5 — Opinion of Jones, Day, Reavis & Pogue regarding the legality of the securities being registered*
- 10.1 — Series A Warrant Agreement (incorporated by reference to Exhibit 10.6 to the Form 10)
- 10.2 — Series B Warrant Agreement (incorporated by reference to Exhibit 10.7 to the Form 10)
- 10.3 — Agreement and Provisions Relating to Restrictions on Transfer of Certain Shares of Common Stock of the Company (incorporated by reference to Annex I to Exhibit 3.2 to the Form 10)

- 10.3.1 — Form of Representations and Undertaking for Privately Negotiated Transfers of Subject Shares (incorporated by reference to Exhibit 4.4.1 to the Form 10)
- 10.4 — Series A Secured Note Agreement (incorporated by reference to Exhibit 10.2 to the Form 10)
- 10.5 — Series B Indenture (incorporated by reference to Exhibit 4.5 to the Form 10)
- 10.5.1 — Form of Series B Note (incorporated by reference to Exhibit 4.5.1 to the Form 10)
- 10.6 — Series C Secured Note Agreement (incorporated by reference to Exhibit 10.3 to the Form 10)
- 10.7 — Series D Indenture (incorporated by reference to Exhibit 4.6 to the Form 10)
- 10.7.1 — Form of Series D Note (incorporated by reference to Exhibit 4.6.1 to the Form 10)
- 10.8 — Series E Secured Note Agreement (incorporated by reference to Exhibit 10.4 to the Form 10)
- 10.9 — LC Facility Agreement (incorporated by reference to Exhibit 10.8 to the Form 10)
- 10.10 — Shared Collateral Pledge Agreements (incorporated by reference to Exhibit 4.7 to the Form 10)
- 10.11 — Shared Collateral Trust Agreement (incorporated by reference to Exhibit 4.8 to the Form 10)
- 10.12 — Account Collateral Pledge and Security Agreement (incorporated by reference to Exhibit 4.9 to the Form 10)
- 10.13 — Senior Convertible Discount Note Agreement (incorporated by reference to Exhibit 10.5 to the Form 10)
- 10.14 — Loan Agreement, dated December 30, 1987 (the "Prudential Loan Agreement"), among Prudential Insurance of America, Allied Stores Corporation and certain subsidiaries of Allied named therein (incorporated by reference to Exhibit 10.12 to Allied's Form 10-K Annual Report for the year ended January 2, 1988)
- 10.14.1 — Amendment No. 1, dated as of December 29, 1988, to the Prudential Loan Agreement (incorporated by reference to Exhibit 10.9.1 to the Form 10)
- 10.14.2 — Amendment No. 2, dated as of November 17, 1989, to the Prudential Loan Agreement (incorporated by reference to Exhibit 10.9.2 to the Form 10)
- 10.14.3 — Amendment No. 3, dated as of February 5, 1992, to the Prudential Loan Agreement (incorporated by reference to Exhibit 10.9.3 to the Form 10)
- 10.15 — Receivables-Backed Credit Agreement, dated November 13, 1990 (the "Federated Receivables-Backed Credit Agreement"), among Federated Credit, Pine Hill Funding Corporation, and General Electric Corporation, as agent (incorporated by reference to Exhibit 10.22 to the Form 10)
- 10.15.1 — First Amendment and Consent, dated as of February 4, 1991, to the Federated Receivables-Backed Credit Agreement (incorporated by reference to Exhibit 10.22.1 to the Form 10)
- 10.15.2 — Second Amendment and Consent, dated as of May 24, 1991, to the Federated Receivables-Backed Credit Agreement (incorporated by reference to Exhibit 10.22.2 to the Form 10)
- 10.15.3 — Third Amendment and Consent, dated as of October 2, 1991, to the Federated Receivables-Backed Credit Agreement (incorporated by reference to Exhibit 10.22.3 to the Form 10)
- 10.15.4 — Fourth Amendment and Consent, dated as of December 31, 1991, to the Federated Receivables-Backed Credit Agreement (incorporated by reference to Exhibit 10.22.4 to the Form 10)
- 10.15.5 — Letter Agreement, dated February 5, 1992, amending the Federated Receivables-Backed Credit Agreement (incorporated by reference to Exhibit 10.22.5 to the Form 10)

- 10.15.6 — Receivables Purchase Agreement, dated as of September 28, 1990 (the "Federated Receivables Purchase Agreement"), among Federated, Bloomingdales, Inc., Burdines, Inc., Rich's Inc. and Federated Credit (incorporated by reference to Exhibit 1 to Federated's Form 10-Q Quarterly Report for the quarter ended November 3, 1990)
- 10.15.7 — First Amendment, dated as of October 2, 1991, to the Federated Receivables Purchase Agreement (incorporated by reference to Exhibit 10.22.7 to the Form 10)
- 10.15.8 — Second Amendment, dated as of November 22, 1991, to the Federated Receivables Purchase Agreement (incorporated by reference to Exhibit 10.22.9 to the Form 10)
- 10.15.9 — Third Amendment, dated as of February 5, 1992, to the Federated Receivables Purchase Agreement (incorporated by reference to Exhibit 10.22.9 to the Form 10)
- 10.15.10 — Liquidity Agreement, dated as of November 13, 1990, between Pine Hill Funding Corporation and General Electric Capital Corporation (incorporated by reference to Exhibit 10.22.10 to the Form 10)
- 10.15.11 — Assignment and Security Agreement, dated as of February 4, 1991 (the "Federated Assignment and Security Agreement"), among Federated Credit, Pine Hill Funding Corporation, General Electric Capital Corporation, and Bankers Trust Company (incorporated by reference to Exhibit 10.22.11 to the Form 10)
- 10.15.12 — Second Amendment, dated as of February 5, 1992, to the Federated Assignment and Security Agreement (incorporated by reference to Exhibit 10.22.12 to the Form 10)
- 10.16 — Receivables-Backed Credit Agreement, dated as of June 22, 1990, among Allied Credit and SPC Funding Corporation, as Lender, and Chemical Bank, as Agent (incorporated by reference to Exhibit 2 to Allied's Form 8-K Current Report, dated July 30, 1990)
- 10.16.1 — Receivables Purchase Agreement, dated as of June 22, 1990 (the "Allied Receivables Purchase Agreement"), among the sellers listed therein and Allied Credit (incorporated by reference to Exhibit 1 to Allied's Form 8-K Current Report, dated July 30, 1990)
- 10.16.2 — First Amendment, dated as of February 5, 1992, to the Allied Receivables Purchase Agreement (incorporated by reference to Exhibit 10.23.2 to the Form 10)
- 10.16.3 — Liquidity Agreement, dated as of June 22, 1990 (the "Allied Liquidity Agreement"), among SPC Funding Corporation, the banks party thereto, and Mitsui Taiyo Kobe Bank, Ltd., as Liquidity Agent (incorporated by reference to Exhibit 3 to Allied's Form 8-K Current Report, dated July 30, 1990)
- 10.16.4 — First Amendment, dated as of January 4, 1991, to the Allied Liquidity Agreement (incorporated by reference to Exhibit 10.23.4 to the Form 10)
- 10.16.5 — Second Amendment, dated as of January 17, 1992, to the Allied Liquidity Agreement (incorporated by reference to Exhibit 10.23.5 to the Form 10)
- 10.16.6 — Letter of Credit Reimbursement Agreement, dated as of June 22, 1990 (the "Allied LC Reimbursement Agreement"), among Allied Credit, Societe Generale, the banks listed therein, SPC Funding Corporation, and Chemical Bank, as Collateral Agent (incorporated by reference to Exhibit 4 to Allied's Form 8-K Current Report, dated July 30, 1990)
- 10.16.7 — First Amendment, dated as of July 27, 1990, to the Allied LC Reimbursement Agreement (incorporated by reference to Exhibit 10.23.7 to the Form 10)
- 10.16.8 — Second Amendment, dated as of December 31, 1990, to the Allied LC Reimbursement Agreement (incorporated by reference to Exhibit 10.23.8 to the Form 10)
- 10.16.9 — Third Amendment, dated as of February 5, 1992, to the Allied LC Reimbursement Agreement (incorporated by reference to Exhibit 10.23.9 to the Form 10)
- 10.16.10 — Surety Bond issued to SPC Funding Corporation, effective July 30, 1990 (incorporated by reference to Exhibit 5 to Allied's Form 8-K Current Report, dated July 30, 1990)

- 10.16.11 — Surety Bond issued to Mitsui Taiyo Kobe Bank, Ltd., as Liquidity Agent, effective July 30, 1990 (incorporated by reference to Exhibit 6 to Allied's Form 8-K Current Report, dated July 30, 1990)
- 10.16.12 — Receivables Assignment and Security Agreement, dated as of June 22, 1990 (the "Allied Receivables Assignment and Security Agreement"), among Allied Stores Corporation, Chemical Bank, SPC Funding Corporation, Financial Guaranty Insurance Company, and Mitsui Taiyo Kobe Bank, Ltd. (incorporated by reference to Exhibit 7 to Allied's Form 8-K Current Report, dated July 30, 1990)
- 10.16.13 — First Amendment, dated as of February 5, 1992, to the Allied Receivables Assignment and Security Agreement (incorporated by reference to Exhibit 10.23.13 to the Form 10)
- 10.17 — Tax Sharing Agreement (incorporated by reference to Exhibit 10.10 to the Form 10)
- 10.18 — Ralphs Tax Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Form 10)
- 10.19 — 1992 Equity Plan (incorporated by reference to Exhibit 10.11 to the Form 10)
- 10.20 — 1992 Incentive Plan (incorporated by reference to Exhibit 10.12 to the Form 10)
- 10.21 — Form of Severance Agreement (incorporated by reference to Exhibit 10.13 to the Form 10)
- 10.22 — Form of Indemnification Agreement (incorporated by reference to Exhibit 10.14 to the Form 10)
- 10.23 — Master Severance Plan for Key Employees (incorporated by reference to Exhibit 10.1.5 to the Company's Form 10-K Annual Report for the year ended February 3, 1990)
- 10.24 — Performance Bonus Plan for Key Employees (incorporated by reference to Exhibit 10.1.6 to the Company's Form 10-K Annual Report for the year ended February 3, 1990)
- 10.25 — Senior Executives Medical Plan (incorporated by reference to Exhibit 10.1.7 to the Company's Form 10-K Annual Report for the year ended February 3, 1990)
- 10.26 — Employment agreement, dated February 2, 1990, between Allen L. Questrom and the Company (incorporated by reference to Exhibit 10.1.8 to the Company's Form 10-K Annual Report for the year ended February 3, 1990)
- 10.27 — Supplementary Executive Retirement Plan, as amended (incorporated by reference to Exhibit 10.1.9 to the Company's Form 10-K Annual Report for the year ended February 3, 1990, and Exhibit 4 to the Company's Schedule 14D-9 dated March 11, 1988) therein, as Guarantors, the banks named therein, and Chemical Bank, as agent, as amended (incorporated by reference to Exhibit 10.11 to the Company's Form 10-K Annual Report for the year ended February 2, 1990, and Exhibit 1 to the Company's Form 10-Q Quarterly Report for the quarter ended November 3, 1990)
- 10.28 — Comprehensive Settlement Agreement (incorporated by reference to Exhibit 10.15 to the Form 10)
- 22.1 — Subsidiaries of the Company (incorporated by reference to Exhibit 22.1 to the Form 10)
- 24.1 — Consent of KPMG Peat Marwick (included in Report and Consent of Independent Auditors filed herewith)
- 24.2 — Consent of Jones, Day, Reavis & Pogue (included in Exhibit 5)
- 25.1 — Powers of Attorney

* To be filed by amendment.

(b) Financial Statement Schedules:

Report and Consent of Independent Auditors

Schedule II — Amounts Receivable from Related Parties and Underwriters, Promoters, and Employees Other than Related Parties

Schedule V — Property, Plant, and Equipment

Schedule VI — Accumulated Depreciation, Depletion, and Amortization of Property, Plant, and Equipment

Schedule VIII — Valuation and Qualifying Accounts

Schedule IX — Short-Term Borrowings

Schedule X — Supplementary Income Statement Information

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

Item 17. Undertakings.

The undersigned hereby undertakes that:

1. For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

2. For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York on April 1, 1992.

FEDERATED DEPARTMENT STORES, INC.

By:

Dennis J. Broderick,
Senior Vice President and General Counsel

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement on Form S-1 has been signed below by the following persons in the capacities indicated on April 1, 1992.

<u>Signature</u>	<u>Title</u>
* Allen I. Questrom	Chairman of the Board and Chief Executive Officer (principal executive officer) and Director
* Ronald W. Tysoc	Vice Chairman and Chief Financial Officer (principal financial officer) and Director
* John E. Brown	Senior Vice President and Controller (principal accounting officer)
* Charlotte Beers	Director
* Robert A. Charpie	Director
* Lyle Everingham	Director
* Reginald H. Jones	Director
* John K. McKinley	Director
* G. William Miller	Director
* Karl M. von der Heyden	Director
* James M. Zimmerman	Director

* The undersigned, by signing his name hereto, does sign and execute this Registration Statement on Form S-1 pursuant to the Powers of Attorney executed by the above-named officers and directors and filed herewith.

Dennis J. Broderick,
Attorney-in-Fact

INDEX TO FINANCIAL STATEMENT SCHEDULES

	<u>Page</u>
Report and Consent of Independent Auditors	S-2
Schedule II — Amounts Receivable from Related Parties and Underwriters, Promoters, and Employees Other than Related Parties	S-3
Schedule V — Property, Plant, and Equipment	S-4
Schedule VI — Accumulated Depreciation, Depletion, and Amortization of Property, Plant, and Equipment	S-5
Schedule VIII — Valuation and Qualifying Accounts	S-6
Schedule IX — Short-Term Borrowings	S-7
Schedule X — Supplementary Income Statement Information	S-8

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

REPORT AND CONSENT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Federated Department Stores, Inc.:

The audits referred to in our report dated March 30, 1992 included the related financial statement schedules as of February 1, 1992, and for the fifty-two weeks ended February 1, 1992, the fifty-two weeks ended February 2, 1991 and the fifty-three weeks ended February 3, 1990, included in this Registration Statement on Form S-1. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Our report refers to the Company's adoption of "fresh-start reporting" to reflect the Company's emergence from bankruptcy as of February 1, 1992 and the Company's adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

We consent to the use of our report included herein and to the reference to our firm under the heading "Experts" in the prospectus.

KPMG Peat Marwick
KPMG PEAT MARWICK

Cincinnati, Ohio
March 31, 1992

SCHEDULE II**FEDERATED DEPARTMENT STORES, INC.****SCHEDULE II — AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS, AND EMPLOYEES OTHER THAN RELATED PARTIES**

Column A Name of Debtor	Column B Balance at Beginning of Period	Column C Additions	Column D		Column E Balance at End of Period	
			Deductions		(1) Current	(2) Not Current
			(1)	(2)		
James E. Gray	\$ 500,000	\$ —	\$ —	\$ —	\$ —	\$500,000
James Zimmerman	1,175,000	—	—	1,175,000	—	—
Gordon R. Cooke	200,000	—	—	—	—	200,000
Rudy Javosky	175,000	—	25,000	—	25,000	125,000
Carl Tooker	150,000	—	—	—	33,441	116,559

In July 1988, the Company made a loan in the amount of \$500,000 to Mr. James E. Gray, President of Burdines in connection with his relocation from Los Angeles, California to Miami, Florida. The note is interest free as long as he is an employee of the Company and is due the earlier of July 29, 1993 or termination, subject to extension in certain circumstances.

In August 1988, the Company made a loan in the amount of \$1,000,000 to Mr. James M. Zimmerman, President of the Company, in connection with his relocation from Atlanta, Georgia to Cincinnati, Ohio. The loan bears interest at the rate of 7.81% per annum and is due the earlier of August 16, 1998 or one year after the termination of Mr. Zimmerman's employment. In June 1989, the Company made a loan to Mr. James M. Zimmerman for an additional amount of \$175,000 for relocation. The loan was interest free as long as he was an employee of the Company and was due the earlier of June 2, 1999 or termination. In connection with the POR, the loan to Mr. Zimmerman was forgiven and the Company reimbursed Mr. Zimmerman for \$741,241 of income tax payable as a result thereof (including tax on such reimbursement.)

In August 1988, the Company made a loan in the amount of \$200,000 to Mr. Gordon R. Cooke, of the Company in connection with his relocation to New York. The loan bears interest at a rate of 8% per annum and is due in installments from August 19, 1994 through August 19, 1998.

In August 1988, the Company made a loan in the amount of \$225,000 to Mr. Rudolph V. Javosky, Senior Vice President of the Company, in connection with his relocation from New York to Cincinnati, Ohio. The loan is interest free as long as there is no default and is due in installments from August 1, 1989 through August 1, 1997.

In September 1990, the Company made a loan in the amount of \$150,000 to Mr. Carl Tooker, President of Rich's, in connection with his relocation from Massachusetts to Georgia. The loan bears interest at a rate of 10% per annum and is due in installments from July 1, 1992 through April 1, 1995.

SCHEDULE V

FEDERATED DEPARTMENT STORES, INC.
SCHEDULE V — PROPERTY, PLANT, AND EQUIPMENT
(in thousands)

Column A	Column B	Column C	Column D	Column E	Column F
	<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Retirements</u>	<u>Other Changes — Add (Deduct) Describe (Transfers)</u>
52 Weeks Ended February 1, 1992:					
Land	\$ 494,960	\$ —	\$ —	\$ (39,916)	\$ 455,044
Buildings, substantially all on owned land	1,130,052	11,985	1,820	(290,055)	850,162
Buildings on leased land, improvements to leased properties and leaseholds	696,796	27,359	3,478	(207,856)	512,821
Store fixtures and equipment	966,171	162,287	42,679	(450,954)	634,825
Property not used in operations	6,969	—	—	(1,034)	5,935
Capitalized leases	75,516	—	11,877	(22,726)	40,913
	<u>\$3,370,464</u>	<u>\$201,631</u>	<u>\$59,854</u>	<u>\$ (1,012,541)</u>	<u>\$2,499,700</u>
52 Weeks Ended February 2, 1991:					
Land	\$ 511,006	\$ 350	\$ 188	\$ (16,208)	\$ 494,960
Buildings, substantially all on owned land	1,106,055	10,702	6,642	19,937	1,130,052
Buildings on leased land, improvements to leased properties and leaseholds	780,617	14,539	12,115	(86,245)	696,796
Store fixtures and equipment	974,444	67,552	37,836	(37,989)	966,171
Property not used in operations	55,440	—	12,685	(35,786)	6,969
Capitalized leases	81,922	—	6,406	—	75,516
	<u>\$3,509,484</u>	<u>\$ 93,143</u>	<u>\$75,872</u>	<u>\$ (156,291)</u>	<u>\$3,370,464</u>
53 Weeks Ended February 3, 1990:					
Land	\$ 517,482	\$ 18	\$ 6,494	\$ —	\$ 511,006
Buildings, substantially all on owned land	1,101,862	18,521	15,712	1,384	1,106,055
Buildings on leased land, improvements to leased properties and leaseholds	736,089	50,977	6,037	(412)	780,617
Store fixtures and equipment	900,748	111,553	29,937	(7,920)	974,444
Property not used in operations	86,273	(3,277)	27,556	—	55,440
Capitalized leases	87,895	—	5,973	—	81,922
	<u>\$3,430,349</u>	<u>\$177,792</u>	<u>\$91,709</u>	<u>\$ (6,948)</u>	<u>\$3,509,484</u>

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 5%
Leaseholds	Over term of lease
Store fixtures and equipment	6½% to 33½%

SCHEDULE VI

FEDERATED DEPARTMENT STORES, INC.

SCHEDULE VI—ACCUMULATED DEPRECIATION, DEPLETION, AND
AMORTIZATION OF PROPERTY, PLANT, AND EQUIPMENT
(in thousands)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Other Changes—Add (Deduct) Describe (Transfers)</u>	<u>Balance at End of Period</u>
52 Weeks Ended February 1, 1992:					
Buildings, substantially all on owned land ...	\$137,253	\$ 43,357	\$ 1,880	\$(178,730)	\$ —
Buildings on leased land, improvements to leased properties and leaseholds.....	125,066	39,357	3,126	(161,297)	—
Store fixtures and equipment	337,217	122,687	42,245	(417,659)	—
Property not used in operations	630	351	—	(981)	—
Capitalized leases	20,431	6,434	4,138	(22,727)	—
	<u>\$620,597</u>	<u>\$212,186</u>	<u>\$51,389</u>	<u>\$(781,394)</u>	<u>\$ —</u>
52 Weeks Ended February 2, 1991:					
Buildings, substantially all on owned land ...	\$ 88,151	\$ 45,167	\$ 2,431	\$ 6,366	\$137,253
Buildings on leased land, improvements to leased properties and leaseholds.....	107,291	41,665	4,544	(19,346)	125,066
Store fixtures and equipment	258,361	132,315	31,861	(21,598)	337,217
Property not used in operations	5,674	1,373	6,417	—	630
Capitalized leases	15,684	7,175	2,428	—	20,431
	<u>\$475,161</u>	<u>\$227,695</u>	<u>\$47,681</u>	<u>\$(34,578)</u>	<u>\$620,597</u>
53 Weeks Ended February 3, 1990:					
Buildings, substantially all on owned land ...	\$ 48,803	\$ 40,634	\$ 1,285	\$ (1)	\$ 88,151
Buildings on leased land, improvements to leased properties and leaseholds.....	63,930	46,715	3,524	170	107,291
Store fixtures and equipment	147,354	136,176	21,340	(3,829)	258,361
Property not used in operations	3,142	3,847	1,315	—	5,674
Capitalized leases	10,236	8,082	2,634	—	15,684
	<u>\$273,465</u>	<u>\$235,454</u>	<u>\$30,098</u>	<u>\$(3,660)</u>	<u>\$475,161</u>

SCHEDULE VIII

FEDERATED DEPARTMENT STORES, INC.

SCHEDULE VIII — VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

<u>Column A</u> <u>Classification</u>	<u>Column B</u> <u>Balance at Beginning of period</u>	<u>Column C</u> <u>Additions</u>		<u>Column D</u> <u>Deductions from Reserves — Describe (Note A)</u>	<u>Column E</u> <u>Balance at End of Period</u>
		<u>(1)</u> <u>Charged to Costs and Expenses</u>	<u>(2)</u> <u>Charged to Other Accounts — Describe</u>		
Accounts receivable — allowance for doubtful accounts (applied as a reduction of assets):					
Years Ended:					
February 1, 1992	<u>\$39,087</u>	<u>\$87,237</u>	<u>\$—</u>	<u>\$67,131</u>	<u>\$59,193</u>
February 2, 1991	<u>\$40,290</u>	<u>\$58,210</u>	<u>\$—</u>	<u>\$59,413</u>	<u>\$39,087</u>
February 3, 1990	<u>\$33,715</u>	<u>\$53,789</u>	<u>\$—</u>	<u>\$47,214</u>	<u>\$40,290</u>

NOTE:

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

SCHEDULE IX

FEDERATED DEPARTMENT STORES, INC.
SCHEDULE IX-SHORT-TERM BORROWINGS
(in thousands, except interest rate data)

<u>Column A</u> Category of Aggregate Short-Term Borrowings	<u>Column B</u> Balance at End of Period	<u>Column C</u> Weighted Average Interest Rate	<u>Column D</u> Maximum Amount Out- standing During the Period	<u>Column E</u> Average Amount Out- standing During the Period (Note A)	<u>Column F</u> Weighted Average Interest Rate During the Period (Note B)
Year Ended February 1, 1992:					
Accounts Receivable Facility(C)	\$ 684,153	4.31%	\$ 684,153	\$ 324,166	5.89%
Accounts Receivable Facility(D)	458,269	4.54	520,452	427,060	6.07
Year Ended February 2, 1991:					
Accounts Receivable Facility(C)	\$ —	— %	\$ 166,676	\$ 8,293	14.24%
Accounts Receivable Facility(D)	179,229	7.40	485,968	234,541	9.66
Year Ended February 3, 1990:					
Federated bank loans	\$ 136,216	10.74%	\$ 1,065,000	\$ 823,303	11.73%
Allied Receivables Facilities	40,000	11.00	227,000	70,861	11.29
Allied Working Capital Facilities	—	—	349,000	240,674	12.85
Campneau Undertaking	—	—	100,000	27,898	9.88
FSI Notes	—	—	127,759	98,565	13.19

NOTES:

- (A) Average amount outstanding during the period is computed by dividing the total of daily outstanding principal balances by the number of days in the fiscal year.
- (B) Average interest rate for the year is computed by dividing the actual short-term interest expense by the average short-term debt outstanding.
- (C) Accounts Receivable Facility of Federated Credit Corporation.
- (D) Accounts Receivable Facility of Allied Stores Credit Corporation.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Exhibits

to

Form S-1

REGISTRATION STATEMENT

under

THE SECURITIES ACT OF 1933

Federated Department Stores, Inc.

SCHEDULE X

FEDERATED DEPARTMENT STORES, INC.
SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
(in thousands)

<u>Item</u>	<u>Column A</u>	<u>Column B</u>		
		Charged to Costs and Expenses		
	52 Weeks Ended February 1, 1992	52 Weeks Ended February 2, 1991	53 Weeks Ended February 3, 1990	
Advertising costs	\$299,085	\$293,086	\$293,071	

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.

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Exhibit</u>	<u>Sequentially Numbered Page</u>
1.1	— Form of Underwriting Agreement relating to the U.S. Offering.	124
1.2	— Form of Underwriting Agreement relating to the International Offering.	152
2.1	— Third Amended Joint Plan of Reorganization of Federated Department Stores, Inc., Allied Stores Corporation, and Certain of Their Subsidiaries, dated October 28, 1991 (incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form 10, filed November 27, 1991, as amended (the "Form 10"))	
2.1.1	— Modifications to the Third Amended Joint Plan of Reorganization of Federated Department Stores, Inc., Allied Stores Corporation and Certain of Their Subsidiaries, as filed in the Bankruptcy Court on January 8 and January 10, 1992 (incorporated by reference to Exhibit 2.1.1 to the Company's Current Report on Form 8-K dated January 22, 1992)	
2.1.2	— Findings of Fact, Conclusions of Law and Order Confirming Third Amended Joint Plan of Reorganization of Federated Department Stores, Inc., Allied Stores Corporation and Certain of Their Subsidiaries, as Modified (incorporated by reference to Exhibit 2.1.2 to the Company's Current Report on Form 8-K dated January 22, 1992)	
3.1	— Certificate of Incorporation of the Company (Annex A to the Agreement and Plan of Merger, dated as of February 4, 1992, by and between Federated Department Stores, Inc. and Allied Stores Corporation) (incorporated by reference to Exhibit 3.1 to the Form 10)	
3.1.1	— Certificate of Designation of Series A Junior Participating Preferred Stock of the Company (incorporated by reference to Exhibit 3.1.1 to the Form 10)	
3.2	— By-Laws of the Company (incorporated by reference to Exhibit 3.2 to the Form 10)	
4.1	— Certificate of Incorporation of the Company (See Exhibit 3.1)	
4.2	— By-Laws of the Company (See Exhibit 3.2)	
4.3	— Rights Agreement between the Company and the Rights Agent thereunder (incorporated by reference to Exhibit 4.3 to the Form 10)	
4.4	— Specimen Stock Certificate	125
5	— Opinion of Jones, Day, Reavis & Pogue regarding the legality of the securities being registered*	
10.1	— Series A Warrant Agreement (incorporated by reference to Exhibit 10.6 to the Form 10)	
10.2	— Series B Warrant Agreement (incorporated by reference to Exhibit 10.7 to the Form 10)	
10.3	— Agreement and Provisions Relating to Restrictions on Transfer of Certain Shares of Common Stock of the Company (incorporated by reference to Annex I to Exhibit 3.2 to the Form 10)	
10.3.1	— Form of Representations and Undertaking for Privately Negotiated Transfers of Subject Shares (incorporated by reference to Exhibit 4.4.1 to the Form 10)	
10.4	— Series A Secured Note Agreement (incorporated by reference to Exhibit 10.2 to the Form 10)	
10.5	— Series B Indenture (incorporated by reference to Exhibit 4.5 to the Form 10)	
10.5.1	— Form of Series B Note (incorporated by reference to Exhibit 4.5.1 to the Form 10)	
10.6	— Series C Secured Note Agreement (incorporated by reference to Exhibit 10.3 to the Form 10)	
10.7	— Series D Indenture (incorporated by reference to Exhibit 4.6 to the Form 10)	
10.7.1	— Form of Series D Note (incorporated by reference to Exhibit 4.6.1 to the Form 10)	
10.8	— Series E Secured Note Agreement (incorporated by reference to Exhibit 10.4 to the Form 10)	

<u>Exhibit Number</u>	<u>Exhibit</u>	<u>Sequentially Numbered Page</u>
10.9	— LC Facility Agreement (incorporated by reference to Exhibit 10.8 to the Form 10)	
10.10	— Shared Collateral Pledge Agreements (incorporated by reference to Exhibit 4.7 to the Form 10)	
10.11	— Shared Collateral Trust Agreement (incorporated by reference to Exhibit 4.8 to the Form 10)	
10.12	— Account Collateral Pledge and Security Agreement (incorporated by reference to Exhibit 4.9 to the Form 10)	
10.13	— Senior Convertible Discount Note Agreement (incorporated by reference to Exhibit 10.5 to the Form 10)	
10.14	— Loan Agreement, dated December 30, 1987 (the "Prudential Loan Agreement"), among Prudential Insurance of America, Allied Stores Corporation and certain subsidiaries of Allied named therein (incorporated by reference to Exhibit 10.12 to Allied's Form 10-K Annual Report for the year ended January 2, 1988)	
10.14.1	— Amendment No. 1, dated as of December 29, 1988, to the Prudential Loan Agreement (incorporated by reference to Exhibit 10.9.1 to the Form 10)	
10.14.2	— Amendment No. 2, dated as of November 17, 1989, to the Prudential Loan Agreement (incorporated by reference to Exhibit 10.9.2 to the Form 10)	
10.14.3	— Amendment No. 3, dated as of February 5, 1992, to the Prudential Loan Agreement (incorporated by reference to Exhibit 10.9.3 to the Form 10)	
10.15	— Receivables-Backed Credit Agreement, dated November 13, 1990 (the "Federated Receivables-Backed Credit Agreement"), among Federated Credit, Pine Hill Funding Corporation, and General Electric Corporation, as agent (incorporated by reference to Exhibit 10.22 to the Form 10)	
10.15.1	— First Amendment and Consent, dated as of February 4, 1991, to the Federated Receivables-Backed Credit Agreement (incorporated by reference to Exhibit 10.22.1 to the Form 10)	
10.15.2	— Second Amendment and Consent, dated as of May 24, 1991, to the Federated Receivables-Backed Credit Agreement (incorporated by reference to Exhibit 10.22.2 to the Form 10)	
10.15.3	— Third Amendment and Consent, dated as of October 2, 1991, to the Federated Receivables-Backed Credit Agreement (incorporated by reference to Exhibit 10.22.3 to the Form 10)	
10.15.4	— Fourth Amendment and Consent, dated as of December 31, 1991, to the Federated Receivables-Backed Credit Agreement (incorporated by reference to Exhibit 10.22.4 to the Form 10)	
10.15.5	— Letter Agreement, dated February 5, 1992, amending the Federated Receivables-Backed Credit Agreement (incorporated by reference to Exhibit 10.22.5 to the Form 10)	
10.15.6	— Receivables Purchase Agreement, dated as of September 28, 1990 (the "Federated Receivables Purchase Agreement"), among Federated, Bloomingdales, Inc., Burdines, Inc., Rich's Inc. and Federated Credit (incorporated by reference to Exhibit 1 to Federated's Form 10-Q Quarterly Report for the quarter ended November 3, 1990)	
10.15.7	— First Amendment, dated as of October 2, 1991, to the Federated Receivables Purchase Agreement (incorporated by reference to Exhibit 10.22.7 to the Form 10)	
10.15.8	— Second Amendment, dated as of November 22, 1991, to the Federated Receivables Purchase Agreement (incorporated by reference to Exhibit 10.22.9 to the Form 10)	
10.15.9	— Third Amendment, dated as of February 5, 1992, to the Federated Receivables Purchase Agreement (incorporated by reference to Exhibit 10.22.9 to the Form 10)	
10.15.10	— Liquidity Agreement, dated as of November 13, 1990, between Pine Hill Funding Corporation and General Electric Capital Corporation (incorporated by reference to Exhibit 10.22.10 to the Form 10)	

<u>Exhibit Number</u>	<u>Exhibit</u>	<u>Sequentially Numbered Page</u>
10.15.11	— Assignment and Security Agreement, dated as of February 4, 1991 (the "Federated Assignment and Security Agreement"), among Federated Credit, Pine Hill Funding Corporation, General Electric Capital Corporation, and Bankers Trust Company (incorporated by reference to Exhibit 10.22.11 to the Form 10)	
10.15.12	— Second Amendment, dated as of February 5, 1992, to the Federated Assignment and Security Agreement (incorporated by reference to Exhibit 10.22.12 to the Form 10)	
10.16	— Receivables-Backed Credit Agreement, dated as of June 22, 1990, among Allied Credit and SPC Funding Corporation, as Lender, and Chemical Bank, as Agent (incorporated by reference to Exhibit 2 to Allied's Form 8-K Current Report, dated July 30, 1990)	
10.16.1	— Receivables Purchase Agreement, dated as of June 22, 1990 (the "Allied Receivables Purchase Agreement"), among the sellers listed therein and Allied Credit (incorporated by reference to Exhibit 1 to Allied's Form 8-K Current Report, dated July 30, 1990)	
10.16.2	— First Amendment, dated as of February 5, 1992, to the Allied Receivables Purchase Agreement (incorporated by reference to Exhibit 10.23.2 to the Form 10)	
10.16.3	— Liquidity Agreement, dated as of June 22, 1990 (the "Allied Liquidity Agreement"), among SPC Funding Corporation, the banks party thereto, and Mitsui Taiyo Kobe Bank, Ltd., as Liquidity Agent (incorporated by reference to Exhibit 3 to Allied's Form 8-K Current Report, dated July 30, 1990)	
10.16.4	— First Amendment, dated as of January 4, 1991, to the Allied Liquidity Agreement (incorporated by reference to Exhibit 10.23.4 to the Form 10)	
10.16.5	— Second Amendment, dated as of January 17, 1992, to the Allied Liquidity Agreement (incorporated by reference to Exhibit 10.23.5 to the Form 10)	
10.16.6	— Letter of Credit Reimbursement Agreement, dated as of June 22, 1990 (the "Allied LC Reimbursement Agreement"), among Allied Credit, Societe Generale, the banks listed therein, SPC Funding Corporation, and Chemical Bank, as Collateral Agent (incorporated by reference to Exhibit 4 to Allied's Form 8-K Current Report, dated July 30, 1990)	
10.16.7	— First Amendment, dated as of July 27, 1990, to the Allied LC Reimbursement Agreement (incorporated by reference to Exhibit 10.23.7 to the Form 10)	
10.16.8	— Second Amendment, dated as of December 31, 1990, to the Allied LC Reimbursement Agreement (incorporated by reference to Exhibit 10.23.8 to the Form 10)	
10.16.9	— Third Amendment, dated as of February 5, 1992, to the Allied LC Reimbursement Agreement (incorporated by reference to Exhibit 10.23.9 to the Form 10)	
10.16.10	— Surety Bond issued to SPC Funding Corporation, effective July 30, 1990 (incorporated by reference to Exhibit 5 to Allied's Form 8-K Current Report, dated July 30, 1990)	
10.16.11	— Surety Bond issued to Mitsui Taiyo Kobe Bank, Ltd., as Liquidity Agent, effective July 30, 1990 (incorporated by reference to Exhibit 6 to Allied's Form 8-K Current Report, dated July 30, 1990)	
10.16.12	— Receivables Assignment and Security Agreement, dated as of June 22, 1990 (the "Allied Receivables Assignment and Security Agreement"), among Allied Stores Corporation, Chemical Bank, SPC Funding Corporation, Financial Guaranty Insurance Company, and Mitsui Taiyo Kobe Bank, Ltd. (incorporated by reference to Exhibit 7 to Allied's Form 8-K Current Report, dated July 30, 1990)	
10.16.13	— First Amendment, dated as of February 5, 1992, to the Allied Receivables Assignment and Security Agreement (incorporated by reference to Exhibit 10.23.13 to the Form 10)	
10.17	— Tax Sharing Agreement (incorporated by reference to Exhibit 10.10 to the Form 10)	

<u>Exhibit Number</u>	<u>Exhibit</u>	<u>Sequentially Numbered Page</u>
10.18	— Ralphs Tax Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Form 10)	
10.19	— 1992 Equity Plan (incorporated by reference to Exhibit 10.11 to the Form 10)	
10.20	— 1992 Incentive Plan (incorporated by reference to Exhibit 10.12 to the Form 10)	
10.21	— Form of Severance Agreement (incorporated by reference to Exhibit 10.13 to the Form 10)	
10.22	— Form of Indemnification Agreement (incorporated by reference to Exhibit 10.14 to the Form 10)	
10.23	— Master Severance Plan for Key Employees (incorporated by reference to Exhibit 10.1.5 to the Company's Form 10-K Annual Report for the year ended February 3, 1990)	
10.24	— Performance Bonus Plan for Key Employees (incorporated by reference to Exhibit 10.1.6 to the Company's Form 10-K Annual Report for the year ended February 3, 1990)	
10.25	— Senior Executives Medical Plan (incorporated by reference to Exhibit 10.1.7 to the Company's Form 10-K Annual Report for the year ended February 3, 1990)	
10.26	— Employment agreement, dated February 2, 1990, between Allen I. Questrom and the Company (incorporated by reference to Exhibit 10.1.8 to the Company's Form 10-K Annual Report for the year ended February 3, 1990)	
10.27	— Supplementary Executive Retirement Plan, as amended (incorporated by reference to Exhibit 10.1.9 to the Company's Form 10-K Annual Report for the year ended February 3, 1990, and Exhibit 4 to the Company's Schedule 14D-9 dated March 11, 1988) therein, as Guarantors, the banks named therein, and Chemical Bank, as agent, as amended (incorporated by reference to Exhibit 10.11 to the Company's Form 10-K Annual Report for the year ended February 2, 1990, and Exhibit 1 to the Company's Form 10-Q Quarterly Report for the quarter ended November 3, 1990)	
10.28	— Comprehensive Settlement Agreement (incorporated by reference to Exhibit 10.15 to the Form 10)	
22.1	— Subsidiaries of the Company (incorporated by reference to Exhibit 22.1 to the Form 10)	
24.1	— Consent of KPMG Peat Marwick (included in Report and Consent of Independent Auditors filed herewith)	
24.2	— Consent of Jones, Day, Reavis & Pogue (included in Exhibit 5)	
25.1	— Powers of Attorney	163

* To be filed by amendment.



**5161 River Road
Bethesda, MD 20816
(301) 951-1300**

**EXHIBITS
FOLLOW**

EXHIBIT 1.1

32,000,000 Shares

FEDERATED DEPARTMENT STORES, INC.

Common Stock

U.S. UNDERWRITING AGREEMENT

_____, 1992

SHEARSON LEHMAN BROTHERS INC.
GOLDMAN, SACHS & CO.
MORGAN STANLEY & CO. INCORPORATED
SMITH BARNEY, HARRIS UPHAM & CO. INCORPORATED
As Representatives of the several

U.S. Underwriters named in Schedule 1,
c/o Shearson Lehman Brothers Inc.
American Express Tower
World Financial Center
200 Vesey Street
New York, New York 10285

Dear Sirs:

Federated Department Stores, Inc., a Delaware corporation (the "Company"), proposes to sell 32,000,000 shares (the "Firm Stock") of the Company's Common Stock, par value \$.01 per share (the "Common Stock"). In addition, the Company proposes to grant to the U.S. Underwriters named in Schedule 1 hereto (the "U.S. Underwriters") an option to purchase up to an additional 4,800,000 shares of the Common Stock on the terms and for the purposes set forth in Section 2 (the "Option Stock"). The Firm Stock and the Option Stock, if purchased, are hereinafter collectively called the "Stock." This is to confirm the agreement concerning the purchase of the Stock from the Company by the U.S. Underwriters named in Schedule 1 hereto.

It is understood that by all parties that the Company is concurrently entering into an agreement dated the date hereof (the "International Underwriting Agreement") providing for the sale by the Company of 9,200,000 shares of Common Stock (including the over-allotment option thereunder) (the "International Stock") through arrangements with certain underwriters outside the United States (the "International Managers"), for whom Lehman Brothers International Limited, Goldman Sachs International Limited, Morgan Stanley International and Smith Barney, Harris Upham & Co. Incorporated are acting as lead managers. The U.S. Underwriters and the International Managers are simultaneously entering into an agreement between the U.S. and international underwriting syndicates (the "Agreement Between U.S. Underwriters and International Managers") which provides for, among other things, the transfer of shares of Common Stock between the two syndicates. Two forms of prospectus are to be used in connection with the offering and sale of shares

of Common Stock contemplated by the foregoing, one relating to the Stock and the other relating to the International Stock. The latter form of prospectus will be identical to the former except for certain substitute pages as included in the registration statement and amendments thereto referred to below. Except as used in Sections 2, 3, 4, 9 and 10 herein, and except as the context may otherwise require, references herein to the Stock shall include all the shares of the Common Stock which may be sold pursuant to either this Agreement or the International Underwriting Agreement, and reference herein to any prospectus whether in preliminary or final form, and whether as amended or supplemented, shall include both the U.S. and the international versions thereof.

1. Representations, Warranties and Agreements of the Company. The Company represents, warrants and agrees that:

(a) A registration statement on Form S-1 and each amendment thereto, with respect to the Stock have (i) been prepared by the Company in conformity with the requirements of the United States Securities Act of 1933, as amended (the "Securities Act") and the rules and regulations (the "Rule and Regulations") of the United States Securities and Exchange Commission (the "Commission") thereunder, (ii) been filed with the Commission under the Securities Act and (iii) become effective under the Securities Act. Copies of such registration statement and each amendment thereto have been delivered by the Company to you as the representatives (the "Representatives") of the Underwriters. As used in this Agreement, "Effective Time" means the date and the time as of which such registration statement, or the most recent post-effective amendment thereto, if any, was declared effective by the Commission; "Effective Date" means the date of the Effective Time; "Preliminary Prospectus" means each prospectus included in such registration statement, or amendments thereof, before it became effective under the Securities Act and any prospectus filed with the Commission by the Company with the consent of the Representatives pursuant to Rule 424(a) of the Rules and Regulations; "Registration Statement" means such registration statement, as amended at the Effective Time, including all information contained in the final prospectus filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations in accordance with Section 5(a) hereof and deemed to be a part of the registration statement as of the Effective Time pursuant to paragraph (b) of Rule 430A of the Rules and Regulations; and "Prospectus" means such final prospectus, as first filed with the Commission pursuant to paragraph (1) or (4) of Rule 424(b) of the Rules and Regulations. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus.

(b) The Registration Statement conforms, and the Prospectus and any further amendments or supplements to the Registration Statement or the Prospectus will, when they become effective or are filed with the Commission, as the case may be, conform in all respects to the requirements of the

Securities Act and the Rules and Regulations and do not and will not, as of the applicable effective date (as to the Registration Statement and any amendment thereto) and as of the applicable filing date (as to the Prospectus and any amendment or supplement thereto) contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; *provided* that no representation or warranty is made as to information contained in or omitted from the Registration Statement or the Prospectus in reliance upon and in conformity with written information furnished to the Company through the Representatives by or on behalf of any Underwriter specifically for inclusion therein.

(c) The Company and each of its subsidiaries (as defined in Section 14) have been duly incorporated and are validly existing as corporations in good standing under the laws of their respective jurisdictions of incorporation, are duly qualified to do business and are in good standing as foreign corporations in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses requires such qualification, and have all power and authority necessary to own or hold their respective properties and to conduct the businesses in which they are engaged; and none of the subsidiaries of the Company (other than _____, _____ and _____ (collectively, the "Significant Subsidiaries")) is a "significant subsidiary", as such term is defined in Rule 405 of the Rules and Regulations.

(d) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description thereof contained in the Prospectus; and all of the issued shares of capital stock of each subsidiary of the Company have been duly and validly authorized and issued and are fully paid, non-assessable and (except for directors' qualifying shares) owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims. Except as described in the Prospectus, there are no options, warrants or similar rights to acquire any capital stock of the Company or any of its subsidiaries, there are no preemptive or other rights to subscribe for or to purchase, or restrictions upon, any capital stock pursuant to the charter or by-laws of the Company or any investment or agreement to which the Company is a party or by which it is bound and there are no securities of the Company or any of its subsidiaries which are convertible into or exchangeable for capital stock of the Company or any of its subsidiaries.

(e) The unissued shares of the Stock to be issued and sold by the Company to the U.S. Underwriters hereunder and under the International Underwriting Agreement have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein and in the

International Underwriting Agreement, will be duly and validly issued, fully paid and non-assessable and will conform to the description of the Stock contained in the Prospectus.

(f) The Company has all necessary corporate power and authority to execute and deliver this Agreement and perform its obligations hereunder; all corporate action required to be taken by the Company for the due and proper authorization, issuance, sale and delivery of the Stock has been duly and validly taken; and this Agreement has been duly authorized, executed and delivered by the Company and constitutes the valid and legally binding agreement of the Company enforceable in accordance with its terms.

(g) The execution, delivery and performance of this Agreement and the International Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, nor will such actions result in any violation of the provisions of the charter or by-laws of the Company or any of its subsidiaries or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties; and except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act") and applicable state or foreign securities laws in connection with the purchase and distribution of the Stock by the U.S. Underwriters, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement or the International Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby.

(h) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company under the Securities Act. The Stockholders Agreement (as defined in the Prospectus) is in full force and effect: the offering and sale of the Stock and the

International Stock collectively constitute the First Federated Sale Event (as defined in the Stockholders Agreement); no Holder (as defined in the Stockholders Agreement) has any right to participate in the offering and sale of the Stock or the International Stock; no Subject Shares (as defined in the Stockholders Agreement) have been released from the restrictions set forth in the Stockholders Agreement; and the Company is not obligated to effect any Stockholder Sale Event (as defined in the Stockholders Agreement) until at least six months after the consummation of the sale of the Stock and the International Stock.

(i) Neither the Company nor any of its subsidiaries has sustained, since the date of the latest audited financial statements included in the Prospectus, any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus; and, since such date, there has not been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any material adverse change, or any development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus.

(j) The financial statements (including the related notes and supporting schedules) filed as part of the Registration Statement or included in the Prospectus present fairly the financial condition and results of operations of the entities purported to be shown thereby, at the dates and for the periods indicated, and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved.

(k) KPMG Peat Marwick, who have certified certain financial statements of the Company and whose report appears in the Prospectus are independent public accountants as required by the Securities Act and the Rules and Regulations and were independent public accountants as required by the Securities Act and the Rules and Regulations during the periods covered by the financial statements on which they reported contained in the Prospectus.

(l) The Company and each of its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property

by the Company and its subsidiaries; and all real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases, with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries.

(m) The Company and each of its subsidiaries carry, or are covered by, insurance in such amounts and covering such risks as is adequate for the conduct of their respective businesses and the value of their respective properties.

(n) The Company and each of its subsidiaries own or possess adequate rights to use all material patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights and licenses necessary for the conduct of their respective businesses and have no reason to believe that the conduct of their respective businesses will conflict with, and have not received any notice of any claim of conflict with, the rights of others in respect thereof.

(o) Except as described in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, might have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries; and to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others.

(p) The POR (as such term is defined in the Prospectus) has become effective pursuant to its terms, and in connection with the bankruptcy and reorganization described in the POR, no pre-petition claims or liabilities or claims or liabilities (including claims for trade and administrative expenses) which arose from the petition date through the confirmation date or as a result or in connection with the POR remain outstanding with respect to the Company or any of its subsidiaries except as described in the Prospectus.

(q) There are no contracts or other documents which are required to be described in the Prospectus or filed as exhibits to the Registration Statement by the Securities Act or by the Rules and Regulations which have not been described in the Prospectus or filed as exhibits to the Registration Statement or incorporated therein by reference as permitted by the Rules and Regulations.

(r) No relationship, direct or indirect, exists between or among the Company or any of its subsidiaries on the one hand, and the directors, officers, stockholders, affiliates, customers or suppliers of the Company or any of its subsidiaries on the other hand, which is required to be described in the Prospectus which is not so described.

(s) No labor disturbance by the employees of the Company or any of its subsidiaries exists or, to the knowledge of the Company, is imminent which might be expected to have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries.

(t) The Company is in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations and published interpretations thereunder; no "reportable event" (as defined in ERISA and the regulations and published interpretations thereunder) has occurred with respect to any "pension plan" (as defined in ERISA and the regulations and published interpretations thereunder) established or maintained by the Company or any of its subsidiaries; none of the Company or any of its subsidiaries has incurred or expects to incur liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Sections 412 or 4971 of the Internal Revenue Code of 1986, as amended (the "Code"); and each "pension plan" established or maintained by the Company that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and has received a favorable determination letter as to its qualification and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(u) The Company has filed all federal, state and local income and franchise tax returns required to be filed through the date hereof and has paid all taxes due thereon, and no tax deficiency has been, nor does the Company have any knowledge of any tax deficiency which if determined adversely to the Company or any of its subsidiaries, might have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries.

(v) Since the date as of which information is given in the Prospectus through the date hereof, and except as may otherwise be disclosed in the Prospectus, neither the Company nor any subsidiary has (i) issued or granted any securities, (ii) incurred any liability or obligation, direct or contingent, other than liabilities and obligations which were incurred in the ordinary course of business, (iii) entered into any transaction not in the ordinary course of business or (iv) declared or paid any dividend on its capital stock.

(w) The Company, with respect to itself and its subsidiaries, (i) makes and keeps accurate books and records and (ii) maintains internal accounting controls which provide reasonable assurance that (A) transactions are executed in accordance with management's authorization, (B) transactions are recorded as necessary to permit preparation of its financial statements and to maintain accountability for its and its subsidiaries' assets, (C) access to its and its subsidiaries' assets is permitted only in accordance with management's authorization and (D) the reported accountability for its and its subsidiaries' assets is compared with existing assets at reasonable intervals.

(x) Neither the Company nor any of its subsidiaries (i) is in violation of its charter or by-laws, (ii) is in default in any material respect, and no event has occurred which, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any material agreement, indenture or instrument, or (iii) is in violation in any material respect of any law, ordinance, governmental rule, regulation or court decree to which it or its property may be subject or has failed to obtain any material license, permit, certificate, franchise or other governmental authorization or permit necessary to the ownership of its property or to the conduct of its business.

(y) The Common Stock to be sold by the Company has been approved for listing, subject only to official notice of issuance, on the New York Stock Exchange.

2. *Purchase of the Stock by the U.S. Underwriters.* On the basis of the representations and warranties contained in, and subject to the terms and conditions of, this Agreement, the Company agrees to sell 32,000,000 shares of the Firm Stock to the several U.S. Underwriters and each of the U.S. Underwriters, severally and not jointly, agrees to purchase the number of shares of the Firm Stock set opposite that U.S. Underwriter's name in Schedule 1 hereto. The respective purchase obligations of the U.S. Underwriters with respect to the Firm Stock shall be rounded among the U.S. Underwriters to avoid fractional shares, as the Representatives may determine.

In addition, the Company grants to the U.S. Underwriters an option to purchase up to 4,800,000 shares of Option Stock. Such option is granted solely for the purpose of covering over-allotments in the sale of Firm Stock and is exercisable as provided in Section 4 hereof. Shares of Option Stock shall be purchased severally for the account of the U.S. Underwriters in proportion to the number of shares of Firm Stock set opposite the name of such U.S. Underwriters in Schedule 1 hereto. The respective purchase obligations of each U.S. Underwriter with respect to the Option Stock shall be adjusted by the Representatives so that no U.S. Underwriter shall be obligated to purchase Option Stock other than in 100 share amounts. The price of both the Firm Stock and any Option Stock shall be \$ per share.

The Company shall not be obligated to deliver any of the Stock to be delivered on the First Delivery Date or the Second Delivery Date (as hereinafter defined), as the case may be, except upon payment for all the Stock to be purchased on such Delivery Date as hereinafter provided.

3. Offering of Stock by the U.S. Underwriters.

Upon authorization by the Representatives of the release of the Firm Stock, the several U.S. Underwriters propose to offer the Firm Stock for sale upon the terms and conditions set forth in the Prospectus.

Each U.S. Underwriter agrees that, except to the extent permitted by the Agreement Between U.S. Underwriters and International Managers, it will not offer or sell any of the Stock outside of the United States.

4. Delivery of and Payment for the Stock. Delivery of and payment for the Firm Stock shall be made at the office of Shearson Lehman Brothers Inc., 388 Greenwich Street (Cashier's Window, Main Level), New York, New York 10013, at 10:00 A.M., New York City time, on the fifth full business day following the date of this Agreement or at such other date or place as shall be determined by agreement between the Representatives and the Company. This date and time are sometimes referred to as the First Delivery Date." On the First Delivery Date, the Company shall deliver or cause to be delivered certificates representing the Firm Stock to the Representatives for the account of each U.S. Underwriter against payment to or upon the order of the Company of the purchase price by certified or official bank check or checks payable in New York Clearing House (next-day) funds. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each U.S. Underwriter hereunder. Upon delivery, the Firm Stock shall be registered in such names and in such denominations as the Representatives shall request in writing not less than two full business days prior to the First Delivery Date. For the purpose of expediting the checking and packaging of the certificates for the Firm Stock, the Company shall make the certificates representing the Firm Stock available for inspection by the Representatives in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the First Delivery Date.

At any time on or before the thirtieth day after the date of this Agreement the option granted in Section 2 may be exercised by written notice being given to the Company by the Representatives. Such notice shall set forth the aggregate number of shares of Option Stock as to which the option is being exercised, the names in which the shares of Option Stock are to be registered, the denominations in which the shares of Option Stock are to be issued and the date and time, as determined by the Representatives, when the shares of Option Stock are to be delivered; *provided, however,* that this date and time shall not be earlier than the First Delivery Date nor earlier than the second business day after the date on which the option shall have been exercised nor later than the fifth business day after the date on which the option shall have been exercised. The date and

time the shares of Option Stock are delivered are sometimes referred to as the "Second Delivery Date" and the First Delivery Date and the Second Delivery Date are sometimes each referred to as a "Delivery Date").

Delivery of and payment for the Option Stock shall be made at the office of Shearson Lehman Brothers Inc., 388 Greenwich Street (Cashier's Window, Main Level), New York, New York 10013 (or at such other place as shall be determined by agreement between the Representatives and the Company) at 10:00 A.M., New York City time, on the Second Delivery Date. On the Second Delivery Date, the Company shall deliver or cause to be delivered the certificates representing the Option Stock to the Representatives for the account of each U.S. Underwriter against payment to or upon the order of the Company of the purchase price by certified or official bank check or checks payable in New York Clearing House (next-day) funds. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each U.S. Underwriter hereunder. Upon delivery, the Option Stock shall be registered in such names and in such denominations as the Representatives shall request in the aforesaid written notice. For the purpose of expediting the checking and packaging of the certificates for the Option Stock, the Company shall make the certificates representing the Option Stock available for inspection by the Representatives in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the Second Delivery Date.

5. Further Agreements of the Company. The Company agrees:

- (a) To prepare the Prospectus in a form approved by the Representatives and to file such Prospectus pursuant to Rule 424(b) under the Securities Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the Securities Act; to make no further amendment or any supplement to the Registration Statement or to the Prospectus except as permitted herein; to advise the Representatives, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish the Representatives with copies thereof; to advise the Representatives, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus, of the suspension of the qualification of the Stock for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or suspending any such qualification, to use promptly its best efforts to obtain its withdrawal;

(b) To furnish promptly to each of the Representatives and to counsel for the U.S. Underwriters a signed copy of the Registration Statement as originally filed with the Commission, and each amendment thereto filed with the Commission, including all consents and exhibits filed therewith;

(c) To deliver promptly to the Representatives such number of the following documents as the Representatives shall request: (i) conformed copies of the Registration Statement as originally filed with the Commission and each amendment thereto (in each case excluding exhibits other than this Agreement and the computation of per share earnings) and (ii) each Preliminary Prospectus, the Prospectus and any amended or supplemented Prospectus; and, if the delivery of a prospectus is required at any time prior to the expiration of nine months after the Effective Time in connection with the offering or sale of the Stock and if at such time any events shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary during such same period to amend or supplement the Prospectus in order to comply with the Securities Act, to notify the Representatives and, upon their request, to prepare and furnish without charge to each U.S. Underwriter and to any dealer in securities as many copies as the Representatives may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance, and in case any U.S. Underwriter is required to deliver a prospectus in connection with sales of any of the Stock at any time nine months or more after the Effective Time, upon the request of the Representatives but at the expense of such U.S. Underwriter, to prepare and deliver to such U.S. Underwriter as many copies as the Representatives may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Securities Act;

(d) To file promptly with the Commission any amendment to the Registration Statement or the Prospectus or any supplement to the Prospectus that may, in the judgment of the Company or the Representatives, be required by the Securities Act or requested by the Commission;

(e) Prior to filing with the Commission any (i) amendment to the Registration Statement or supplement to the Prospectus or (ii) any Prospectus pursuant to Rule 424 of the Rules and Regulations, to furnish a copy thereof to the Representatives and counsel for the U.S. Underwriters and obtain the consent of the Representatives to the filing;

- (f) As soon as practicable after the Effective Date, to make generally available to the Company's security holders and to deliver to the Representatives an earnings statement of the Company and its subsidiaries (which need not be audited) complying with Section 11(a) of the Securities Act and the Rules and Regulations (including, at the option of the Company, Rule 158);
- (g) To endeavor to maintain the listing of the Stock on the New York Stock Exchange, Inc. and to comply with the rules of the New York Stock Exchange, Inc. in respect of the Stock.
- (h) For a period of five years following the Effective Date, to furnish to the Representatives copies of all materials furnished by the Company to its shareholders and all public reports and all reports and financial statements furnished by the Company to the principal national securities exchange upon which its Common Stock may be listed pursuant to requirements of or agreements with such exchange or to the Commission pursuant to the Exchange Act or any rule or regulation of the Commission thereunder;
- (i) Promptly from time to time to take such action as the Representatives may reasonably request to qualify the Stock for offering and sale under the securities laws of such jurisdictions as the Representatives may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Stock;
- (j) For a period of 180 days from the date of the Prospectus, not to offer for sale, sell or otherwise dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock, or sell or grant options, rights or warrants with respect to any shares of Common Stock (other than the Stock and shares issued (i) upon conversion or exercise of the Convertible Notes, Series A Warrants or Series B Warrants (each as defined in the Prospectus), (ii) in connection with the Company's 1992 Executive Equity Incentive Plan or (iii) in connection with shares of Common Stock issuable on a delayed basis pursuant to the POR), without the prior written consent of the Representatives; to cause each executive officer and director of the Company to furnish to the Representatives, prior to the First Delivery Date, a letter or letters, in form and substance satisfactory to counsel for the U.S. Underwriters, pursuant to which each such person shall agree not to offer for sale, sell or otherwise dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock for a period of 180 days from the date of the Prospectus, without the prior written consent of the Representatives; and not to waive during such 180-day period the limitations set forth in Section 3.6(a) of the Stockholders Agreement upon

the obligations of the Company to effect any Stockholder Sale Event, not to release during such 180-day period any Subject Shares from the restrictions set forth in the Stockholders Agreement, and not to terminate the Stockholders Agreement or otherwise to amend or modify the Stockholders Agreement in a manner which would permit a Stockholder Sale Event or release of Subject Shares to occur prior to 180 days after the date of the Prospectus, without in each case the prior written consent of the Representatives;

(k) To apply the net proceeds from the sale of the Stock being sold by the Company as set forth in the Prospectus and to apply at least \$_____ million of additional cash to the prepayment of long-term debt incurred pursuant to the POR;

(l) To take such steps as shall be necessary to ensure that neither the Company nor any subsidiary shall become an "investment company" within the meaning of such term under the United States Investment Company Act of 1940 and the rules and regulations of the Commission thereunder; and

(m) Until the completion of the offering of the Stock, to avoid taking, directly or indirectly, any action which might reasonably be expected to cause or result in (i) stabilization in the price of the Common Stock to facilitate the sale or resale of the Common Stock or (ii) manipulation of the price of the Common Stock.

6. *Expenses.* The Company agrees to pay (a) the costs incident to the authorization, issuance, sale and delivery of the Stock and any taxes payable in that connection; (b) the costs incident to the preparation, printing and filing under the Securities Act of the Registration Statement and any amendments and exhibits thereto; (c) the costs of distributing the Registration Statement as originally filed and each amendment thereto and any post-effective amendments thereof (including, in each case, exhibits), any Preliminary Prospectus, the Prospectus and any amendment or supplement to the Prospectus, all as provided in this Agreement; (d) the costs of printing or duplicating this Agreement; (e) the costs of distributing the terms of agreement relating to the organization of the underwriting syndicate and the selling group to the members thereof by mail, telex or other means of communication; (f) the filing fees incident to securing any required review by the National Association of Securities Dealers, Inc. (the "NASD") of the terms of sale of the Stock; (g) any applicable listing or other fees and the costs of any related Exchange Act filings; (h) the fees and expenses of qualifying the Stock under the securities laws of the several jurisdictions as provided in Section 5(i) and of preparing, printing and distributing a Blue Sky Memorandum (including related fees and expenses of counsel to the U.S. Underwriters); (i) the fees and expenses of its counsel and of KPMG Peat Marwick and (j) all other costs and expenses incident to the performance of the obligations of the Company under this Agreement; *provided* that, except as provided in this Section 6 and in Section 11, the U.S. Underwriters shall pay their own costs and expenses, including the costs and

expenses of their counsel, any transfer taxes on the Stock which they may sell and the expenses of advertising any offering of the Stock made by the U.S. Underwriters.

7. Conditions of U.S. Underwriters' Obligations. The respective obligations of the U.S. Underwriters hereunder are subject to the accuracy, when made and on each Delivery Date, of the representations and warranties of the Company contained herein, to the performance by the Company of its obligations hereunder, and to each of the following additional terms and conditions:

(a) The Prospectus shall have been timely filed with the Commission in accordance with Section 5(a); no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and any request of the Commission for inclusion of additional information in the Registration Statement or the Prospectus or otherwise shall have been complied with.

(b) No U.S. Underwriter shall have discovered and disclosed to the Company on or prior to such Delivery Date that the Registration Statement or the Prospectus or any amendment or supplement thereto contains an untrue statement of a fact which, in the opinion of Simpson Thacher & Bartlett, counsel for the U.S. Underwriters, is material or omits to state a fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein not misleading.

(c) All corporate proceedings and other legal matters incident to the authorization, form and validity of this Agreement, the Stock, the Registration Statement and the Prospectus, and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be satisfactory in all respects to counsel for the U.S. Underwriters, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(d) Jones, Day, Reavis & Pogue shall have furnished to the Representatives its written opinion, as counsel to the Company, addressed to the U.S. Underwriters and dated such Delivery Date, in form and substance satisfactory to the Representatives, to the effect that:

(i) The Company and each of the Significant Subsidiaries have been duly incorporated and are validly existing as corporations in good standing under the laws of their respective jurisdictions of incorporation, are duly qualified to do business and are in good standing as foreign corporations in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses requires such qualification, and have all power

and authority necessary to own or hold their respective properties and conduct the businesses in which they are engaged;

(ii) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable, with no personal liability attaching to the ownership thereof; all of the shares of Stock being delivered on such Delivery Date have been duly and validly authorized, and, upon payment therefor pursuant to the terms of this Agreement, will be duly and validly issued, outstanding, fully paid and non-assessable with no personal liability attaching to the ownership thereof; all of the shares of capital stock of the Company conform to the description thereof contained in the Prospectus; and all of the issued shares of capital stock of each Significant Subsidiary of the Company have been duly and validly authorized and issued and are fully paid, non-assessable and (except for directors' qualifying shares) owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims;

(iii) There are no preemptive or other rights to subscribe for or to purchase, nor any restriction upon the voting or transfer of, any shares of the capital stock of the Company pursuant to the Company's charter or by-laws or, other than restrictions upon transfer set forth in the Stockholders Agreement, any agreement or other instrument known to such counsel; there are no outstanding warrants or options issued or granted by the Company to purchase any shares of the capital stock of the Company from the Company under any agreement, instrument or employee benefit plan known to such counsel, except as disclosed in the Prospectus;

(iv) The Company and each of its subsidiaries have good and marketable title in fee simple to all real property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and its subsidiaries; and all real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases, with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries;

(v) To the best of such counsel's knowledge and other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, might have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries; and, to the best of such counsel's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(vi) The Registration Statement was declared effective under the Securities Act as of the date and time specified in such opinion, the Prospectus was filed with the Commission pursuant to the subparagraph of Rule 424(b) of the Rules and Regulations specified in such opinion on the date specified therein and no stop order suspending the effectiveness of the Registration Statement has been issued and, to the knowledge of such counsel, no proceeding for that purpose is pending or threatened by the Commission;

(vii) The Registration Statement and the Prospectus and any further amendments or supplements thereto made by the Company prior to such Delivery Date (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Securities Act and the Rules and Regulations;

(viii) The statements contained in the Prospectus under the caption "Certain United States Tax Consequences for Non-U.S. Holders", insofar as they describe federal statutes, rules and regulations, constitute a fair summary thereof;

(ix) To the best of such counsel's knowledge, there are no contracts or other documents which are required to be described in the Prospectus or filed as exhibits to the Registration Statement by the Securities Act or by the Rules and Regulations which have not been described or filed as exhibits to the Registration Statement or incorporated therein by reference as permitted by the Rules and Regulations;

(x) The Company has all necessary corporate power and authority to execute and deliver this Agreement and perform its obligations hereunder; and this Agreement has been duly authorized, executed and delivered by the Company;

(xi) The issue and sale of the shares of Stock being delivered on such Delivery Date by the Company and the compliance by the Company with all of the provisions of this Agreement and the International Underwriting Agreement and the consummation of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, nor will such actions result in any violation of the provisions of the charter or by-laws of the Company or any of its subsidiaries or any statute or any order, rule or regulation known to such counsel of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties; and, except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act and applicable state or foreign securities laws in connection with the purchase and distribution of the Stock by the U.S. Underwriters, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement or the International Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby and the Reorganization; and

(xii) To the best of such counsel's knowledge, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company under the Securities Act.

Such counsel shall also have furnished to the Representatives a written statement, addressed to the U.S. Underwriters and dated such Delivery Date, in form and substance satisfactory to the Representatives, to the effect that (x) such counsel has acted as counsel to the Company on a regular basis (although the Company is also represented by its General Counsel and, with respect to certain other matters, by other outside counsel), has acted as counsel to the Company in connection with previous financing transactions and has acted as counsel to the Company in connection with the preparation

of the Registration Statement, and (y) based on the foregoing, no facts have come to the attention of such counsel which lead it to believe that the Registration Statement, as of the Effective Date, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Prospectus contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The foregoing opinion and statement may be qualified by a statement to the effect that such counsel does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus except for the statements made in the Prospectus under the captions "Capital Stock", "Indebtedness" and "Certain United States Tax Consequences for Non-U.S. Holders".

(e) The Company shall have furnished to the Representatives a letter (the "bring-down letter") of KPMG Peat Marwick, addressed to the U.S. Underwriters and dated such Delivery Date (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date of the bring-down letter (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than five days prior to the date of the bring-down letter), the conclusions and findings of such firm with respect to the financial information and other matters covered by its letter (the "initial letter") delivered to the Representatives concurrently with the execution of this Agreement and (iii) confirming in all material respects the conclusions and findings set forth in the initial letter.

(f) The Company shall have furnished to the Representatives a certificate, dated such Delivery Date, of its Chairman of the Board, its President or a Vice President and its chief financial officer stating that:

(i) The representations, warranties and agreements of the Company in Section 1 are true and correct as of such Delivery Date; the Company has complied with all its agreements contained herein; and the conditions set forth in Sections 7(a) and 7(g) have been fulfilled; and

(ii) They have carefully examined the Registration Statement and the Prospectus and, in their opinion (A) as of the Effective Date, the Registration Statement and Prospectus did not include any untrue

statement of a material fact and did not omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (B) since the Effective Date no event has occurred which should have been set forth in such a supplement or amendment.

(g) (i) Neither the Company nor any of its subsidiaries shall have sustained since the date of the latest audited financial statements included in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus or (ii) since such date there shall not have been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus, the effect of which, in any such case described in clause (i) or (ii), is, in the judgment of the Representatives, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Stock being delivered on such Delivery Date on the terms and in the manner contemplated in the Prospectus.

(h) Subsequent to the execution and delivery of this Agreement there shall not have occurred any of the following: (i) trading in securities generally on the New York Stock Exchange, the American Stock Exchange or the over-the-counter market shall have been suspended or materially limited or minimum prices shall have been established on one or more of such exchanges or such market by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction, (ii) a banking moratorium shall have been declared by Federal or state authorities, (iii) the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States or there shall have been a declaration of a national emergency or war by the United States or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions, national or international equity markets or currency exchange rates or controls as to make it, in the judgement of a majority in interest of the several U.S. Underwriters, inadvisable or impractical to proceed with the public offering or delivery of the Stock on the terms and in the manner contemplated in the Prospectus.

(i) The New York Stock Exchange, Inc. shall have approved the Stock for listing, subject only to official notice of issuance.

(j) The NASD, upon review of the terms of the public offering of the Stock, shall not have objected to the participation by any of the U.S. Underwriters in such offering or asserted any violations of the By-Laws of the NASD.

(k) The closing under the International Underwriting Agreement shall have occurred concurrently with the closing hereunder on the First Delivery Date.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance satisfactory to counsel for the U.S. Underwriters.

8. *Indemnification and Contribution.*

(a) The Company shall indemnify and hold harmless each U.S. Underwriter and each person, if any, who controls any U.S. Underwriter within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, but not limited to, any loss, claim, damage, liability or action relating to purchases and sales of Stock), to which that U.S. Underwriter or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse each U.S. Underwriter and each such controlling person promptly upon demand for any legal or other expenses reasonably incurred by that U.S. Underwriter or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred; *provided, however,* that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company through the Representatives by or on behalf of any U.S. Underwriter specifically for inclusion therein. The foregoing indemnity agreement is in addition to any liability which the Company may otherwise have to any U.S. Underwriter or any controlling person of that U.S. Underwriter.

(b) Each U.S. Underwriter, severally and not jointly, shall indemnify and hold harmless the Company, each of its directors, each of its officers who signed the Registration Statement and each person, if any, who controls the Company within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which the Company or any such director, officer

or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company through the Representatives by or on behalf of that U.S. Underwriter specifically for inclusion therein, and shall reimburse the Company and any such director, officer or controlling person for any legal or other expenses reasonably incurred by the Company or any such director, officer or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred. The foregoing indemnity agreement is in addition to any liability which any U.S. Underwriter may otherwise have to the Company or any such director, officer or controlling person.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the claim or the commencement of that action; *provided, however,* that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 8 except to the extent it has been materially prejudiced by such failure, and *provided, further,* that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 8. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; *provided, however,* that the Representatives shall have the right to employ counsel to represent jointly the Representatives and those other U.S. Underwriters and their respective controlling persons who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the U.S. Underwriters against the Company under this Section 8 if, in the reasonable judgment of the Representatives, it is advisable for the Representatives and those U.S. Underwriters and controlling persons to be jointly represented by separate counsel, and in that event the fees and expenses of such separate counsel shall be paid by the Company.

(d) If the indemnification provided for in this Section 8 shall for any reason be unavailable to or insufficient to hold harmless an indemnified party under Section 8(a)

or 8(b) in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company on the one hand and the U.S. Underwriters on the other from the offering of the Stock or (ii) if the allocation provided by clause (i) above is not permitted by applicable law or if the indemnified party failed to give the notice required under Section 8(c), in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the U.S. Underwriters on the other with respect to the statements or omissions which resulted in such loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the U.S. Underwriters on the other with respect to such offering shall be deemed to be in the same proportion as the total net proceeds from the offering of the Stock purchased under this agreement (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the U.S. Underwriters with respect to the shares of the Stock purchased under this Agreement, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or the U.S. Underwriters, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the U.S. Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were to be determined by pro rata allocation (even if the U.S. Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this Section 8(d) shall be deemed to include, for purposes of this Section 8(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8(d), no U.S. Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Stock underwritten by it and distributed to the public was offered to the public exceeds the amount of any damages which such U.S. Underwriter has otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The U.S. Underwriters' obligations to contribute as provided in this Section 8(d) are several in proportion to their respective underwriting obligations and not joint.

(e) The U.S. Underwriters severally confirm that the statements with respect to the public offering of the Stock set forth on the cover page of, and under the caption "Underwriting" in, the Prospectus are correct and were furnished in writing to the

Company by or on behalf of the U.S. Underwriters severally for inclusion in the Registration Statement and the Prospectus.

(f) The agreements contained in this Section 8 and the representations, warranties and agreements of the Company in Sections 1, 5, 6 and 11 shall survive the delivery of the Stock and shall remain in full force and effect, regardless of any termination or cancellation of this Agreement or any investigation made by or on behalf of any indemnified party.

9. *Defaulting U.S. Underwriters.*

If, on either Delivery Date, any U.S. Underwriter defaults in the performance of its obligations under this Agreement, the remaining non-defaulting U.S. Underwriters shall be obligated to purchase the Stock which the defaulting U.S. Underwriter agreed but failed to purchase on such Delivery Date in the respective proportions which the number of shares of the Firm Stock set opposite the name of each remaining non-defaulting U.S. Underwriter in Schedule 1 hereto bears to the total number of shares of the Firm Stock set opposite the names of all the remaining non-defaulting U.S. Underwriters in Schedule 1 hereto; *provided, however,* that the remaining non-defaulting U.S. Underwriters shall not be obligated to purchase any of the Stock on such Delivery Date if the total number of shares of the Stock which the defaulting U.S. Underwriter or U.S. Underwriters agreed but failed to purchase on such date exceeds 9.09% of the total number of shares of the Stock to be purchased on such Delivery Date, and any remaining non-defaulting U.S. Underwriter shall not be obligated to purchase more than 110% of the number of shares of the Stock which it agreed to purchase on such Delivery Date pursuant to the terms of Section 2. If the foregoing maximums are exceeded, the remaining non-defaulting U.S. Underwriters, or those other underwriters satisfactory to the Representatives who so agree, shall have the right, but shall not be obligated, to purchase, in such proportion as may be agreed upon among them, all the Stock to be purchased on such Delivery Date. If the remaining U.S. Underwriters or other underwriters satisfactory to the Representatives do not elect to purchase the shares which the defaulting U.S. Underwriter or U.S. Underwriters agreed but failed to purchase, this Agreement shall terminate without liability on the part of any non-defaulting U.S. Underwriter or the Company, except that the Company will continue to be liable for the payment of expenses to the extent set forth in Sections 6 and 11.

Nothing contained herein shall relieve a defaulting U.S. Underwriter of any liability it may have to the Company for damages caused by its default. If other underwriters are obligated or agree to purchase the Stock of a defaulting or withdrawing U.S. Underwriter, either the Representatives or the Company may postpone the First Delivery Date for up to seven full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the U.S. Underwriters may be necessary in the Registration Statement, the Prospectus or in any other document or arrangement.

10. *Termination.*

The obligations of the U.S. Underwriters hereunder may be terminated by the Representatives, in their absolute discretion, by notice given to and received by the Company prior to delivery of and payment for the Firm Stock if, prior to that time, any of the events described in Sections 7(g) or 7(h) shall have occurred or if the U.S. Underwriters shall decline to purchase the Stock for any reason permitted under this Agreement.

11. *Reimbursement of U.S. Underwriters' Expenses.* If (a) the Company shall fail to tender the Stock for delivery to the U.S. Underwriters for any reason permitted under this Agreement or (b) the U.S. Underwriters shall decline to purchase the Stock for any reason permitted under this Agreement (including the termination of this Agreement pursuant to Section 10), the Company shall reimburse the U.S. Underwriters for the fees and expenses of their counsel and for such other out-of-pocket expenses as shall have been incurred by them in connection with this Agreement and the proposed purchase of the Stock, and upon demand the Company shall pay the full amount thereof to the Representatives. If this Agreement is terminated pursuant to Section 9 by reason of the default of one or more U.S. Underwriters, the Company shall not be obligated to reimburse any defaulting U.S. Underwriter on account of those expenses.

12. *Notices, etc.* All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the U.S. Underwriters, shall be delivered or sent by mail, telex or facsimile transmission to Shearson Lehman Brothers Inc., American Express Tower, World Financial Center, 200 Vesey Street, New York, New York 10285;

(b) if to the Company, shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Registration Statement, Attention: [Dennis J. Broderick, Esq., Senior Vice President and General Counsel];

provided, however, that any notice to an U.S. Underwriter pursuant to Section 8(c) shall be delivered or sent by mail, telex or facsimile transmission to such U.S. Underwriter at its address set forth in its acceptance telex to the Representatives, which address will be supplied to any other party hereto by the Representatives upon request. Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof. The Company shall be entitled to act and rely upon any request, consent, notice or agreement given or made on behalf of the U.S. Underwriters by Shearson Lehman Brothers Inc. on behalf of the Representatives.

13. *Persons Entitled to Benefit of Agreement.* This Agreement shall inure to the benefit of and be binding upon the U.S. Underwriters, the Company and their respective successors. This Agreement and the terms and provisions hereof are for the sole

benefit of only those persons, except that (A) the representations, warranties, indemnities and agreements of the Company contained in this Agreement shall also be deemed to be for the benefit of the person or persons, if any, who control any U.S. Underwriter within the meaning of Section 15 of the Securities Act and for the benefit of each International Manager (and controlling persons thereof) who offers or sells any shares of Common Stock in accordance with the terms of the Agreement Between U.S. Underwriters and International Managers and (B) the indemnity agreement of the U.S. Underwriters contained in Section 8(b) of this Agreement shall be deemed to be for the benefit of directors of the Company, officers of the Company who have signed the Registration Statement and any person controlling the Company within the meaning of Section 15 of the Securities Act. Nothing in this Agreement is intended or shall be construed to give any person, other than the persons referred to in this Section 13, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

14. *Definition of the Terms "Business Day" and "Subsidiary".* For purposes of this Agreement, (a) "business day" means any day on which the New York Stock Exchange, Inc. is open for trading and (b) "subsidiary" has the meaning set forth in Rule 405 of the Rules and Regulations.

15. *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of New York.

16. *Counterparts.* This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

17. *Headings.* The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

If the foregoing correctly sets forth the agreement between the Company and the U.S. Underwriters, please indicate your acceptance in the space provided for that purpose below.

Very truly yours,

FEDERATED DEPARTMENT STORES, INC.

By _____
Title:

Accepted:

SHEARSON LEHMAN BROTHERS INC.

GOLDMAN, SACHS & CO.

MORGAN STANLEY & CO. INCORPORATED

SMITH BARNEY, HARRIS UPHAM & CO. INCORPORATED

By SHEARSON LEHMAN BROTHERS INC.

By _____
Authorized Signatory

For themselves and as Representatives
of the U.S. Underwriters

SCHEDULE 1

<u>U.S. Underwriters</u>	<u>Number of Shares</u>
Shearson Lehman Brothers Inc.	
Goldman, Sachs & Co.	
Morgan Stanley & Co. Incorporated	
Smith Barney, Harris Upham & Co. Incorporated	
Total	_____

EXHIBIT 1.2

8,000,000 Shares

FEDERATED DEPARTMENT STORES, INC.

Common Stock

INTERNATIONAL UNDERWRITING AGREEMENT

_____, 1992

**LEHMAN BROTHERS INTERNATIONAL LIMITED
GOLDMAN SACHS INTERNATIONAL LIMITED
MORGAN STANLEY INTERNATIONAL
SMITH BARNEY, HARRIS UPHAM & CO. INCORPORATED**
As Lead Managers of the several

International Managers named in Schedule 1,
c/o Lehman Brothers International Limited
1 Broadgate
London EC2M 7HA
England

Dear Sirs:

Federated Department Stores, Inc., a Delaware corporation (the "Company"), proposes to sell 8,000,000 shares (the "Firm Stock") of the Company's Common Stock, par value \$.01 per share (the "Common Stock"). In addition, the Company proposes to grant to the International Managers named in Schedule 1 hereto (the "International Managers") an option to purchase up to an additional 1,200,000 shares of the Common Stock on the terms and for the purposes set forth in Section 2 (the "Option Stock"). The Firm Stock and the Option Stock, if purchased, are hereinafter collectively called the "Stock." This is to confirm the agreement concerning the purchase of the Stock from the Company by the International Managers named in Schedule 1 hereto.

It is understood that by all parties that the Company is concurrently entering into an agreement dated the date hereof (the "U.S. Underwriting Agreement") providing for the sale by the Company of 36,800,000 shares of Common Stock (including the over-allotment option thereunder) (the "U.S. Stock") through arrangements with certain underwriters outside the United States (the "U.S. Underwriters"), for whom Shearson Lehman Brothers Inc., Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated and Smith Barney, Harris Upham & Co. Incorporated are acting as representatives. The International Managers and the U.S. Underwriters are simultaneously entering into an agreement between the U.S. and international underwriting syndicates (the "Agreement Between U.S. Underwriters and International Managers") which provides for, among other

things, the transfer of shares of Common Stock between the two syndicates. Two forms of prospectus are to be used in connection with the offering and sale of shares of Common Stock contemplated by the foregoing, one relating to the Stock and the other relating to the U.S. Stock. The latter form of prospectus will be identical to the former except for certain substitute pages as included in the registration statement and amendments thereto referred to below. Except as used in Sections 2, 3, 4, 9 and 10 herein, and except as the context may otherwise require, references herein to the Stock shall include all the shares of the Common Stock which may be sold pursuant to either this Agreement or the U.S. Underwriting Agreement, and reference herein to any prospectus whether in preliminary or final form, and whether as amended or supplemented, shall include both the international and U.S. versions thereof.

1. Representations, Warranties and Agreements of the Company. The Company represents, warrants and agrees that:

(a) A registration statement on Form S-1 and each amendment thereto, with respect to the Stock have (i) been prepared by the Company in conformity with the requirements of the United States Securities Act of 1933, as amended (the "Securities Act") and the rules and regulations (the "Rule and Regulations") of the United States Securities and Exchange Commission (the "Commission") thereunder, (ii) been filed with the Commission under the Securities Act and (iii) become effective under the Securities Act. Copies of such registration statement and each amendment thereto have been delivered by the Company to you as the lead managers (the "Lead Managers") of the International Managers. As used in this Agreement, "Effective Time" means the date and the time as of which such registration statement, or the most recent post-effective amendment thereto, if any, was declared effective by the Commission; "Effective Date" means the date of the Effective Time; "Preliminary Prospectus" means each prospectus included in such registration statement, or amendments thereof, before it became effective under the Securities Act and any prospectus filed with the Commission by the Company with the consent of the Lead Managers pursuant to Rule 424(a) of the Rules and Regulations; "Registration Statement" means such registration statement, as amended at the Effective Time, including all information contained in the final prospectus filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations in accordance with Section 5(a) hereof and deemed to be a part of the registration statement as of the Effective Time pursuant to paragraph (b) of Rule 430A of the Rules and Regulations; and "Prospectus" means such final prospectus, as first filed with the Commission pursuant to paragraph (1) or (4) of Rule 424(b) of the Rules and Regulations. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus.

(b) The Registration Statement conforms, and the Prospectus and any further amendments or supplements to the Registration Statement or the

Prospectus will, when they become effective or are filed with the Commission, as the case may be, conform in all respects to the requirements of the Securities Act and the Rules and Regulations and do not and will not, as of the applicable effective date (as to the Registration Statement and any amendment thereto) and as of the applicable filing date (as to the Prospectus and any amendment or supplement thereto) contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; *provided* that no representation or warranty is made as to information contained in or omitted from the Registration Statement or the Prospectus in reliance upon and in conformity with written information furnished to the Company through the Lead Managers by or on behalf of any Underwriter specifically for inclusion therein.

(c) The Company and each of its subsidiaries (as defined in Section 14) have been duly incorporated and are validly existing as corporations in good standing under the laws of their respective jurisdictions of incorporation, are duly qualified to do business and are in good standing as foreign corporations in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses requires such qualification, and have all power and authority necessary to own or hold their respective properties and to conduct the businesses in which they are engaged; and none of the subsidiaries of the Company (other than _____, _____ and _____ (collectively, the "Significant Subsidiaries")) is a "significant subsidiary", as such term is defined in Rule 405 of the Rules and Regulations.

(d) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description thereof contained in the Prospectus; and all of the issued shares of capital stock of each subsidiary of the Company have been duly and validly authorized and issued and are fully paid, non-assessable and (except for directors' qualifying shares) owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims. Except as described in the Prospectus, there are no options, warrants or similar rights to acquire any capital stock of the Company or any of its subsidiaries, there are no preemptive or other rights to subscribe for or to purchase, or restrictions upon, any capital stock pursuant to the charter or by-laws of the Company or any investment or agreement to which the Company is a party or by which it is bound and there are no securities of the Company or any of its subsidiaries which are convertible into or exchangeable for capital stock of the Company or any of its subsidiaries.

(e) The unissued shares of the Stock to be issued and sold by the Company to the International Managers hereunder and under the

International Underwriting Agreement have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein and in the International Underwriting Agreement, will be duly and validly issued, fully paid and non-assessable and will conform to the description of the Stock contained in the Prospectus.

(f) The Company has all necessary corporate power and authority to execute and deliver this Agreement and perform its obligations hereunder; all corporate action required to be taken by the Company for the due and proper authorization, issuance, sale and delivery of the Stock has been duly and validly taken; and this Agreement has been duly authorized, executed and delivered by the Company and constitutes the valid and legally binding agreement of the Company enforceable in accordance with its terms.

(g) The execution, delivery and performance of this Agreement and the U.S. Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, nor will such actions result in any violation of the provisions of the charter or by-laws of the Company or any of its subsidiaries or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties; and except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act") and applicable state or foreign securities laws in connection with the purchase and distribution of the Stock by the International Managers, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement or the International Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby.

(h) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company under the Securities Act. The Stockholders Agreement (as defined in the Prospectus)

is in full force and effect; the offering and sale of the Stock and the U.S. Stock collectively constitute the First Federated Sale Event (as defined in the Stockholders Agreement); no Holder (as defined in the Stockholders Agreement) has any right to participate in the offering and sale of the Stock or the U.S. Stock; no Subject Shares (as defined in the Stockholders Agreement) have been released from the restrictions set forth in the Stockholders Agreement; and the Company is not obligated to effect any Stockholder Sale Event (as defined in the Stockholders Agreement) until at least six months after the consummation of the sale of the Stock and the U.S. Stock.

(i) Neither the Company nor any of its subsidiaries has sustained, since the date of the latest audited financial statements included in the Prospectus, any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus; and, since such date, there has not been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any material adverse change, or any development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus.

(j) The financial statements (including the related notes and supporting schedules) filed as part of the Registration Statement or included in the Prospectus present fairly the financial condition and results of operations of the entities purported to be shown thereby, at the dates and for the periods indicated, and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved.

(k) KPMG Peat Marwick, who have certified certain financial statements of the Company and whose report appears in the Prospectus are independent public accountants as required by the Securities Act and the Rules and Regulations and were independent public accountants as required by the Securities Act and the Rules and Regulations during the periods covered by the financial statements on which they reported contained in the Prospectus.

(l) The Company and each of its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially affect the value of such property and

do not interfere with the use made and proposed to be made of such property by the Company and its subsidiaries; and all real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases, with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries.

(m) The Company and each of its subsidiaries carry, or are covered by, insurance in such amounts and covering such risks as is adequate for the conduct of their respective businesses and the value of their respective properties.

(n) The Company and each of its subsidiaries own or possess adequate rights to use all material patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights and licenses necessary for the conduct of their respective businesses and have no reason to believe that the conduct of their respective businesses will conflict with, and have not received any notice of any claim of conflict with, the rights of others in respect thereof.

(o) Except as described in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, might have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries; and to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others.

(p) The POR (as such term is defined in the Prospectus) has become effective pursuant to its terms, and in connection with the bankruptcy and reorganization described in the POR, no pre-petition claims or liabilities or claims or liabilities (including claims for trade and administrative expenses) which arose from the petition date through the confirmation date or as a result or in connection with the POR remain outstanding with respect to the Company or any of its subsidiaries except as described in the Prospectus.

(q) There are no contracts or other documents which are required to be described in the Prospectus or filed as exhibits to the Registration Statement by the Securities Act or by the Rules and Regulations which have not been described in the Prospectus or filed as exhibits to the Registration Statement or incorporated therein by reference as permitted by the Rules and Regulations.

(r) No relationship, direct or indirect, exists between or among the Company or any of its subsidiaries on the one hand, and the directors, officers, stockholders, affiliates, customers or suppliers of the Company or any of its subsidiaries on the other hand, which is required to be described in the Prospectus which is not so described.

(s) No labor disturbance by the employees of the Company or any of its subsidiaries exists or, to the knowledge of the Company, is imminent which might be expected to have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries.

(t) The Company is in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations and published interpretations thereunder; no "reportable event" (as defined in ERISA and the regulations and published interpretations thereunder) has occurred with respect to any "pension plan" (as defined in ERISA and the regulations and published interpretations thereunder) established or maintained by the Company or any of its subsidiaries; none of the Company or any of its subsidiaries has incurred or expects to incur liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Sections 412 or 4971 of the Internal Revenue Code of 1986, as amended (the "Code"); and each "pension plan" established or maintained by the Company that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and has received a favorable determination letter as to its qualification and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(u) The Company has filed all federal, state and local income and franchise tax returns required to be filed through the date hereof and has paid all taxes due thereon, and no tax deficiency has been, nor does the Company have any knowledge of any tax deficiency which if determined adversely to the Company or any of its subsidiaries, might have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries.

(v) Since the date as of which information is given in the Prospectus through the date hereof, and except as may otherwise be disclosed in the Prospectus, neither the Company nor any subsidiary has (i) issued or granted any securities, (ii) incurred any liability or obligation, direct or contingent, other than liabilities and obligations which were incurred in the ordinary course of business, (iii) entered into any transaction not in the ordinary course of business or (iv) declared or paid any dividend on its capital stock.

(w) The Company, with respect to itself and its subsidiaries, (i) makes and keeps accurate books and records and (ii) maintains internal accounting controls which provide reasonable assurance that (A) transactions are executed in accordance with management's authorization, (B) transactions are recorded as necessary to permit preparation of its financial statements and to maintain accountability for its and its subsidiaries' assets, (C) access to its and its subsidiaries' assets is permitted only in accordance with management's authorization and (D) the reported accountability for its and its subsidiaries' assets is compared with existing assets at reasonable intervals.

(x) Neither the Company nor any of its subsidiaries (i) is in violation of its charter or by-laws, (ii) is in default in any material respect, and no event has occurred which, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any material agreement, indenture or instrument, or (iii) is in violation in any material respect of any law, ordinance, governmental rule, regulation or court decree to which it or its property may be subject or has failed to obtain any material license, permit, certificate, franchise or other governmental authorization or permit necessary to the ownership of its property or to the conduct of its business.

(y) The Common Stock to be sold by the Company has been approved for listing, subject only to official notice of issuance, on the New York Stock Exchange.

2. *Purchase of the Stock by the International Managers.* On the basis of the representations and warranties contained in, and subject to the terms and conditions of, this Agreement, the Company agrees to sell 8,000,000 shares of the Firm Stock to the several International Managers and each of the International Managers, severally and not jointly, agrees to purchase the number of shares of the Firm Stock set opposite that International Manager's name in Schedule 1 hereto. The respective purchase obligations of the International Managers with respect to the Firm Stock shall be rounded among the International Managers to avoid fractional shares, as the Lead Managers may determine.

In addition, the Company grants to the International Managers an option to purchase up to 1,200,000 shares of Option Stock. Such option is granted solely for the purpose of covering over-allotments in the sale of Firm Stock and is exercisable as provided in Section 4 hereof. Shares of Option Stock shall be purchased severally for the account of the International Managers in proportion to the number of shares of Firm Stock set opposite the name of such International Managers in Schedule 1 hereto. The respective purchase obligations of each International Manager with respect to the Option Stock shall be adjusted by the Lead Managers so that no International Manager shall be obligated to purchase Option Stock other than in 100 share amounts. The price of both the Firm Stock and any Option Stock shall be \$_____ per share.

The Company shall not be obligated to deliver any of the Stock to be delivered on the First Delivery Date or the Second Delivery Date (as hereinafter defined), as the case may be, except upon payment for all the Stock to be purchased on such Delivery Date as hereinafter provided.

3. Offering of Stock by the International Managers.

Upon authorization by the Lead Managers of the release of the Firm Stock, the several International Managers propose to offer the Firm Stock for sale upon the terms and conditions set forth in the Prospectus.

Each International Manager agrees that, except to the extent permitted by the Agreement Between U.S. Underwriters and International Managers, it will not offer or sell any of the Stock outside of the United States.

4. Delivery of and Payment for the Stock. Delivery of and payment for the Firm Stock shall be made at the office of Shearson Lehman Brothers Inc., 388 Greenwich Street (Cashier's Window, Main Level), New York, New York 10013, at 10:00 A.M., New York City time, on the fifth full business day following the date of this Agreement or at such other date or place as shall be determined by agreement between the Lead Managers and the Company. This date and time are sometimes referred to as the First Delivery Date." On the First Delivery Date, the Company shall deliver or cause to be delivered certificates representing the Firm Stock to the Lead Managers for the account of each International Manager against payment to or upon the order of the Company of the purchase price by certified or official bank check or checks payable in New York Clearing House (next-day) funds. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each International Manager hereunder. Upon delivery, the Firm Stock shall be registered in such names and in such denominations as the Lead Managers shall request in writing not less than two full business days prior to the First Delivery Date. For the purpose of expediting the checking and packaging of the certificates for the Firm Stock, the Company shall make the certificates representing the Firm Stock available for inspection by the Lead Managers in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the First Delivery Date.

At any time on or before the thirtieth day after the date of this Agreement the option granted in Section 2 may be exercised by written notice being given to the Company by the Lead Managers. Such notice shall set forth the aggregate number of shares of Option Stock as to which the option is being exercised, the names in which the shares of Option Stock are to be registered, the denominations in which the shares of Option Stock are to be issued and the date and time, as determined by the Lead Managers, when the shares of Option Stock are to be delivered; *provided, however,* that this date and time shall not be earlier than the First Delivery Date nor earlier than the second business day after the date on which the option shall have been exercised nor later than the fifth business day after the date on which the option shall have been exercised. The date and time the shares

of Option Stock are delivered are sometimes referred to as the "Second Delivery Date" and the First Delivery Date and the Second Delivery Date are sometimes each referred to as a "Delivery Date").

Delivery of and payment for the Option Stock shall be made at the office of Shearson Lehman Brothers Inc., 388 Greenwich Street (Cashier's Window, Main Level), New York, New York 10013 (or at such other place as shall be determined by agreement between the Lead Managers and the Company) at 10:00 A.M., New York City time, on the Second Delivery Date. On the Second Delivery Date, the Company shall deliver or cause to be delivered the certificates representing the Option Stock to the Lead Managers for the account of each International Manager against payment to or upon the order of the Company of the purchase price by certified or official bank check or checks payable in New York Clearing House (next-day) funds. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each International Manager hereunder. Upon delivery, the Option Stock shall be registered in such names and in such denominations as the Lead Managers shall request in the aforesaid written notice. For the purpose of expediting the checking and packaging of the certificates for the Option Stock, the Company shall make the certificates representing the Option Stock available for inspection by the Lead Managers in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the Second Delivery Date.

5. Further Agreements of the Company. The Company agrees:

- (a) To prepare the Prospectus in a form approved by the Lead Managers and to file such Prospectus pursuant to Rule 424(b) under the Securities Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the Securities Act; to make no further amendment or any supplement to the Registration Statement or to the Prospectus except as permitted herein; to advise the Lead Managers, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish the Lead Managers with copies thereof; to advise the Lead Managers, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus, of the suspension of the qualification of the Stock for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus

or the Prospectus or suspending any such qualification, to use promptly its best efforts to obtain its withdrawal;

(b) To furnish promptly to each of the Lead Managers and to counsel for the International Managers a signed copy of the Registration Statement as originally filed with the Commission, and each amendment thereto filed with the Commission, including all consents and exhibits filed therewith;

(c) To deliver promptly to the Lead Managers such number of the following documents as the Lead Managers shall request: (i) conformed copies of the Registration Statement as originally filed with the Commission and each amendment thereto (in each case excluding exhibits other than this Agreement and the computation of per share earnings) and (ii) each Preliminary Prospectus, the Prospectus and any amended or supplemented Prospectus; and, if the delivery of a prospectus is required at any time prior to the expiration of nine months after the Effective Time in connection with the offering or sale of the Stock and if at such time any events shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary during such same period to amend or supplement the Prospectus in order to comply with the Securities Act, to notify the Lead Managers and, upon their request, to prepare and furnish without charge to each International Manager and to any dealer in securities as many copies as the Lead Managers may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance, and in case any International Manager is required to deliver a prospectus in connection with sales of any of the Stock at any time nine months or more after the Effective Time, upon the request of the Lead Managers but at the expense of such International Manager, to prepare and deliver to such International Manager as many copies as the Lead Managers may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Securities Act;

(d) To file promptly with the Commission any amendment to the Registration Statement or the Prospectus or any supplement to the Prospectus that may, in the judgment of the Company or the Lead Managers, be required by the Securities Act or requested by the Commission;

(e) Prior to filing with the Commission any (i) amendment to the Registration Statement or supplement to the Prospectus or (ii) any Prospectus pursuant to Rule 424 of the Rules and Regulations, to furnish a copy thereof

to the Lead Managers and counsel for the International Managers and obtain the consent of the Lead Managers to the filing;

(f) As soon as practicable after the Effective Date, to make generally available to the Company's security holders and to deliver to the Lead Managers an earnings statement of the Company and its subsidiaries (which need not be audited) complying with Section 11(a) of the Securities Act and the Rules and Regulations (including, at the option of the Company, Rule 158);

(g) To endeavor to maintain the listing of the Stock on the New York Stock Exchange, Inc. and to comply with the rules of the New York Stock Exchange, Inc. in respect of the Stock.

(h) For a period of five years following the Effective Date, to furnish to the Lead Managers copies of all materials furnished by the Company to its shareholders and all public reports and all reports and financial statements furnished by the Company to the principal national securities exchange upon which its Common stock may be listed pursuant to requirements of or agreements with such exchange or to the Commission pursuant to the Exchange Act or any rule or regulation of the Commission thereunder;

(i) Promptly from time to time to take such action as the Lead Managers may reasonably request to qualify the Stock for offering and sale under the securities laws of such jurisdictions as the Lead Managers may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Stock;

(j) For a period of 180 days from the date of the Prospectus, not to offer for sale, sell or otherwise dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock, or sell or grant options, rights or warrants with respect to any shares of Common Stock (other than the Stock and shares issued (i) upon conversion or exercise of the Convertible Notes, Series A Warrants or Series B Warrants (each as defined in the Prospectus), (ii) in connection with the Company's 1992 Executive Equity Incentive Plan or (iii) in connection with shares of Common Stock issuable on a delayed basis pursuant to the POR), without the prior written consent of the Lead Managers; to cause each executive officer and director of the Company to furnish to the Lead Managers, prior to the First Delivery Date, a letter or letters, in form and substance satisfactory to counsel for the International Managers, pursuant to which each such person shall agree not to offer for sale, sell or otherwise dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock for

a period of 180 days from the date of the Prospectus, without the prior written consent of the Lead Managers; and not to waive during such 180-day period the limitations set forth in Section 3.6(a) of the Stockholders Agreement upon the obligations of the Company to effect any Stockholder Sale Event, not to release during such 180-day period any Subject Shares from the restrictions set forth in the Stockholders Agreement, and not to terminate the Stockholders Agreement or otherwise to amend or modify the Stockholders Agreement in a manner which would permit a Stockholder Sale Event or release of Subject Shares to occur prior to 180 days after the date of the Prospectus, without in each case the prior written consent of the Lead Managers;

(k) To apply the net proceeds from the sale of the Stock being sold by the Company as set forth in the Prospectus and to apply at least \$____ million of additional cash to the prepayment of long-term debt incurred pursuant to the POR;

(l) To take such steps as shall be necessary to ensure that neither the Company nor any subsidiary shall become an "investment company" within the meaning of such term under the United States Investment Company Act of 1940 and the rules and regulations of the Commission thereunder; and

(m) Until the completion of the offering of the Stock, to avoid taking, directly or indirectly, any action which might reasonably be expected to cause or result in (i) stabilization in the price of the Common Stock to facilitate the sale or resale of the Common Stock or (ii) manipulation of the price of the Common Stock.

6. *Expenses.* The Company agrees to pay (a) the costs incident to the authorization, issuance, sale and delivery of the Stock and any taxes payable in that connection; (b) the costs incident to the preparation, printing and filing under the Securities Act of the Registration Statement and any amendments and exhibits thereto; (c) the costs of distributing the Registration Statement as originally filed and each amendment thereto and any post-effective amendments thereof (including, in each case, exhibits), any Preliminary Prospectus, the Prospectus and any amendment or supplement to the Prospectus, all as provided in this Agreement; (d) the costs of printing or duplicating this Agreement; (e) the costs of distributing the terms of agreement relating to the organization of the underwriting syndicate and the selling group to the members thereof by mail, telex or other means of communication; (f) the filing fees incident to securing any required review by the National Association of Securities Dealers, Inc. (the "NASD") of the terms of sale of the Stock; (g) any applicable listing or other fees and the costs of any related Exchange Act filings; (h) the fees and expenses of qualifying the Stock under the securities laws of the several jurisdictions as provided in Section 5(i) and of preparing, printing and distributing a Blue Sky Memorandum (including related fees and expenses of counsel to the International Managers); (i) the fees and expenses of its counsel and of KPMG Peat

Marwick and (j) all other costs and expenses incident to the performance of the obligations of the Company under this Agreement; *provided* that, except as provided in this Section 6 and in Section 11, the International Managers shall pay their own costs and expenses, including the costs and expenses of their counsel, any transfer taxes on the Stock which they may sell and the expenses of advertising any offering of the Stock made by the International Managers.

7. *Conditions of International Managers' Obligations.* The respective obligations of the International Managers hereunder are subject to the accuracy, when made and on each Delivery Date, of the representations and warranties of the Company contained herein, to the performance by the Company of its obligations hereunder, and to each of the following additional terms and conditions:

(a) The Prospectus shall have been timely filed with the Commission in accordance with Section 5(a); no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and any request of the Commission for inclusion of additional information in the Registration Statement or the Prospectus or otherwise shall have been complied with.

(b) No International Manager shall have discovered and disclosed to the Company on or prior to such Delivery Date that the Registration Statement or the Prospectus or any amendment or supplement thereto contains an untrue statement of a fact which, in the opinion of Simpson Thacher & Bartlett, counsel for the International Managers, is material or omits to state a fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein not misleading.

(c) All corporate proceedings and other legal matters incident to the authorization, form and validity of this Agreement, the Stock, the Registration Statement and the Prospectus, and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be satisfactory in all respects to counsel for the International Managers, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(d) Jones, Day, Reavis & Pogue shall have furnished to the Lead Managers its written opinion, as counsel to the Company, addressed to the International Managers and dated such Delivery Date, in form and substance satisfactory to the Lead Managers, to the effect that:

(i) The Company and each of the Significant Subsidiaries have been duly incorporated and are validly existing as corporations in

good standing under the laws of their respective jurisdictions of incorporation, are duly qualified to do business and are in good standing as foreign corporations in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses requires such qualification, and have all power and authority necessary to own or hold their respective properties and conduct the businesses in which they are engaged;

(ii) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable, with no personal liability attaching to the ownership thereof; all of the shares of Stock being delivered on such Delivery Date have been duly and validly authorized, and, upon payment therefor pursuant to the terms of this Agreement, will be duly and validly issued, outstanding, fully paid and non-assessable with no personal liability attaching to the ownership thereof; all of the shares of capital stock of the Company conform to the description thereof contained in the Prospectus; and all of the issued shares of capital stock of each Significant Subsidiary of the Company have been duly and validly authorized and issued and are fully paid, non-assessable and (except for directors' qualifying shares) owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims;

(iii) There are no preemptive or other rights to subscribe for or to purchase, nor any restriction upon the voting or transfer of, any shares of the capital stock of the Company pursuant to the Company's charter or by-laws or, other than restrictions upon transfer set forth in the Stockholders Agreement, any agreement or other instrument known to such counsel; there are no outstanding warrants or options issued or granted by the Company to purchase any shares of the capital stock of the Company from the Company under any agreement, instrument or employee benefit plan known to such counsel, except as disclosed in the Prospectus;

(iv) The Company and each of its subsidiaries have good and marketable title in fee simple to all real property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and its subsidiaries; and all real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases, with such exceptions as are not

material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries;

(v) To the best of such counsel's knowledge and other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, might have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries; and, to the best of such counsel's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(vi) The Registration Statement was declared effective under the Securities Act as of the date and time specified in such opinion, the Prospectus was filed with the Commission pursuant to the subparagraph of Rule 424(b) of the Rules and Regulations specified in such opinion on the date specified therein and no stop order suspending the effectiveness of the Registration Statement has been issued and, to the knowledge of such counsel, no proceeding for that purpose is pending or threatened by the Commission;

(vii) The Registration Statement and the Prospectus and any further amendments or supplements thereto made by the Company prior to such Delivery Date (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Securities Act and the Rules and Regulations;

(viii) The statements contained in the Prospectus under the caption "Certain United States Tax Consequences for Non-U.S. Holders", insofar as they describe federal statutes, rules and regulations, constitute a fair summary thereof;

(ix) To the best of such counsel's knowledge, there are no contracts or other documents which are required to be described in the Prospectus or filed as exhibits to the Registration Statement by the Securities Act or by the Rules and Regulations which have not been described or filed as exhibits to the Registration Statement or incorporated therein by reference as permitted by the Rules and Regulations;

(x) The Company has all necessary corporate power and authority to execute and deliver this Agreement and perform its obligations hereunder; and this Agreement has been duly authorized, executed and delivered by the Company;

(xi) The issue and sale of the shares of Stock being delivered on such Delivery Date by the Company and the compliance by the Company with all of the provisions of this Agreement and the U.S. Underwriting Agreement and the consummation of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, nor will such actions result in any violation of the provisions of the charter or by-laws of the Company or any of its subsidiaries or any statute or any order, rule or regulation known to such counsel of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties; and, except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act and applicable state or foreign securities laws in connection with the purchase and distribution of the Stock by the International Managers, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement or the International Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby and the Reorganization; and

(xii) To the best of such counsel's knowledge, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company under the Securities Act.

Such counsel shall also have furnished to the Lead Managers a written statement, addressed to the International Managers and dated such Delivery Date, in form and substance satisfactory to the Lead Managers, to the effect

that (x) such counsel has acted as counsel to the Company on a regular basis (although the Company is also represented by its General Counsel and, with respect to certain other matters, by other outside counsel), has acted as counsel to the Company in connection with previous financing transactions and has acted as counsel to the Company in connection with the preparation of the Registration Statement, and (y) based on the foregoing, no facts have come to the attention of such counsel which lead it to believe that the Registration Statement, as of the Effective Date, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Prospectus contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The foregoing opinion and statement may be qualified by a statement to the effect that such counsel does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus except for the statements made in the Prospectus under the captions "Capital Stock", "Indebtedness" and "Certain United States Tax Consequences for Non-U.S. Holders".

(e) The Company shall have furnished to the Lead Managers a letter (the "bring-down letter") of KPMG Peat Marwick, addressed to the International Managers and dated such Delivery Date (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date of the bring-down letter (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than five days prior to the date of the bring-down letter), the conclusions and findings of such firm with respect to the financial information and other matters covered by its letter (the "initial letter") delivered to the Lead Managers concurrently with the execution of this Agreement and (iii) confirming in all material respects the conclusions and findings set forth in the initial letter.

(f) The Company shall have furnished to the Lead Managers a certificate, dated such Delivery Date, of its Chairman of the Board, its President or a Vice President and its chief financial officer stating that:

(i) The representations, warranties and agreements of the Company in Section 1 are true and correct as of such Delivery Date; the Company has complied with all its agreements contained herein;

and the conditions set forth in Sections 7(a) and 7(g) have been fulfilled; and

(ii) They have carefully examined the Registration Statement and the Prospectus and, in their opinion (A) as of the Effective Date, the Registration Statement and Prospectus did not include any untrue statement of a material fact and did not omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (B) since the Effective Date no event has occurred which should have been set forth in such a supplement or amendment.

(g) (i) Neither the Company nor any of its subsidiaries shall have sustained since the date of the latest audited financial statements included in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus or (ii) since such date there shall not have been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus, the effect of which, in any such case described in clause (i) or (ii), is, in the judgment of the Lead Managers, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Stock being delivered on such Delivery Date on the terms and in the manner contemplated in the Prospectus.

(h) Subsequent to the execution and delivery of this Agreement there shall not have occurred any of the following: (i) trading in securities generally on the New York Stock Exchange, the American Stock Exchange or the over-the-counter market shall have been suspended or materially limited or minimum prices shall have been established on one or more of such exchanges or such market by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction, (ii) a banking moratorium shall have been declared by Federal or state authorities, (iii) the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States or there shall have been a declaration of a national emergency or war by the United States or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions, national or international equity markets or currency exchange rates or controls as to make it, in the judgement of a majority in interest of the several International Managers,

inadvisable or impractical to proceed with the public offering or delivery of the Stock on the terms and in the manner contemplated in the Prospectus.

(i) The New York Stock Exchange, Inc. shall have approved the Stock for listing, subject only to official notice of issuance.

(j) The NASD, upon review of the terms of the public offering of the Stock, shall not have objected to the participation by any of the International Managers in such offering or asserted any violations of the By-Laws of the NASD.

(k) The closing under the International Underwriting Agreement shall have occurred concurrently with the closing hereunder on the First Delivery Date.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance satisfactory to counsel for the International Managers.

8. *Indemnification and Contribution.*

(a) The Company shall indemnify and hold harmless each International Manager and each person, if any, who controls any International Manager within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, but not limited to, any loss, claim, damage, liability or action relating to purchases and sales of Stock), to which that International Manager or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse each International Manager and each such controlling person promptly upon demand for any legal or other expenses reasonably incurred by that International Manager or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred; *provided, however,* that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company through the Lead Managers by or on behalf of any International Manager specifically for inclusion therein. The foregoing indemnity agreement is in addition to any liability which the Company may otherwise have to any International Manager or any controlling person of that International Manager.

(b) Each International Manager, severally and not jointly, shall indemnify and hold harmless the Company, each of its directors, each of its officers who signed the Registration Statement and each person, if any, who controls the Company within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which the Company or any such director, officer or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company through the Lead Managers by or on behalf of that International Manager specifically for inclusion therein, and shall reimburse the Company and any such director, officer or controlling person for any legal or other expenses reasonably incurred by the Company or any such director, officer or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred. The foregoing indemnity agreement is in addition to any liability which any International Manager may otherwise have to the Company or any such director, officer or controlling person.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the claim or the commencement of that action; *provided, however,* that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 8 except to the extent it has been materially prejudiced by such failure, and *provided, further,* that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 8. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; *provided, however,* that the Lead Managers shall have the right to employ counsel to represent jointly the Lead Managers and those other International Managers and their respective controlling persons who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the International Managers against the Company under this Section 8 if, in the reasonable judgment of the Lead Managers, it is advisable for the Lead Managers and those International Managers and controlling persons to be jointly represented by separate

counsel, and in that event the fees and expenses of such separate counsel shall be paid by the Company.

(d) If the indemnification provided for in this Section 8 shall for any reason be unavailable to or insufficient to hold harmless an indemnified party under Section 8(a) or 8(b) in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company on the one hand and the International Managers on the other from the offering of the Stock or (ii) if the allocation provided by clause (i) above is not permitted by applicable law or if the indemnified party failed to give the notice required under Section 8(c), in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the International Managers on the other with respect to the statements or omissions which resulted in such loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the International Managers on the other with respect to such offering shall be deemed to be in the same proportion as the total net proceeds from the offering of the Stock purchased under this agreement (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the International Managers with respect to the shares of the Stock purchased under this Agreement, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or the International Managers, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the International Managers agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were to be determined by pro rata allocation (even if the International Managers were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this Section 8(d) shall be deemed to include, for purposes of this Section 8(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8(d), no International Manager shall be required to contribute any amount in excess of the amount by which the total price at which the Stock underwritten by it and distributed to the public was offered to the public exceeds the amount of any damages which such International Manager has otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The International Managers' obligations to contribute as provided in this

Section 8(d) are several in proportion to their respective underwriting obligations and not joint.

(e) The International Managers severally confirm that the statements with respect to the public offering of the Stock set forth on the cover page of, and under the caption "Underwriting" in, the Prospectus are correct and were furnished in writing to the Company by or on behalf of the International Managers severally for inclusion in the Registration Statement and the Prospectus.

(f) The agreements contained in this Section 8 and the representations, warranties and agreements of the Company in Sections 1, 5, 6 and 11 shall survive the delivery of the Stock and shall remain in full force and effect, regardless of any termination or cancellation of this Agreement or any investigation made by or on behalf of any indemnified party.

9. *Defaulting International Managers.*

If, on either Delivery Date, any International Manager defaults in the performance of its obligations under this Agreement, the remaining non-defaulting International Managers shall be obligated to purchase the Stock which the defaulting International Manager agreed but failed to purchase on such Delivery Date in the respective proportions which the number of shares of the Firm Stock set opposite the name of each remaining non-defaulting International Manager in Schedule 1 hereto bears to the total number of shares of the Firm Stock set opposite the names of all the remaining non-defaulting International Managers in Schedule 1 hereto; *provided, however,* that the remaining non-defaulting International Managers shall not be obligated to purchase any of the Stock on such Delivery Date if the total number of shares of the Stock which the defaulting International Manager or International Managers agreed but failed to purchase on such date exceeds 9.09% of the total number of shares of the Stock to be purchased on such Delivery Date, and any remaining non-defaulting International Manager shall not be obligated to purchase more than 110% of the number of shares of the Stock which it agreed to purchase on such Delivery Date pursuant to the terms of Section 2. If the foregoing maximums are exceeded, the remaining non-defaulting International Managers, or those other underwriters satisfactory to the Lead Managers who so agree, shall have the right, but shall not be obligated, to purchase, in such proportion as may be agreed upon among them, all the Stock to be purchased on such Delivery Date. If the remaining International Managers or other underwriters satisfactory to the Lead Managers do not elect to purchase the shares which the defaulting International Manager or International Managers agreed but failed to purchase, this Agreement shall terminate without liability on the part of any non-defaulting International Manager or the Company, except that the Company will continue to be liable for the payment of expenses to the extent set forth in Sections 6 and 11.

Nothing contained herein shall relieve a defaulting International Manager of any liability it may have to the Company for damages caused by its default. If other underwriters are obligated or agree to purchase the Stock of a defaulting or withdrawing

International Manager, either the Lead Managers or the Company may postpone the First Delivery Date for up to seven full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the International Managers may be necessary in the Registration Statement, the Prospectus or in any other document or arrangement.

10. *Termination.*

The obligations of the International Managers hereunder may be terminated by the Lead Managers, in their absolute discretion, by notice given to and received by the Company prior to delivery of and payment for the Firm Stock if, prior to that time, any of the events described in Sections 7(g) or 7(h) shall have occurred or if the International Managers shall decline to purchase the Stock for any reason permitted under this Agreement.

11. *Reimbursement of International Managers' Expenses.* If (a) the Company shall fail to tender the Stock for delivery to the International Managers for any reason permitted under this Agreement or (b) the International Managers shall decline to purchase the Stock for any reason permitted under this Agreement (including the termination of this Agreement pursuant to Section 10), the Company shall reimburse the International Managers for the fees and expenses of their counsel and for such other out-of-pocket expenses as shall have been incurred by them in connection with this Agreement and the proposed purchase of the Stock, and upon demand the Company shall pay the full amount thereof to the Lead Managers. If this Agreement is terminated pursuant to Section 9 by reason of the default of one or more International Managers, the Company shall not be obligated to reimburse any defaulting International Manager on account of those expenses.

12. *Notices, etc.* All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the International Managers, shall be delivered or sent by mail, telex or facsimile transmission to Lehman Brothers International Limited, 1 Broadgate, London EC2M 7HA, England, Attention: International Syndicate Department;

(b) if to the Company, shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Registration Statement, Attention: [Dennis J. Broderick, Esq., Senior Vice President and General Counsel];

provided, however, that any notice to an International Manager pursuant to Section 8(c) shall be delivered or sent by mail, telex or facsimile transmission to such International Manager at its address set forth in its acceptance telex to the Lead Managers, which address will be supplied to any other party hereto by the Lead Managers upon request. Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof.

The Company shall be entitled to act and rely upon any request, consent, notice or agreement given or made on behalf of the International Managers by Lehman Brothers International Limited on behalf of the Lead Managers.

13. *Persons Entitled to Benefit of Agreement.* This Agreement shall inure to the benefit of and be binding upon the International Managers, the Company and their respective successors. This Agreement and the terms and provisions hereof are for the sole benefit of only those persons, except that (A) the representations, warranties, indemnities and agreements of the Company contained in this Agreement shall also be deemed to be for the benefit of the person or persons, if any, who control any International Manager within the meaning of Section 15 of the Securities Act and for the benefit of each U.S. Underwriter (and controlling persons thereof) who offers or sells any shares of Common Stock in accordance with the terms of the Agreement Between U.S. Underwriters and International Managers and (B) the indemnity agreement of the International Managers contained in Section 8(b) of this Agreement shall be deemed to be for the benefit of directors of the Company, officers of the Company who have signed the Registration Statement and any person controlling the Company within the meaning of Section 15 of the Securities Act. Nothing in this Agreement is intended or shall be construed to give any person, other than the persons referred to in this Section 13, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

14. *Definition of the Terms "Business Day" and "Subsidiary".* For purposes of this Agreement, (a) "business day" means any day on which the New York Stock Exchange, Inc. is open for trading and (b) "subsidiary" has the meaning set forth in Rule 405 of the Rules and Regulations.

15. *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of New York.

16. *Counterparts.* This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

17. *Headings.* The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

If the foregoing correctly sets forth the agreement between the Company and the International Managers, please indicate your acceptance in the space provided for that purpose below.

Very truly yours,

FEDERATED DEPARTMENT STORES, INC.

By _____
Title:

Accepted:

LEHMAN BROTHERS INTERNATIONAL LIMITED
GOLDMAN SACHS INTERNATIONAL LIMITED
MORGAN STANLEY INTERNATIONAL
SMITH BARNEY, HARRIS UPHAM & CO. INCORPORATED

By LEHMAN BROTHERS INTERNATIONAL LIMITED

By _____
Authorized Signatory

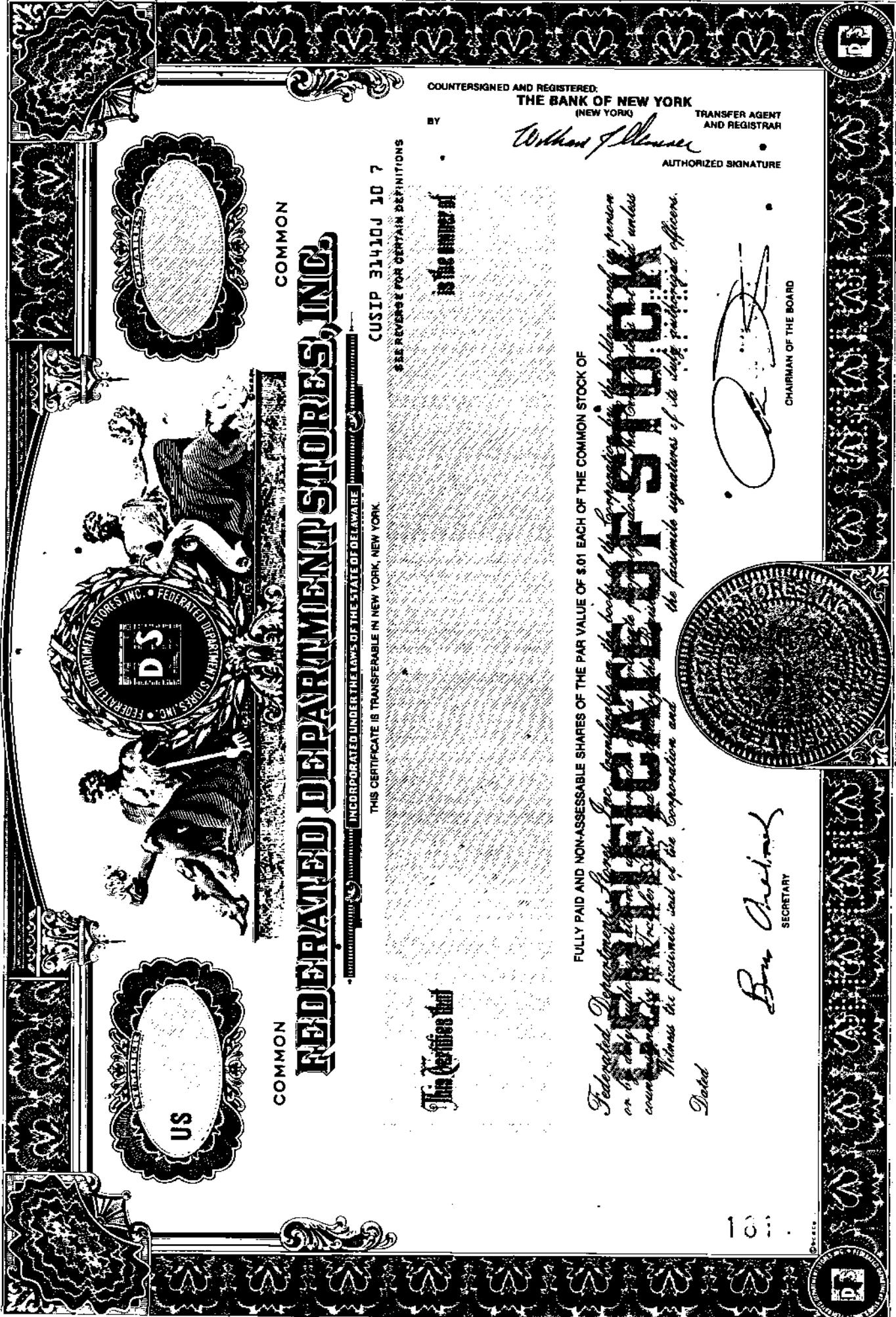
For themselves and as Lead Managers
of the International Managers

SCHEDULE 1

<u>International Managers</u>	<u>Number of Shares</u>
Lehman Brothers International Limited	
Goldman Sachs International Limited	
Morgan Stanley International	
Smith Barney, Harris Upham & Co. Incorporated	
Total	_____

EXHIBIT 4.4

12409



The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM—as tenants in common

UNIF GIFT MIN ACT—

Custodian

TEN ENT—as tenants by the entireties

(Cust)

(Minor)

JT TEN—as joint tenants with right of survivorship and not as tenants in common

under Uniform Gifts to Minors Act

(State)

Additional abbreviations may also be used though not in the above list.

For value received, hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

shares
of the capital stock represented by the within Certificate,
and do hereby irrevocably constitute and appoint Attorney
to transfer the said stock on the books of the within named
Corporation with full power of substitution in the premises.

Dated

The signature to this assignment must correspond with the name
written upon the back of the certificate in every particular, without
any change whatever.

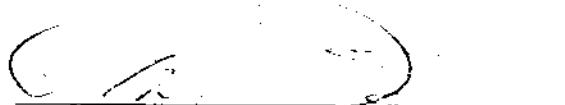
• CERTAIN ASSOCIATED RIGHTS

This Certificate also evidences and entitles the holder hereof to certain Rights as set forth in a Rights Agreement between Federated Department Stores, Inc. and The Bank of New York, a New York banking corporation (the "Rights Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of Federated Department Stores, Inc. The Rights are not exercisable prior to the occurrence of certain events specified in the Rights Agreement. Under certain circumstances, as set forth in the Rights Agreement, such Rights may be redeemed, may expire, may be amended, or may be evidenced by separate certificates and no longer be evidenced by this Certificate. Federated Department Stores, Inc. will mail to the holder of this Certificate a copy of the Rights Agreement without charge promptly after receipt of a written request therefor. Under certain circumstances as set forth in the Rights Agreement, Rights beneficially owned by an Acquiring Person or any Affiliate or Associate of an Acquiring Person (as such terms are defined in the Rights Agreement) may become null and void.

EXHIBIT 25.1

POWER OF ATTORNEY

The undersigned, a director and/or officer of Federated Department Stores, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Ronald W. Tysoe, Dennis J. Broderick, Boris Auerbach, Robert A. Profusek, J. Lawrence Manning, Jr., Mark E. Betzen, Wendy S. Dann and Shannon E. Gorrell, or any of them, my true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, to do any and all acts and things in my name and behalf in my capacities as director and/or officer of the Company and to execute any and all instruments for me and in my name in the capacities indicated above, which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable to enable the Company to comply with the Securities Act of 1933, as amended, and any rules, regulations, and requirements of the Securities and Exchange Commission, in connection with a Registration Statement on Form S-1 relating to the public offering of the Common Stock, par value \$.01 per share, of the Company, including without limitation, power and authority to sign for me, in my name in the capacities indicated above, such Registration Statement and any and all amendments (including post-effective amendments) thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange commission, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, or any one of them, shall do or cause to be done by virtue hereof.



Dated: March 31, 1992

POWER OF ATTORNEY

The undersigned, a director and/or officer of Federated Department Stores, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Ronald W. Tysoe, Dennis J. Broderick, Boris Auerbach, Robert A. Profusek, J. Lawrence Manning, Jr., Mark E. Betzen, Wendy S. Dann and Shannon E. Gorrell, or any of them, my true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, to do any and all acts and things in my name and behalf in my capacities as director and/or officer of the Company and to execute any and all instruments for me and in my name in the capacities indicated above, which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable to enable the Company to comply with the Securities Act of 1933, as amended, and any rules, regulations, and requirements of the Securities and Exchange Commission, in connection with a Registration Statement on Form S-1 relating to the public offering of the Common Stock, par value \$.01 per share, of the Company, including without limitation, power and authority to sign for me, in my name in the capacities indicated above, such Registration Statement and any and all amendments (including post-effective amendments) thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange commission, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, or any one of them, shall do or cause to be done by virtue hereof.

Dated: March 11, 1992

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POWER OF ATTORNEY

The undersigned, a director and/or officer of Federated Department Stores, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Ronald W. Tysoe, Dennis J. Broderick, Boris Auerbach, Robert A. Profusek, J. Lawrence Manning, Jr., Mark E. Betzen, Wendy S. Dann and Shannon E. Gorrell, or any of them, my true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, to do any and all acts and things in my name and behalf in my capacities as director and/or officer of the Company and to execute any and all instruments for me and in my name in the capacities indicated above, which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable to enable the Company to comply with the Securities Act of 1933, as amended, and any rules, regulations, and requirements of the Securities and Exchange Commission, in connection with a Registration Statement on Form S-1 relating to the public offering of the Common Stock, par value \$.01 per share, of the Company, including without limitation, power and authority to sign for me, in my name in the capacities indicated above, such Registration Statement and any and all amendments (including post-effective amendments) thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, or any one of them, shall do or cause to be done by virtue hereof.

Charlotte Beers

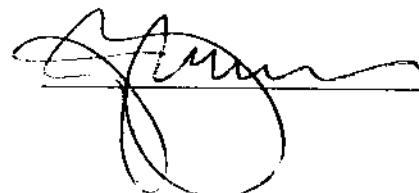
Dated: March 31, 1992

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POWER OF ATTORNEY

The undersigned, a director and/or officer of Federated Department Stores, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Ronald W. Tysoe, Dennis J. Broderick, Boris Auerbach, Robert A. Profusek, J. Lawrence Manning, Jr., Mark E. Betzen, Wendy S. Dann and Shannon E. Gorrell, or any of them, my true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, to do any and all acts and things in my name and behalf in my capacities as director and/or officer of the Company and to execute any and all instruments for me and in my name in the capacities indicated above, which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable to enable the Company to comply with the Securities Act of 1933, as amended, and any rules, regulations, and requirements of the Securities and Exchange Commission, in connection with a Registration Statement on Form S-1 relating to the public offering of the Common Stock, par value \$.01 per share, of the Company, including without limitation, power and authority to sign for me, in my name in the capacities indicated above, such Registration Statement and any and all amendments (including post-effective amendments) thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange commission, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, or any one of them, shall do or cause to be done by virtue hereof.



Dated: March 31, 1992

POWER OF ATTORNEY

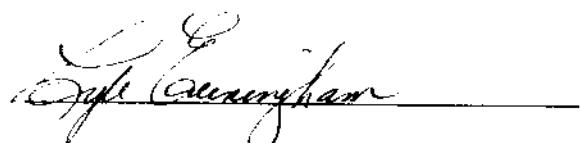
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John J. Deasy

Dated: March 12, 1992

POWER OF ATTORNEY

The undersigned, a director and/or officer of Federated Department Stores, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Ronald W. Tysoe, Dennis J. Broderick, Boris Auerbach, Robert A. Profusek, J. Lawrence Manning, Jr., Mark E. Betzen, Wendy S. Dann and Shannon E. Gorrell, or any of them, my true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, to do any and all acts and things in my name and behalf in my capacities as director and/or officer of the Company and to execute any and all instruments for me and in my name in the capacities indicated above, which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable to enable the Company to comply with the Securities Act of 1933, as amended, and any rules, regulations, and requirements of the Securities and Exchange Commission, in connection with a Registration Statement on Form S-1 relating to the public offering of the Common Stock, par value \$.01 per share, of the Company, including without limitation, power and authority to sign for me, in my name in the capacities indicated above, such Registration Statement and any and all amendments (including post-effective amendments) thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange commission, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, or any one of them, shall do or cause to be done by virtue hereof.



John Cunningham

Dated: March 11, 1992

POWER OF ATTORNEY

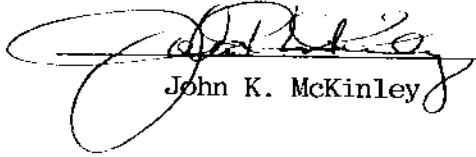
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Bequild H. Jones

Dated: March 16, 1992

POWER OF ATTORNEY

The undersigned, a director and/or officer of Federated Department Stores, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Ronald W. Tysoe, Dennis J. Broderick, Boris Auerbach, Robert A. Profusek, J. Lawrence Manning, Jr., Mark E. Betzen, Wendy S. Dann and Shannon E. Gorrell, or any of them, my true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, to do any and all acts and things in my name and behalf in my capacities as director and/or officer of the Company and to execute any and all instruments for me and in my name in the capacities indicated above, which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable to enable the Company to comply with the Securities Act of 1933, as amended, and any rules, regulations, and requirements of the Securities and Exchange Commission, in connection with a Registration Statement on Form S-1 relating to the public offering of the Common Stock, par value \$.01 per share, of the Company, including without limitation, power and authority to sign for me, in my name in the capacities indicated above, such Registration Statement and any and all amendments (including post-effective amendments) thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange commission, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, or any one of them, shall do or cause to be done by virtue hereof.



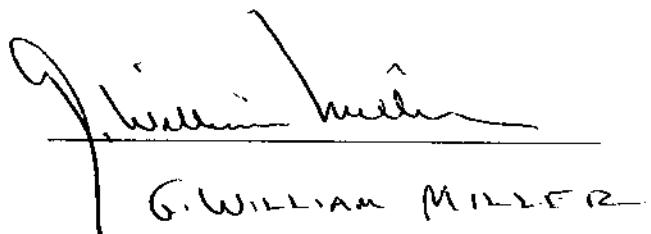
John K. McKinley

Dated: March 31, 1992

POWER OF ATTORNEY

The undersigned, a director and/or officer of Federated Department Stores, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Ronald W. Tysoe, Dennis J. Broderick, Boris Auerbach, Robert A. Profusek, J. Lawrence Manning, Jr., Mark E. Betzen, Wendy S. Dann and Shannon E. Gorrell, or any of them, my true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, to do any and all acts and things in my name and behalf in my capacities as director and/or officer of the Company and to execute any and all instruments for me and in my name in the capacities indicated above, which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable to enable the Company to comply with the Securities Act of 1933, as amended, and any rules, regulations, and requirements of the Securities and Exchange Commission, in connection with a Registration Statement on Form S-1 relating to the public offering of the Common Stock, par value \$.01 per share, of the Company, including without limitation, power and authority to sign for me, in my name in the capacities indicated above, such Registration Statement and any and all amendments (including post-effective amendments) thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange commission, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, or any one of them, shall do or cause to be done by virtue hereof.

Dated: March 16, 1992


G. WILLIAM MILLER

POWER OF ATTORNEY

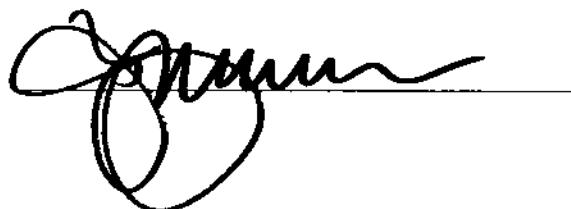
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Ih, v. d. Hig. L.

Dated: March 17, 1992

POWER OF ATTORNEY

The undersigned, a director and/or officer of Federated Department Stores, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Ronald W. Tysoe, Dennis J. Broderick, Boris Auerbach, Robert A. Profusek, J. Lawrence Manning, Jr., Mark E. Betzen, Wendy S. Dann and Shannon E. Gorrell, or any of them, my true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, to do any and all acts and things in my name and behalf in my capacities as director and/or officer of the Company and to execute any and all instruments for me and in my name in the capacities indicated above, which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable to enable the Company to comply with the Securities Act of 1933, as amended, and any rules, regulations, and requirements of the Securities and Exchange Commission, in connection with a Registration Statement on Form S-1 relating to the public offering of the Common Stock, par value \$.01 per share, of the Company, including without limitation, power and authority to sign for me, in my name in the capacities indicated above, such Registration Statement and any and all amendments (including post-effective amendments) thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange commission, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, or any one of them, shall do or cause to be done by virtue hereof.



Dated: March 31, 1992