

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED

JANUARY 31, 1998

COMMISSION FILE NUMBER

1-13536

FEDERATED DEPARTMENT STORES, INC.
151 WEST 34TH STREET
NEW YORK, NEW YORK 10001
(212) 494-1602
AND
7 WEST SEVENTH STREET
CINCINNATI, OHIO 45202
(513) 579-7000

INCORPORATED IN DELAWARE

I.R.S. NO. 13-3324058

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<TABLE>
<CAPTION>

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
<S>	<C>
Common Stock, par value \$.01 per share	New York Stock Exchange
Rights to Purchase Series A Junior Participating Preferred Stock	New York Stock Exchange
Series C Warrants	New York Stock Exchange
Series D Warrants	New York Stock Exchange
10% Senior Notes due 2001	New York Stock Exchange
8.125% Senior Notes due 2002	New York Stock Exchange
5% Convertible Notes due 2003	New York Stock Exchange
8.5% Senior Notes due 2003	New York Stock Exchange
7.45% Senior Debentures due 2017	New York Stock Exchange
6.79% Senior Debentures due 2027	New York Stock Exchange
7% Senior Debentures due 2028	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

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

There were 210,605,161 shares of the Company's Common Stock outstanding as of April 3, 1998, excluding shares held in the treasury of the Company or by subsidiaries of the Company. The aggregate market value of the shares of such Common Stock, excluding shares held in the treasury of the Company or by subsidiaries of the Company, based upon the last sale price as reported on the New York Stock Exchange Composite Tape on April 3, 1998, was approximately \$10,938,300,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement (the "Proxy Statement") relating to the Company's Annual Meeting of Stockholders to be held on May 15, 1998 (the

"Annual Meeting"), are incorporated by reference in Part III hereof.

Unless the context otherwise requires, (i) references herein to the "Company" are, for all periods prior to December 19, 1994 (the "Merger Date"), references to Federated Department Stores, Inc. ("Federated") and its subsidiaries and their respective predecessors, and, for all periods following the merger (the "Merger") of Federated and R.H. Macy & Co., Inc. ("Macy's") on the Merger Date, references to the surviving corporation in the Merger and its subsidiaries, and (ii) references to "1997," "1996," "1995," "1994" and "1993" are references to the Company's fiscal years ended January 31, 1998, February 1, 1997, February 3, 1996, January 28, 1995 and January 29, 1994, respectively.

This report and other reports, statements and information previously or subsequently filed by the Company with the Securities and Exchange Commission (the "SEC") contain or may contain forward-looking statements. Such statements are based upon the beliefs and assumptions of, and on information available to, the management of the Company at the time such statements are made. The following are or may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995: (i) statements preceded by, followed by or that include the words "may," "will," "could," "should," "believe," "expect," "future," "potential," "anticipate," "intend," "plan," "estimate" or "continue" or the negative or other variations thereof and (ii) statements regarding matters that are not historical facts. Such forward-looking statements are subject to various risks and uncertainties, including (i) risks and uncertainties relating to the possible invalidity of the underlying beliefs and assumptions, (ii) possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions, and (iii) actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, competitors and legislative, regulatory, judicial and other governmental authorities and officials. In addition to any risks and uncertainties specifically identified in the text surrounding such forward-looking statements, the statements in the immediately preceding sentence and the statements under captions such as "Risk Factors" and "Special Considerations" in reports, statements and information filed by the Company with the SEC from time to time constitute cautionary statements identifying important factors that could cause actual amounts, results, events and circumstances to differ materially from those reflected in such forward-looking statements.

ITEM 1. BUSINESS.

General. The Company is one of the leading operators of full-line department stores in the United States, with 400 department stores in 33 states as of January 31, 1998. The Company's department 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 Company's department stores are located at urban or suburban sites, principally in densely populated areas across the United States. The Company also operates 162 specialty stores under the names "Aeropostale" and "Charter Club," and a mail order catalog business under the name "Bloomingdale's By Mail." The Company recently announced plans to commence the operation of a mail order catalog business under the name "Macy's By Mail." In general, the Company conducts its business through subsidiaries.

The Company provides electronic data processing and other support functions to its retail operating divisions on an integrated, Company-wide basis. In addition, the Company's financial and credit services subsidiary, FACS Group, Inc. ("FACS"), which is based near Cincinnati, Ohio, provides proprietary credit services, including credit authorizations, new account development, processing, customer service and collection services in respect of proprietary credit card accounts, including "Macy's" credit card accounts, owned by the Company through its national bank, GE Capital Consumer Card Co. ("GE Bank"), which purchased all of the "Macy's" credit card accounts owned by Macy's prior to the Merger (and with which the Company has an agreement regarding the allocation of the ownership of "Macy's" credit card accounts originated subsequent to the Merger) provides

statement and payment processing services in respect of all proprietary credit card accounts owned by the Company and collection services in respect of the GE Bank-owned "Macy's" credit card accounts. The Company's data processing

subsidiary, Federated Systems Group, Inc. ("FSG"), which is based near Atlanta, Georgia, provides (directly and pursuant to outsourcing arrangements with third parties) operational electronic data processing and management information services to each of the Company's retail operating and service divisions. In addition, a specialized staff maintained in the Company's corporate offices in Cincinnati provides services for all divisions in such areas as store design and construction, accounting, real estate, insurance and supply purchasing, as well as various other corporate office functions. FACS, FSG, a specialized service subsidiary and certain departments in the Company's corporate offices offer their services to unrelated third parties as well. Federated Merchandising Group, a division of the Company based in New York City, helps the Company to centrally develop and execute consistent merchandise 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. Federated Merchandising Group is also responsible for the private label development of the Company's retail operating divisions except for Bloomingdale's and Stern's, which source some of their private label merchandise through Associated Merchandising Corporation. Bloomingdale's also has its own private label program. Federated Logistics, based in Secaucus, New Jersey and a division of Federated Corporate Services, Inc., a subsidiary of the Company, provides warehousing and merchandise distribution services for the Company's retail operating divisions.

The Company and its predecessors have been operating department stores since 1830. Federated was organized as a Delaware corporation in 1929. On May 26, 1994, Federated acquired Joseph Horne Co., Inc. pursuant to a subsidiary merger. On December 19, 1994, Federated acquired Macy's pursuant to the Merger. On October 11, 1995, the Company acquired Broadway Stores, Inc. ("Broadway") pursuant to a subsidiary merger.

The Company's executive offices are located at 151 West 34th Street, New York, New York 10001, telephone number: (212) 494-1602 and at 7 West Seventh Street, Cincinnati, Ohio 45202, telephone number: (513) 579-7000.

Employees. As of January 31, 1998, the Company had approximately 114,700 regular full-time and part-time employees. Because of the seasonal nature of the retail business, the number of employees peaks in the Christmas season. Approximately 10% of the Company's employees as of January 31, 1998 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 the months of 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.

Purchasing. The Company purchases merchandise from many suppliers, no one of which accounted for more than 5% of the Company's net purchases during 1997. 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 considers its relations with its suppliers to be satisfactory.

Competition. The retailing 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, off-price and discount stores, new and established forms of home shopping (including mail order catalogs, television and computer services) and manufacturers' outlets.

Year 2000 Compliance. Many existing computer programs utilized globally use only two digits to identify a year in the date field. These programs, if not corrected, could fail or create erroneous results by or at the Year 2000. This "Year 2000" issue is believed to affect virtually all companies and organizations, including the Company.

The Company is reliant on computer-based technology and utilizes a variety

of proprietary and third party applications. The Company's retail functions, such as merchandise procurement and distribution, inventory control and point-of-sale transactions, generally use proprietary applications, with third-party applications being used more extensively for administrative functions, such as accounting and human resource management.

Beginning in February 1996, the Company undertook an assessment of the effect of the Year 2000 issue on the Company's operations. Shortly thereafter, the "Year 2000 Federated Project Office" was established and charged with identifying and evaluating Year 2000-related compliance issues, proposing solutions, estimating the cost of the implementation thereof, and communicating its determinations to the Company's senior management and Board of Directors.

The Project Office, which is composed of the Company's Controller, the Chief Financial Officer of each retail and service subsidiary, FSG's Executive Committee, representatives of the Law and Audit Departments and a Project Manager, has developed a compliance program, and a Project Team has been established for the Company and each of its retail and service subsidiaries. Each Project Team is responsible for overseeing, under FSG's guidance, the implementation of such compliance program within its organization, including ensuring the compliance of software and other date sensitive products purchased for use or resale.

Pursuant to the Company's Year 2000 compliance program, FSG has examined the Company's proprietary software applications. All such applications that relate to a critical retail function and are not Year 2000 compliant are being converted or replaced. In addition, a strategy has been instituted to identify and address Year 2000 issues affecting third-party software applications. That process includes contacting all third-party providers to secure appropriate representations to the effect that Year 2000 issues associated with the software provided by them to the Company have been or will be timely addressed. Contingency plans have been developed as to material third-party software applications used by the Company in respect of which the Company does not receive adequate compliance assurances by August 1998.

Barring unforeseen events, the Company anticipates substantially completing corrective measures as to its proprietary software applications and completing a comprehensive, integrated test of all of its main-frame and mid-range computer systems (hardware, software, network components, interfaces and third-party software applications) by January 31, 1999. The Company anticipates that a subsequent test would be instituted to deal with third-party software applications, if any, that are expected to first achieve compliance after January 31, 1999.

To date, the Company's Year 2000 compliance program is on schedule and on budget. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding the accounting treatment of the estimated costs of the Company's Year 2000 compliance program. Such information is incorporated herein by reference.

Notwithstanding that the Company has been proceeding diligently with the implementation of its own compliance program, including aspects thereof directed to ascertaining Year 2000 compliance by third parties, there can be no assurance that the Company's operations will not experience disruptions due to the failure of third

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parties (including software, data processing, and other vendors) with which the Company has commercial relationships to become fully Year 2000 compliant in a timely manner.

ITEM 1A. EXECUTIVE OFFICERS OF THE REGISTRANT.

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

<TABLE>
<CAPTION>

NAME	AGE	POSITION WITH THE COMPANY
---	---	-----
<S>	<C> <C>	
54		Chairman of the Board and Chief Executive Officer;

James M. Zimmerman.....		Director
Terry J. Lundgren.....	45	President and Chief Merchandising Officer; Director
Ronald W. Tysoe.....	45	Vice Chairman of the Board and Director
Thomas G. Cody.....	56	Executive Vice President - Legal and Human Resources
Dennis J. Broderick.....	49	Senior Vice President, General Counsel and Secretary
	41	Senior Vice President, Chief Financial Officer and
Karen M. Hoguet.....		Treasurer
Joel A. Belsky.....	44	Vice President and Controller

</TABLE>

James M. Zimmerman has been Chairman of the Board and Chief Executive Officer of the Company since May 1997; prior thereto he served as the President and Chief Operating Officer of the Company since May 1988.

Terry J. Lundgren has been President and Chief Merchandising Officer of the Company since May 1997 and served as the Chairman of the Company's Federated Merchandising Group division from February 1994 until February 19, 1998. Prior thereto, he was Chairman and Chief Executive Officer of the Neiman Marcus Group, Inc., since February 1990.

Ronald W. Tysoe has been Vice Chairman of the Company since April 1990 and served as Chief Financial Officer of the Company from April 1990 until October 31, 1997.

Thomas G. Cody has been Executive Vice President - Legal and Human Resources of the Company since May 1988.

Dennis J. Broderick has been Secretary of the Company since July 1993 and Senior Vice President and General Counsel of the Company since January 1990.

Karen M. Hoguet has been Senior Vice President - Planning of the Company since April 1991, Treasurer of the Company since January 1992, and Chief Financial Officer of the Company since October 31, 1997.

Joel A. Belsky has been Vice President and Controller of the Company since October 1996. Prior thereto, he served as Divisional Vice President and Deputy Controller of the Company since March 1993.

ITEM 2. 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 corporate office space in New York and Cincinnati and other facilities at which centralized operational support functions are conducted. As of January 31, 1998, the Company operated 400 department stores in 33 states, comprising a total of 81,016,000 square feet. Of such department stores, 196 were entirely or mostly owned and 204 stores were entirely or mostly leased. The Company's interests in approximately 3% of its owned stores are subject to security interests in favor of certain third-party creditors. As of January 31, 1998, the Company operated 162 specialty stores in 22 states and the District of Columbia, comprising a total of 600,000 square feet. All such specialty stores are leased.

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Pursuant to 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.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS.

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Common Stock is listed on the New York Stock Exchange (the "NYSE") under the trading symbol "FD." The following table sets forth for each fiscal quarter during 1997 and 1996 the high and low sales prices per share of Common Stock as reported on the NYSE Composite Tape:

<TABLE>
<CAPTION>

	1997		1996	
	LOW	HIGH	LOW	HIGH
1st Quarter.....	31.625	38.250	26.125	34.750
2nd Quarter.....	34.625	44.125	29.375	36.625
3rd Quarter.....	39.313	45.438	31.125	36.125
4th Quarter.....	39.688	48.875	30.000	37.000

The Company has not paid any dividends on its Common Stock during its two most recent fiscal years, and does not anticipate paying any dividends on the Common Stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with the Consolidated Financial Statements and the notes thereto and the other information contained elsewhere in this report.

<TABLE>
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	52 WEEKS ENDED JANUARY 31, 1998	52 WEEKS ENDED FEBRUARY 1, 1997	53 WEEKS ENDED FEBRUARY 3, 1996	52 WEEKS ENDED JANUARY 28, 1995	52 WEEKS ENDED JANUARY 29, 1994
(MILLIONS, EXCEPT PER SHARE DATA)					
Consolidated Statement of Income Data:					
Net sales, including leased department sales.....	\$15,668	\$15,229	\$15,049	\$ 8,316	\$7,229
Cost of sales:					
Recurring.....	9,581	9,289	9,318	5,131	4,374
Inventory valuation adjustments related to consolidation.....	-	65	92	15	-
Total cost of sales.....	9,581	9,354	9,410	5,146	4,374
Selling, general and administrative expenses:					
Recurring.....	4,746	4,739	4,748	2,549	2,323
Business integration and consolidation expenses.....		243	202	71	-
Charitable contribution to Federated Department Stores Foundation.....		-	-	26	-
Total selling, general and administrative expenses.....	4,746	4,982	4,976	2,620	2,323
Operating income.....	1,341	893	663	550	532
Interest expense.....	(418)	(499)	(508)	(262)	(213)
Interest income.....	35	47	47	43	49
Income before income taxes and extraordinary items.....	958	441	202	331	368
Federal, state and local income tax expense.....	(383)	(175)	(127)	(143)	(171)
Extraordinary items (a).....	(39)	-	-	-	(4)
Net income.....	\$ 536	\$ 266	\$ 75	\$ 188	\$ 193

Basic earnings per share:

Income before extraordinary items.....	\$ 2.74	\$ 1.28	\$.39	\$ 1.41	\$ 1.56
Net income.....	2.56	1.28	.39	1.41	1.53
Diluted earnings per share:					
Income before extraordinary items.....	\$ 2.58	\$ 1.24	\$.39	\$ 1.40	\$ 1.53
Net income.....	2.41	1.24	.39	1.40	1.50
Average number of shares outstanding.....	209.2	207.5	191.5	132.9	126.3
Depreciation and amortization.....	\$ 590	\$ 533	\$ 497	\$ 286	\$ 230
Capital expenditures.....	\$ 696	\$ 846	\$ 699	\$ 398	\$ 313
Balance Sheet Data (at year end):					
Cash.....	\$ 142	\$ 149	\$ 173	\$ 206	\$ 222
Working capital.....	3,134	2,831	3,262	2,376	1,968
Total assets.....	13,738	14,264	14,295	12,277	7,419
Short-term debt.....	556	1,095	733	463	10
Long-term debt.....	3,919	4,606	5,632	4,529	2,787
Shareholders' equity.....	5,256	4,669	4,274	3,640	2,278

</TABLE>

(a) The extraordinary items for 1997 and 1993 were after-tax expenses associated with debt prepayments.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Comparison of the 52 Weeks Ended January 31, 1998 and February 1, 1997. Net sales for 1997 were \$15,668 million compared to \$15,229 million for 1996, an increase of 2.9%. On a comparable store basis, net sales for 1997 increased 2.7% compared to 1996.

Cost of sales was 61.1% of net sales for 1997, compared to 61.4% for 1996. Cost of sales for 1996 included \$65 million of one-time inventory valuation adjustments related to merchandise in lines of business that were eliminated or replaced in connection with the consolidation of Broadway's merchandise inventories with the Company's merchandise inventories. Excluding these inventory valuation adjustments from 1996, cost of sales would have been 61.0% of net sales, with the 0.1% increase in 1997 being primarily due to higher merchandise markdowns associated with the elimination of certain consumer electronics lines of business. The valuation of merchandise inventory on the last-in, first-out basis did not impact cost of sales in either year.

Selling, general and administrative expenses were 30.3% of net sales for 1997, compared to 32.7% for 1996. Selling, general and administrative expenses for 1996 included \$243 million of one-time costs related to the integration and consolidation of acquired and pre-existing businesses as business integration and consolidation expenses ("BICE"). Excluding BICE, selling, general and administrative expenses would have been 31.1% of net sales for 1996. The major factor contributing to the 0.8% improvement in expense rate (excluding BICE for 1996) was lower distribution-related expenses resulting from restructuring and technological improvements in the merchandise distribution process.

Selling, general and administrative expenses in 1997 reflect reduced finance charge income and lower expenses for doubtful customer accounts receivable. Finance charge income was \$391 million for 1997, a decrease of \$39 million compared to \$430 million in 1996, primarily due to lower average accounts receivable balances. Amounts charged to expense for doubtful accounts receivable were \$167 million for 1997, compared to \$172 million for 1996. The decrease primarily reflects the lower levels of proprietary credit sales in 1997 compared to 1996.

Net interest expense was \$383 million for 1997, compared to \$452 million for 1996. The lower interest expense for 1997 is due to lower levels of borrowings and lower interest rates resulting from refinancings completed in July 1997.

The Company's effective income tax rate of 40% for 1997 differs from the federal income tax statutory rate of 35.0% principally because of the effect of state and local income taxes and permanent differences arising from the amortization of intangible assets.

The extraordinary item of \$39 million for 1997 represents the after-tax expenses associated with debt prepayments.

Comparison of the 52 Weeks Ended February 1, 1997 and the 53 Weeks Ended February 3, 1996. Net sales for 1996 were \$15,229 million compared to \$15,049 million for 1995, an increase of 1.2%. On a comparable store basis, net sales for 1996 increased 3.1 percent compared to the first 52 weeks of 1995. Net sales for 1996 were somewhat negatively impacted by the Company's efforts to gradually reduce the degree to which it utilizes promotional selling practices with respect to home-related merchandise.

Cost of sales was 61.4% of net sales for 1996, compared to 62.5% for 1995. Cost of sales included one-time inventory valuation adjustments related to merchandise in lines of business that were eliminated or replaced in connection with the consolidation of merchandise inventories for acquired and pre-existing businesses. In 1996,

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cost of sales included \$65 million of inventory valuation adjustments in connection with the integration of Broadway into the Company. In 1995, cost of sales included \$69 million of inventory valuation adjustments in connection with the integration of Macy's into the Company and \$23 million of inventory valuation adjustments in connection with the consolidation of the Company's Rich's/Goldsmith's and Lazarus divisions. Also, in 1995, cost of sales was negatively impacted by greater markdowns at stores operated as Broadway locations. Excluding these stores in 1995 and the inventory valuation adjustments discussed above, cost of sales would have been 61.0% of net sales for 1996, compared to 61.3% for 1995. The lower level of promotional activity for home-related merchandise and increased sales of higher margin private label merchandise contributed to the improvement for 1996. The valuation of merchandise inventory on the last-in, first-out basis did not impact cost of sales in either year.

Selling, general and administrative expenses were 32.7% of net sales for 1996, compared to 33.1% for 1995. Selling, general and administrative expenses included one-time costs related to the integration and consolidation of acquired and pre-existing businesses under the caption BICE. In 1996, selling, general and administrative expenses included, under the caption BICE, \$168 million of costs associated with the integration of Broadway into the Company, \$34 million of costs related to the integration of Macy's into the Company and \$41 million of costs related to other support operation restructurings, primarily the centralization of the Company's merchandise distribution function. In 1995, selling, general and administrative expenses included, under the caption BICE, \$140 million of costs associated with the integration of Macy's into the Company, \$48 million of costs associated with the integration of Broadway into the Company and \$14 million of costs related to the consolidation of the Company's Rich's/Goldsmith's and Lazarus divisions, and also included a \$26 million charitable contribution to Federated Department Stores Foundation. Excluding these items for both 1996 and 1995, selling, general and administrative expenses would have been 31.1% of net sales for 1996, compared to 31.6% for 1995. The improvement for 1996 primarily reflected the operating efficiencies resulting from the integration of Macy's into the Company in fiscal 1995 and other support operation restructurings (primarily merchandise distribution).

Selling, general and administrative expenses in 1996 reflected higher expenses for doubtful customer accounts receivable, partially offset by higher finance charge revenues. Amounts charged to expense for doubtful accounts receivable were \$172 million for 1996, compared to \$127 million for 1995. The increase reflected higher average accounts receivable balances, the consolidation of certain credit card nameplates, the effects of closing stores in certain markets and general economic conditions in the geographic areas in which the Company operated. Partially offsetting the increase in amounts charged to expense for doubtful accounts, finance charge income grew to \$430 million in 1996, compared to \$405 million in 1995, primarily due to higher average accounts receivable balances.

Net interest expense was \$452 million for 1996, compared to \$461 million for 1995. The lower interest expense for 1996 was principally due to lower levels of borrowings.

The Company's effective income tax rate of 39.8% for 1996 differed from the federal income tax statutory rate of 35.0% principally because of the effect of state and local income taxes and permanent differences arising from the amortization of intangible assets.

LIQUIDITY AND CAPITAL RESOURCES

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

Net cash provided by operating activities in 1997 was \$1,573 million, an increase of \$353 million from the net cash provided by operating activities in 1996 of \$1,220 million. In addition to improved operating results, the

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primary factors which contributed to this improvement were a decrease in merchandise inventories in 1997 compared to an increase in 1996 and larger increases in current and deferred income taxes in 1997, partially offset by a decrease in accounts payable and accrued liabilities compared to an increase in 1996.

On July 28, 1997, the Company entered into new bank credit agreements which provide for unsecured revolving credit loans of up to \$1,500 million under a five year facility (including a letter of credit sub-facility) and up to \$500 million under a 364-day facility. The Company also has a commercial paper program under which it may issue up to \$400 million of senior unsecured commercial paper. As of January 31, 1998, the Company had \$150 million of revolving credit borrowings, \$144 million of commercial paper borrowings, \$49 million of standby letters of credit and \$63 million of trade letters of credit outstanding. As a result of the issuance on February 6, 1998 of \$300 million of 7.0% Senior Debentures due 2028, the \$294 million of revolving credit and commercial paper borrowings were classified as long-term debt as of January 31, 1998.

The Company also has in effect a facility to finance its customer accounts receivable which provides for, among other things, the issuance from time to time of up to \$375 million of receivables backed commercial paper. As of January 31, 1998, the Company had \$375 million of commercial paper borrowings outstanding under its receivables backed commercial paper facility.

Net cash used in investing activities was \$318 million in 1997 compared to \$650 million in 1996. In 1997, capital expenditures for property and equipment were \$696 million and dispositions of property and equipment totaled \$178 million. During 1997, the Company opened six new department stores and two new furniture galleries and closed nineteen stores. On May 5, 1997, a \$200 million installment of a note receivable held by the Company was received.

Net cash used by the Company for all financing activities was \$1,262 million in 1997 compared to \$594 million in 1996. During 1997, the Company incurred debt totaling \$763 million and repaid debt totaling \$2,027 million. Debt incurred consisted of \$300 million of 7.45% Senior Debentures due 2017, \$250 million of 6.79% Senior Debentures due 2027 and \$213 million of net incremental borrowings under the Company's revolving credit and commercial paper facilities. The major components of debt repaid, with proceeds of the financings described above, proceeds of the \$200 million installment of a note receivable described above and other funds, included \$568 million of the Company's receivables backed certificates, \$516 million of outstanding term borrowings under its previous bank credit facility, the entire \$345 million of outstanding borrowings under its mortgage loan facility, the entire \$221 million of borrowings outstanding under its secured promissory note and \$176 million of borrowings outstanding under its note monetization facility. On January 22, 1997, the Company entered into an arrangement providing for off balance sheet financing of up to \$200 million (subsequently increased to \$300 million) of non-proprietary credit card receivables arising under accounts owned by the Company. At January 31, 1998, \$243 million of borrowings were outstanding under this arrangement.

The Company intends to open three new department stores in 1998 and its budgeted capital expenditures are approximately \$2,300 million for the 1998 to 2000 period. Management presently anticipates funding such expenditures from operations.

As disclosed in "Item 1. Business," the Company has undertaken a program to

address Year 2000 issues. To date, the Company's Year 2000 compliance program, the costs of which are being expensed as incurred, is on schedule and on budget. Although there can be no assurance with respect thereto, the Company does not expect that Year 2000 issues (including the cost of the Company's compliance program as currently estimated), will have a material adverse effect on the Company's financial position or results of operation.

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Management believes the department store business will continue to consolidate. Accordingly, the Company intends from time to time to consider additional acquisitions of department store assets and companies.

Management of the Company believes that, with respect to its current operations, cash on hand and funds from operations, together with its credit facilities, will be sufficient to cover its reasonably foreseeable working capital, capital expenditure and debt service requirements. Acquisition transactions, if any, are expected to be financed through a combination of cash on hand and from operations and the possible issuance from time to time of long-term debt or other securities. Depending upon conditions in the capital markets and other factors, the Company will from time to time consider the issuance of debt or other securities, or other possible capital markets transactions, the proceeds of which could be used to refinance current indebtedness or for other corporate purposes.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates which may adversely affect its financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposures through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company does not use financial instruments for trading or other speculative purposes and is not party to any leveraged financial instruments.

The Company is exposed to interest rate risk primarily through its borrowing activities, which are described in Note 9 to the Consolidated Financial Statements. The majority of the Company's borrowings are under fixed rate instruments. However, the Company uses interest rate swaps and interest rate caps to help manage the Company's exposure to interest rate movements and reduce borrowing costs. See Notes 9 and 16 to the Consolidated Financial Statements, which are incorporated herein by reference.

Based on the Company's market risk sensitive instruments (including variable rate debt and derivative financial instruments) outstanding at January 31, 1998, the Company has determined that there was no material market risk exposure to the Company's consolidated financial position, results of operations or cash flows as of such date.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Information called for by this item is set forth in the Company's Consolidated Financial Statements and supplementary data contained in this report and is incorporated herein by this reference. Specific financial statements and supplementary data can be found at the pages listed in the following index.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information called for by this item is set forth under Item 1 "Election of Directors" and "Compliance with Section 16(a) of the Securities and Exchange Act of 1934" in the Proxy Statement, and in Item 1A "Executive Officers of the Registrant," and incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

Information called for by this item is set forth under "Executive Compensation" and "Compensation Committee Report on Executive Compensation" in the Proxy Statement and incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP AND CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information called for by this item is set forth under "Stock Ownership" in the Proxy Statement and incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information called for by this item is set forth under "Compensation Committee Interlocks and Insider Participation" and under "Certain Relationships and Related Transactions" in the Proxy Statement and incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. FINANCIAL STATEMENTS:

The list of financial statements required by this item is set forth in "Item 8 Consolidated Financial Statements and Supplementary Data" and is incorporated herein by reference.

2. FINANCIAL STATEMENT SCHEDULES:

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

3. EXHIBITS:

The following exhibits are filed herewith or incorporated by reference as indicated below.

<TABLE>		
<CAPTION>		
EXHIBIT NUMBER	DESCRIPTION	DOCUMENT IF INCORPORATED BY REFERENCE
-----	-----	-----
<C> 3.1	<S> Certificate of Incorporation	<C> Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended January

28, 1995 (the "1994 Form 10-K")

3.1.1	Certificate of Designations of Series A Junior Participating Preferred Stock	Exhibit 3.1.1 to the 1994 Form 10-K
3.2	By-Laws	Exhibit 3.2 to the 1994 Form 10-K
4.1	Certificate of Incorporation	See Exhibit 3.1
4.2	By-Laws	See Exhibit 3.2
4.3	Rights Agreement, dated as of December 15, 1994, between the Company and the Bank of New York, as rights agent	Exhibit 4.3 to the 1994 Form 10-K
4.4	Indenture, dated as of December 15, 1994, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 4.1 to the Company's Registration Statement on Form S-3 (Registration No. 33-88328) filed on January 9, 1995 (the "S-3 Registration Statement")
4.4.1	Third Supplemental Indenture, dated as of January 23, 1995, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 4.4.1 to the 1994 Form 10-K
4.4.2	Fourth Supplemental Indenture, dated as of September 27, 1995, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 4.2 to the Company's Registration Statement on Form 8-A, dated November 29, 1995
4.4.3	Fifth Supplemental Indenture, dated as of October 6, 1995, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 2 to the Company's Registration Statement on Form 8-A, dated October 4, 1995
4.4.4	Sixth Supplemental Indenture, dated as of February 1, 1996, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 4.4.4 to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 1996 (the "1995 Form 10-K")
4.4.5	Seventh Supplemental Indenture, dated as of May 22, 1996, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the period ended May 4, 1996 (the "May 1996 Form 10-Q")

</TABLE>

<TABLE>

<CAPTION>

EXHIBIT NUMBER	DESCRIPTION	DOCUMENT IF INCORPORATED BY REFERENCE
-----	-----	-----
<C>	<S>	<C>
4.4.6	Eighth Supplemental Indenture, dated as of July 14, 1997, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 2 to the Company's Current Report on Form 8-K dated as of July 15, 1997 (the "July 1997 Form 8-K")
4.4.7	Ninth Supplemental Indenture, dated as of July 14, 1997, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 3 to the July 1997 Form 8-K
4.5	Indenture, dated as of September 10, 1997, between the Company and Citibank, N.A., as Trustee	Exhibit 4.4 to the Company's Amendment Number 1 to Form S-3 dated as of September 11, 1997
4.5.1	First Supplemental Indenture, dated as of February 6, 1998, between the Company and Citibank, N.A., as Trustee	Exhibit 2 to the Company's Current Report on Form 8-K dated as of February 6, 1998
4.6	Amended and Restated Series B Warrant Agreement	
4.7	Series C Warrant Agreement	Exhibit 4.6 to the 1994 Form 10-K
4.8	Series D Warrant Agreement	Exhibit 4.7 to the 1994 Form 10-K
4.9	Series E Warrant Agreement	Exhibit 4.9 to the 1995 Form 10-K
4.10	Warrant Agreement	Exhibit 4.1 to Broadway's Annual Report on Form 10-K (File No. 1-8765) for the fiscal year ended January 30, 1993 (the "Broadway 1992 Form 10-K")
4.10.1	Letter Agreement, dated October 11, 1995,	Exhibit 4.5.1 to the October 1995 Form 10-Q

- 10.1 between Broadway and The Bank of New York
364-Day Credit Agreement, dated as of July 28, 1997 by and among the Company, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, BankBoston, N.A., as Syndication Agent, and the Bank of America, National Trust & Savings Association, as Documentation Agent
- Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended August 2, 1997 (the "August 1997 Form 10-Q")

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT NUMBER	DESCRIPTION	DOCUMENT IF INCORPORATED BY REFERENCE
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|--------|--|--|
| 10.2 | Five-Year Credit Agreement, dated as of July 28, 1997, by and among the Company, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, BankBoston, N.A., as Syndication Agent, and the Bank of America, National Trust & Savings Association, as Documentation Agent | Exhibit 10.2 to the August 1997 Form 10-Q |
| 10.3 | Loan Agreement, dated as of May 26, 1994 (the "Lazarus PA Mortgage Term Loan"), among Lazarus PA, Inc. (formerly Joseph Horne Co., Inc.), the banks listed thereon, and PNC Bank, Ohio, National Association, as Agent ("PNC") | Exhibit 10.47 to the 1994 S-4 Registration Statement |
| 10.3.1 | First Amendment to the Lazarus PA Mortgage Term Loan dated as of December 6, 1995 | Exhibit 10.6 to the October 1995 Form 10-Q |
| 10.3.2 | Second Amendment to the Lazarus PA Mortgage Term Loan dated as of July 28, 1997 | |
| 10.4 | Guaranty Agreement, dated as of May 26, 1994, made by the Company in favor of the banks listed on the Lazarus PA Mortgage Term Loan and PNC | Exhibit 10.48 to the 1994 S-4 Registration Statement |
| 10.4.1 | Amendment #1 to Guaranty Agreement, dated as of February 28, 1995, made by the Company in favor of the banks listed on the Lazarus PA Mortgage Term Loan and PNC | Exhibit 10.7.1 to the 1994 Form 10-K |
| 10.5 | Amended and Restated Pooling and Servicing Agreement, dated as of December 15, 1992 (the "Pooling and Servicing Agreement"), among the Company, Prime Receivables Corporation ("Prime") and The Chase Manhattan Bank, successor to Chemical Bank, as Trustee | Exhibit 4.10 to Prime's Current Report on Form 8-K (File No. 0-2118), dated March 29, 1993 |
| 10.5.1 | First Amendment, dated as of December 1, 1993, to the Pooling and Servicing Agreement the fiscal year ended January 29, 1994 (the "1993 Form 10-K") | Exhibit 10.10.1 to the Company's Annual Report on Form 10-K (File No. 1-10951) for |
| 10.5.2 | Second Amendment, dated as of February 28, 1994, to the Pooling and Servicing Agreement | Exhibit 10.10.2 to the 1993 Form 10-K |

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT NUMBER	DESCRIPTION	DOCUMENT IF INCORPORATED BY REFERENCE
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|--------|--|--------------------------------------|
| 10.5.3 | Third Amendment, dated as of May 31, 1994, to the Pooling and Servicing Agreement | Exhibit 10.8.3 to the 1994 Form 10-K |
| 10.5.4 | Fourth Amendment, dated as of January 18, 1995, to the Pooling and Servicing Agreement | Exhibit 10.6.4 to the 1995 Form 10-K |
| 10.5.5 | Fifth Amendment, dated as of April 30, 1995, | Exhibit 10.6.5 to the 1995 Form 10-K |

	to the Pooling and Servicing Agreement	
10.5.6	Sixth Amendment, dated as of July 27, 1995, to the Pooling and Servicing Agreement	Exhibit 10.6.6 to the 1995 Form 10-K
10.5.7	Seventh Amendment, dated as of May 14, 1996, to the Pooling and Servicing Agreement	Exhibit 10.6.7 to the 1997 Form 10-K
10.5.8	Eighth Amendment, dated as of March 3, 1997, to the Pooling and Servicing Agreement	Exhibit 10.6.8 to the 1997 Form 10-K
10.5.9	Ninth Amendment, dated as of August 28, 1997, to the Pooling and Servicing Agreement	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended November 1, 1997 (the "November 1997 Form 10-Q")
10.6	Assumption Agreement under the Pooling and Servicing Agreement, dated as of September 15, 1993	Exhibit 10.10.3 to the 1993 Form 10-K
10.7	Series 1992-2 Supplement, dated as of December 15, 1992, to the Pooling and Servicing Agreement	Exhibit 4.7 to Prime's Form 8-A
10.7.1	First Amendment to Series 1992-2 Supplement, dated as of August 28, 1997, to the Pooling and Servicing Agreement	Exhibit 10.3 to the November 1997 Form 10-Q
10.8	Series 1992-3 Supplement, dated as of January 5, 1993, to the Pooling and Servicing Agreement	Exhibit 4.8 to Prime's Current Report on Form 8-K (File No. 0-2118), dated January 29, 1993
10.9	Series 1995-1 Supplement, dated as of July 27, 1995, to the Pooling and Servicing Agreement	Exhibit 4.7 to Prime's Registration Statement on Form S-1, filed July 14, 1995, as amended.
10.9.1	First Amendment to Series 1995-1 Supplement, dated as of August 28, 1997, to the Pooling and Servicing Agreement	Exhibit 10.4 to the November 1997 Form 10-Q
10.10	Series 1996-1 Supplement, dated as of May 14, 1996, to the Pooling and Servicing Agreement	Exhibit 4 to the May 1996 Prime 8-K

</TABLE>

<TABLE>

<CAPTION>

EXHIBIT NUMBER	DESCRIPTION	DOCUMENT IF INCORPORATED BY REFERENCE
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<C>

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10.10.1	First Amendment to Series 1996-1 Supplement, dated as of August 28, 1997, to the Pooling and Servicing Agreement	Exhibit 10.5 to the November 1997 Form 10-Q
10.11	Receivables Purchase Agreement, dated as of December 15, 1992 (the "Receivables Purchase Agreement"), among Abraham & Straus, Inc., Bloomingdale's, Inc., Burdines, Inc., Jordan Marsh Stores Corporation, Lazarus, Inc., Rich's Department Stores, Inc., Stern's Department Stores, Inc., The Bon, Inc. and Prime	Exhibit 10.2 to Prime's Form 8-A
10.11.1	First Amendment, dated as of June 23, 1993, to the Receivables Purchase Agreement	Exhibit 10.14.1 to 1993 Form 10-K
10.11.2	Second Amendment, dated as of December 1, 1993, to the Receivables Purchase Agreement	Exhibit 10.14.2 to 1993 Form 10-K
10.11.3	Third Amendment, dated as of February 28, 1994, to the Receivables Purchase Agreement	Exhibit 10.14.3 to 1993 Form 10-K
10.11.4	Fourth Amendment, dated as of May 31, 1994, to the Receivables Purchase Agreement	Exhibit 10.13.4 to the 1994 Form 10-K
10.11.5	Fifth Amendment, dated as of April 30, 1995, to the Receivables Purchase Agreement	Exhibit 10.12.5 to the 1995 Form 10-K
10.11.6	Sixth Amendment, dated as of August 26, 1995, to the Receivables Purchase Agreement	Exhibit 10.13.6 to the 1997 Form 10-K
10.11.7	Seventh Amendment, dated as of August 26, 1995, to the Receivables Purchase Agreement	Exhibit 10.13.7 to the 1997 Form 10-K
10.11.8	Eighth Amendment, dated as of May 14, 1996, to the Receivables Purchase Agreement	Exhibit 10.13.8 to the 1997 Form 10-K
10.11.9	Ninth Amendment, dated as of March 3, 1997, to the Receivables Purchase Agreement.	Exhibit 10.13.9 to the 1997 Form 10-K
10.11.10	First Supplement, dated as of September 15, 1993, to the Receivables Purchase Agreement	Exhibit 10.14.4 to 1993 Form 10-K
10.11.11	Second Supplement, dated as of May 31, 1994, to the Receivables Purchase Agreement	Exhibit 10.12.7 to the 1995 Form 10-K

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT NUMBER DESCRIPTION DOCUMENT IF INCORPORATED BY REFERENCE

<C>	<S>	<C>	
10.12	Depository Agreement, dated as of December 31, 1992, among Deerfield Funding Corporation, now known as Seven Hills Funding Corporation ("Seven Hills"), the Company, and Chase Bank, as Depository	Exhibit 10.15 to Company's Annual Report on Form 10-K (File No. 1-10951) for the fiscal year ended January 30, 1993 ("1992 Form 10-K")	
10.13	Liquidity Agreement, dated as of December 31, 1992, among Seven Hills, the Company, the financial institutions named therein, and Credit Suisse, New York Branch, as Liquidity Agent	Exhibit 10.16 to 1992 Form 10-K	
10.14	Pledge and Security Agreement, dated as of December 31, 1992, among Seven Hills, the Company, Chase Bank, as Depository and Collateral Agent, and the Liquidity Agent	Exhibit 10.17 to 1992 Form 10-K	
10.15	Commercial Paper Dealer Agreement, dated as of December 31, 1992, among Seven Hills, the Company, and Goldman Sachs Money Markets, L.P.	Exhibit 10.18 to 1992 Form 10-K	
10.16	Commercial Paper Dealer Agreement, dated as of December 31, 1992, among Seven Hills, the Company, and Shearson Lehman Brothers, Inc.	Exhibit 10.19 to 1992 Form 10-K	
10.17	Receivables Purchase Agreement, dated as of January 22, 1997, among FDS National Bank and Prime II Receivables Corporation ("Prime II")	Exhibit 10.19 to the 1997 Form 10-K	
10.18	Class A Certificate Purchase Agreement, dated as of January 22, 1997, among Prime II, FDS National Bank, The Class A Purchasers Parties thereto and Credit Suisse First Boston, New York Branch, as Agent	Exhibit 10.20 to the 1997 Form 10-K	
10.19	Class B Certificate Purchase Agreement, dated as of January 22, 1997, among Prime II, FDS National Bank, The Class B Purchasers Parties thereto and Credit Suisse First Boston, New York Branch, as Agent	Exhibit 10.21 to the 1997 Form 10-K	
10.20	Pooling and Servicing Agreement, dated as of January 22, 1997, (the "Prime II Pooling and Servicing Agreement") among Prime II, FDS National Bank and The Chase Manhattan Bank, as Trustee	Exhibit 10.22 to the 1997 Form 10-K	
10.21	Series 1997-1 Supplement, dated as of January 22, 1997, to the Prime II Pooling and Servicing Agreement	Exhibit 10.23 to the 1997 Form 10-K	

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT NUMBER DESCRIPTION DOCUMENT IF INCORPORATED BY REFERENCE

<C>	<S>	<C>	
10.22	Commercial Paper Dealer Agreement, dated as of January 30, 1997, between the Company and Citicorp Securities, Inc.	Exhibit 10.24 to the 1997 Form 10-K	
10.23	Commercial Paper Issuing and Paying Agent Agreement, dated as of January 30, 1997, between Citibank, N.A. and the Company	Exhibit 10.25 to the 1997 Form 10-K	
10.24	Commercial Paper Dealer Agreement, dated as of January 30, 1997, between the Company and Lehman Brothers, Inc	Exhibit 10.26 to the 1997 Form 10-K	
10.25	Tax Sharing Agreement	Exhibit 10.10 to Form 10	
10.26	Ralphs Tax Indemnification Agreement	Exhibit 10.1 to Form 10	
10.27	Account Purchase Agreement dated as of May 10, 1991, by and among Monogram Bank, USA,	Exhibit 19.2 to Macy's Quarterly Report on Form 10-Q for the fiscal quarter ended May 4,	

	Macy's, Macy Credit Corporation, Macy Funding, Macy's California, Inc., Macy's Northeast, Inc., Macy's South, Inc., Bullock's Inc., I. Magnin, Inc., Master Servicer, and Macy Specialty Stores, Inc. **	1991 (File No. 33-6192), as amended under cover of Form 8, dated October 3, 1991 ("Macy's May 1991 Form 10-Q")
10.28	Amended and Restated Credit Card Program Agreement, dated as of June 4, 1996, among GE Capital Consumer Card Co. ("GE Bank"), FDS National Bank, Macy's East, Inc., Macy's West, Inc., Bullock's, Inc., Broadway Stores, Inc., FACS Group, Inc., and MSS-Delaware, Inc. **	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended August 3, 1996 (the "August 1996 Form 10-Q")
10.29	Amended and Restated Trade Name and Service Mark License Agreement, dated as of June 4, 1996, among the Company, GE Bank and General Electric Capital Corporation ("GE Capital")	Exhibit 10.2 to the August 1996 Form 10-Q
10.30	FACS Credit Services and License Agreement, dated as of June 4, 1996, by and among GE Bank, GE Capital and FACS Group, Inc. **	Exhibit 10.3 to the August 1996 Form 10-Q
10.31	FDS Guaranty, dated as of June 4, 1996	Exhibit 10.4 to the August 1996 Form 10-Q
10.32	GE Capital Credit Services and License Agreement, dated as of June 4, 1996, among GE Capital, FDS National Bank, the Company and FACS Group, Inc. **	Exhibit 10.5 to the August 1996 Form 10-Q
10.33	GE Capital/GE Bank Credit Services Agreement, dated as of June 4, 1996, among GE Capital and GE Bank **	Exhibit 10.6 to the August 1996 Form 10-Q

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT NUMBER	DESCRIPTION	DOCUMENT IF INCORPORATED BY REFERENCE

<C> 10.34	<S> Amended and Restated Commercial Accounts Agreement, dated as of June 4, 1996, among GE Capital, the Company, FDS National Bank, Macy's East, Inc., Macy's West, Inc., Bullock's, Inc., Broadway Stores, Inc., FACS Group, Inc. and MSS-Delaware, Inc.**	<C> Exhibit 10.7 to the August 1996 Form 10-Q
10.35	1992 Executive Equity Incentive Plan *	Exhibit 10.12 to Form 10
10.36	1995 Executive Equity Incentive Plan, as amended and restated as of May 16, 1997*	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended May 3, 1997
10.37	1992 Incentive Bonus Plan, as amended and restated as of December 12, 1997 *	
10.38	Form of Severance Agreement *	Exhibit 10.33 to the 1994 Form 10-K
10.39	Form of Indemnification Agreement *	Exhibit 10.14 to Form 10
10.40	Senior Executive Medical Plan *	Exhibit 10.1.7 to 1989 Form 10-K
10.41	Employment Agreement, dated as of June 24, 1994, between Allen I. Questrom and the Company *	Exhibit 10.59 to the 1994 S-4 Registration Statement
10.42	Employment Agreement, dated as of March 10, 1997, between James M. Zimmerman and the Company *	Exhibit 10.44 to the 1997 Form 10-K
10.43	Employment Agreement, dated as of May 16, 1997, between Terry J. Lundgren and the Company *	
10.44	Form of Employment Agreement for Executives and Key Employees *	Exhibit 10.31 to 1993 Form 10-K
10.45	Supplementary Executive Retirement Plan, as amended and restated as of January 1, 1997	Exhibit 10.46 to the 1997 Form 10-K*
10.46	Executive Deferred Compensation Plan, as amended*	Exhibit 10.47 to the 1997 Form 10-K
10.47	Profit Sharing 401(k) Investment Plan (amending and restating the Retirement Income and Thrift Incentive Plan) effective as of April 1, 1997 *	Exhibit 10.48 to the 1997 Form 10-K
10.48	Cash Account Pension Plan (amending and restating The Federated Pension Plan) effective as of January 1, 1997*	Exhibit 10.49 to the 1997 Form 10-K

</TABLE>

<TABLE>

<CAPTION>

EXHIBIT NUMBER	DESCRIPTION	DOCUMENT IF INCORPORATED BY REFERENCE
----------------	-------------	---------------------------------------

<C>	<S>	<C>
21	Subsidiaries	
22	Consent of KPMG Peat Marwick LLP	
23	Powers of Attorney	
27	Financial Data Schedule	

</TABLE>

* Constitutes a compensatory plan or arrangement.

** Confidential portions of this Exhibit were omitted and filed separately with the SEC pursuant to Rule 24b-2 under the Exchange Act.

SIGNATURES

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

FEDERATED DEPARTMENT STORES, INC.

By: /s/ DENNIS J. BRODERICK

 Dennis J. Broderick
 Senior Vice President, General
 Counsel and Secretary

Date: April 16, 1998

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES INDICATED ON APRIL 16, 1998.

<TABLE>

<CAPTION>

SIGNATURE	TITLE
<C>	<S>
*	Chairman of the Board and Chief Executive Officer (principal executive officer) and Director
----- James M. Zimmerman	
*	President and Chief Merchandising Officer and Director
----- Terry J. Lundgren	
*	Vice Chairman and Director
----- Ronald W. Tysoe	
*	Senior Vice President, Chief Financial Officer and Treasurer
----- Karen M. Hoguet	
*	Vice President and Controller (principal accounting officer)
----- Joel A. Belsky	
*	Director
----- Meyer Feldberg	

*	Director

Earl G. Graves, Sr.	
*	Director

George V. Grune	
*	Director

Sara Levinson	
*	Director

Joseph Neubauer	
*	Director

Joseph A. Pichler	
*	Director

Karl M. von der Heyden	
*	Director

Craig E. Weatherup	
*	Director

Marna C. Whittington	

</TABLE>

* The undersigned, by signing his name hereto, does sign and execute this Annual Report on Form 10-K pursuant to the Powers of Attorney executed by the above-named officers and directors and filed herewith.

By: /s/ DENNIS J. BRODERICK

Dennis J. Broderick
Attorney-in-Fact

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Consolidated Balance Sheets at January 31, 1998 and February 1, 1997.....	F-5
Consolidated Statements of Changes in Shareholders' Equity for the 52 weeks ended January 31, 1998 and February 1, 1997 and the 53 weeks ended February 3, 1996.....	F-6
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MANAGEMENT'S REPORT

To the Shareholders of
Federated Department Stores, Inc.:

The integrity and consistency of the consolidated financial statements of Federated Department Stores, Inc. and subsidiaries, which were prepared in accordance with generally accepted accounting principles, are the responsibility of management and properly include some amounts that are based upon estimates and judgments.

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

The consolidated financial statements of the Company have been audited by KPMG Peat Marwick LLP, independent certified public accountants. Their report expresses their opinion as to the fair presentation, in all material respects, of the financial statements and is based upon their independent audits conducted in accordance with generally accepted auditing standards.

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

James M. Zimmerman
Chairman and Chief Executive Officer

Karen M. Hoguet
Senior Vice President, Chief Financial Officer and Treasurer

Joel A. Belsky
Vice President and Controller

F-2

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 as of January 31, 1998 and February 1, 1997, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the fifty-two week periods ended January 31, 1998 and February 1, 1997 and the fifty-three week period ended February 3, 1996. 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 as of January 31, 1998 and February 1, 1997, and the results of their operations and their cash flows for the fifty-two week periods ended January 31, 1998 and February 1, 1997 and the fifty-three week period ended February 3, 1996, in conformity with generally accepted

accounting principles.

KPMG PEAT MARWICK LLP

Cincinnati, Ohio
March 3, 1998

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FEDERATED DEPARTMENT STORES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(MILLIONS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998	52 WEEKS ENDED FEBRUARY 1, 1997	53 WEEKS ENDED FEBRUARY 3, 1996
<S>	<C>	<C>	<C>
Net sales, including leased department sales.....	\$15,668	\$15,229	\$15,049
Cost of sales:			
Recurring.....	9,581	9,289	9,318
Inventory valuation adjustments related to consolidation.....	-	65	92
Total cost of sales.....	9,581	9,354	9,410
Selling, general and administrative expenses:			
Recurring.....	4,746	4,739	4,748
Business integration and consolidation expenses.....	-	243	202
Charitable contribution to Federated Department Stores Foundation.....	-	-	26
Total selling, general and administrative expenses.....	4,746	4,982	4,976
Operating income.....	1,341	893	663
Interest expense.....	(418)	(499)	(508)
Interest income.....	35	47	47
Income before income taxes and extraordinary item.....	958	441	202
Federal, state and local income tax expense.....	(383)	(175)	(127)
Income before extraordinary item.....	575	266	75
Extraordinary item.....	(39)	-	-
Net income.....	\$ 536	\$ 266	\$ 75
Basic earnings per share:			
Income before extraordinary item.....	\$ 2.74	\$ 1.28	\$.39
Extraordinary item.....	(.18)	-	-
Net income.....	\$ 2.56	\$ 1.28	\$.39
Diluted earnings per share:			
Income before extraordinary item.....	\$ 2.58	\$ 1.24	\$.39
Extraordinary item.....	(.17)	-	-
Net income.....	\$ 2.41	\$ 1.24	\$.39

</TABLE>

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

F-4

FEDERATED DEPARTMENT STORES, INC.

CONSOLIDATED BALANCE SHEETS

(MILLIONS)

<TABLE>
<CAPTION>

JANUARY 31, 1998 FEBRUARY 1, 1997

	<C>	<C>
ASSETS		
Current Assets:		
Cash.....	\$ 142	\$ 149
Accounts receivable.....	2,640	2,834
Merchandise inventories.....	3,239	3,246
Supplies and prepaid expenses.....	115	110
Deferred income tax assets.....	58	88
	-----	-----
Total Current Assets.....	6,194	6,427
Property and Equipment - net.....	6,520	6,525
Intangible Assets - net.....	690	717
Other Assets.....	334	595
	-----	-----
Total Assets.....	\$13,738	\$14,264
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt.....	\$ 556	\$ 1,095
Accounts payable and accrued liabilities.....	2,416	2,492
Income taxes.....	88	9
	-----	-----
Total Current Liabilities.....	3,060	3,596
Long-Term Debt.....	3,919	4,606
Deferred Income Taxes.....	939	831
Other Liabilities.....	564	562
Shareholders' Equity.....	5,256	4,669
	-----	-----
Total Liabilities and Shareholders' Equity.....	\$13,738	\$14,264
	=====	=====

</TABLE>

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

F-5

FEDERATED DEPARTMENT STORES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(MILLIONS)

<TABLE>
<CAPTION>

	ADDITIONAL		TOTAL			SHAREHOLDERS'	
	COMMON STOCK	PAID-IN CAPITAL	ACCUMULATED EQUITY	STOCK	TREASURY OTHER	EQUITY	
	<C>	<C>	<C>	<C>	<C>	<C>	
BALANCE AT JANUARY 28, 1995.....	\$2		\$3,712	\$ 493	\$(559)	\$(8)	\$3,640
Net income.....		75		75			
Stock issued under stock plans....		15		(3)	12		
Restricted stock plan amortization.....			5	5			
Income tax benefit related to stock plan activity.....		2		2			
Stock issued in acquisition and other.....		540		540			
	-----	-----	-----	-----	-----	-----	-----
BALANCE AT FEBRUARY 3, 1996.....	2		4,269	568	(562)	(3)	4,274
Net income.....		266		266			
Stock issued under stock plans....		125		(4)	121		

Restricted stock plan amortization.....		2		2			
Income tax benefit related to stock plan activity.....	6			6			
BALANCE AT FEBRUARY 1, 1997.....	2	4,400	834	(566)	(1)	4,669	
Net income.....	536			536			
Stock issued under stock plans....	46		(7)	(1)	38		
Deferred compensation plan distributions.....		1		1			
Income tax benefit related to stock plan activity.....	15			15			
Minimum pension liability adjustment.....			(3)	(3)			
BALANCE AT JANUARY 31, 1998.....	\$2	\$4,461	\$1,370	\$(572)	\$(5)	\$5,256	

</TABLE>

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

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FEDERATED DEPARTMENT STORES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(MILLIONS)

<TABLE>

<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998	52 WEEKS ENDED FEBRUARY 1, 1997	53 WEEKS ENDED FEBRUARY 3, 1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income.....	\$ 536	\$ 266	\$ 75
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment.....	563	504	445
Amortization of intangible assets.....	27	27	47
Amortization of financing costs.....	20	27	22
Amortization of unearned restricted stock.....	-	2	5
Loss on early extinguishment of debt.....	39	-	-
Changes in assets and liabilities, net of effects of acquisition:			
(Increase) decrease in accounts receivable.....	194	223	(21)
(Increase) decrease in merchandise inventories.....	7	(151)	(362)
(Increase) decrease in supplies and prepaid expenses.....	(5)	67	(68)
(Increase) decrease in other assets not separately identified.....	(7)	(12)	61
Increase (decrease) in accounts payable and accrued liabilities not separately identified.....	(36)	177	(83)
Increase (decrease) in current income taxes.....	103	2	(45)
Increase in deferred income taxes.....	138	84	192
Increase (decrease) in other liabilities not separately identified.....	(6)	4	27
Net cash provided by operating activities.....	1,573	1,220	295
Cash flows from investing activities:			
Acquisition, net of cash acquired.....	-	-	16
Purchase of property and equipment.....	(696)	(846)	(696)
Disposition of property and equipment.....	178	196	47
Collection of note receivable.....	200	-	-
Net cash used by investing activities.....	(318)	(650)	(633)

Cash flows from financing activities:			
Debt issued.....	763	689	1,347
Financing costs.....	(7)	(11)	(27)
Debt repaid.....	(2,027)	(1,335)	(1,020)
Decrease in outstanding checks.....	(45)	(65)	(10)
Acquisition of treasury stock.....	(2)	(1)	(1)
Issuance of common stock.....	56	129	16
Net cash provided (used) by financing activities.....	(1,262)	(594)	305
Net decrease in cash.....	(7)	(24)	(33)
Cash beginning of period.....	149	173	206
Cash end of period.....	\$ 142	\$ 149	\$ 173
Supplemental cash flow information:			
Interest paid.....	\$ 412	\$ 465	\$ 444
Interest received.....	38	46	46
Income taxes paid (net of refunds received).....		121	21
Schedule of noncash investing and financing activities:			35
Debt and merger related liabilities issued, reinstated or assumed in acquisition.....	-	-	1,267
Equity issued in acquisition.....	-	-	353
Debt and equity issued for purchase of debt.....	-	-	430

</TABLE>

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

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FEDERATED DEPARTMENT STORES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions are subject to inherent uncertainties, which may result in actual amounts differing from reported amounts.

Cash includes cash and liquid investments with original 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 and offer the customer the option of paying the entire balance on a 25-day basis without incurring finance charges. Alternatively, customers may make scheduled minimum payments and incur competitive finance charges. Minimum payments vary from 2.5% 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 income is treated as a reduction of selling, general 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. Estimated asset lives range from 15 to 50 years for buildings and building equipment and 3 to 15 years for store fixtures and equipment. 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. The carrying value of property and equipment is periodically reviewed and adjusted appropriately by the Company whenever events or changes in circumstances indicate that the estimated fair value is less than the carrying amount.

Intangible assets are amortized on a straight-line basis over their estimated lives (see Note 8). The carrying value of intangible assets is periodically reviewed by the Company and impairments are recognized when the present value of the expected future operating cash flows derived from such intangible assets is less than their carrying value.

Advertising and promotional costs, which are generally expensed as incurred, amounted to \$680 million and \$618 million for the 52 weeks ended January 31, 1998 and February 1, 1997, respectively, and \$633 million for the 53 weeks ended February 3, 1996.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and net operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The cost of postretirement benefits other than pensions is recognized in the financial statements over an employee's term of service with the Company.

The Company accounts for its stock-based employee compensation plan in accordance with Accounting Principles Board Opinion No. 25 and related interpretations (see Note 14).

Earnings per share are computed in accordance with Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings Per Share" (see Note 17).

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

In 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for the reporting and display of comprehensive income and its components, and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes annual and interim reporting and disclosure standards for an enterprise's operating segments. In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which revises the disclosure requirements for pensions and other postretirement benefit plans. All three statements are effective for fiscal years beginning after December 15, 1997. Adoption of these statements will not impact the Company's consolidated financial position, results of operations or cash flows, and, where applicable, will be limited to the form and content of its disclosures.

2. ACQUISITION

The Company completed its acquisition of Broadway Stores, Inc. ("Broadway") pursuant to an Agreement and Plan of Merger dated August 14, 1995. The total purchase price of the Broadway acquisition was approximately \$1,620 million,

consisting of (i) 12.6 million shares of common stock and options to purchase an additional 1.5 million shares of common stock valued at \$353 million and (ii) \$1,267 million of Broadway debt. In addition, a wholly owned subsidiary of the Company purchased \$422 million of mortgage indebtedness of Broadway for 6.8 million shares of common stock of the Company and a \$242 million promissory note.

The Broadway acquisition was accounted for under the purchase method and, accordingly, the results of operations of Broadway have been included in the Company's results of operations since July 29, 1995 and the purchase price has been allocated to Broadway's assets and liabilities based on the estimated fair value of these assets and liabilities as of that date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

3. INVENTORY VALUATION ADJUSTMENTS RELATED TO CONSOLIDATION AND BUSINESS INTEGRATION AND CONSOLIDATION EXPENSES

In connection with the consolidation of merchandise inventories for acquired and pre-existing businesses, the Company recorded one-time inventory valuation adjustments related to merchandise in lines of business that were eliminated or replaced as a separate component of cost of sales. For the 52 weeks ended February 1, 1997, the amount recorded related to the consolidation of Broadway into the Company's Macy's West division. For the 53 weeks ended February 3, 1996, \$69 million related to the integration of Macy's into the Company, including the consolidation of the Macy's East division with the Company's Abraham & Straus/Jordan Marsh divisions and \$23 million related to the consolidation of the Company's Rich's/Goldsmith's and Lazarus divisions.

Additionally, the Company incurred certain one-time costs related to the integration and consolidation of acquired and pre-existing businesses and classified such costs as business integration and consolidation expenses as a separate component of selling, general and administrative expenses.

During the 52 weeks ended February 1, 1997, the Company recorded \$243 million of business integration and consolidation expenses, consisting of \$168 million of costs associated with the integration of Broadway into the Company, \$34 million of costs related to the integration of Macy's into the Company and \$41 million of costs related to other support operation restructurings. The major components of the Broadway integration expenses were \$90 million of costs associated with converting the Broadway stores to other nameplates of the Company (including advertising, credit card issuance and promotion and other name change expenses), \$29 million of costs associated with operating Broadway central office functions for a transitional period and \$49 million of other costs and expenses associated with the integration of Broadway into the Company, including the disposition of properties. The costs associated with the integration of Macy's into the Company primarily related to the administration and integration of Company-wide policies and procedures and the elimination of duplicative or non-continuing facilities. The costs associated with other support operation restructurings primarily related to the closure and disposition of warehouses and distribution centers in connection with the centralization of the Company's merchandise distribution function.

During the 53 weeks ended February 3, 1996, the Company recorded \$202 million of business integration and consolidation expenses associated with the integration of Macy's and Broadway into the Company (\$140 million and \$48 million, respectively) and the consolidation of the Company's Rich's/Goldsmith's and Lazarus divisions (\$14 million). The primary components of the Macy's integration expenses were \$31 million of costs to close and sell certain stores, \$38 million of costs to convert a number of stores to other nameplates, \$31 million of severance costs and \$40 million of other costs and expenses associated with integrating Macy's into the Company. The major components of the Broadway integration expenses were \$23 million of costs to close certain stores, \$9 million of costs to refinance certain indebtedness and \$16 million of other costs and expenses associated with integrating Broadway into the Company.

4. EXTRAORDINARY ITEM

The extraordinary item for the 52 weeks ended January 31, 1998 represents costs of \$39 million, net of income tax benefit of \$25 million, associated with the prepayment of all amounts outstanding under the Company's mortgage loan

facility, secured promissory note, certain other mortgages and previous bank credit facility, all of which were retired and terminated.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

5. ACCOUNTS RECEIVABLE

<TABLE>
<CAPTION>

	JANUARY 31, 1998	FEBRUARY 1, 1997
	(MILLIONS)	
<S>	<C>	<C>
Due from customers.....	\$2,322	\$2,523
Less allowance for doubtful accounts.....	100	96
	-----	-----
	2,222	2,427
Other receivables.....	418	407
	-----	-----
Net receivables.....	\$2,640	\$2,834
	=====	=====

</TABLE>

Sales through the Company's credit plans were \$4,002 million and \$4,191 million for the 52 weeks ended January 31, 1998 and February 1, 1997, respectively, and \$4,324 million for the 53 weeks ended February 3, 1996. The credit plans relating to certain operations of the Company, including operations that were previously conducted through divisions of Macy's, are owned by a third party. Other receivables includes the current portion of a \$400 million 9.5% note relating to the sale of certain divisions in 1988. The \$400 million note, which is supported by a letter of credit, was transferred to a grantor trust which borrowed \$352 million under a note monetization facility and transferred such proceeds to the Company (see Note 9). The initial \$200 million installment of the note was received on May 5, 1997 and the remaining \$200 million installment matures on May 3, 1998.

Finance charge income amounted to \$391 million and \$430 million for the 52 weeks ended January 31, 1998 and February 1, 1997, respectively, and \$405 million for the 53 weeks ended February 3, 1996.

Changes in allowance for doubtful accounts are as follows:

<TABLE>
<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998	52 WEEKS ENDED FEBRUARY 1, 1997	53 WEEKS ENDED FEBRUARY 3, 1996
	(MILLIONS)		
<S>	<C>	<C>	<C>
Balance, beginning of year.....	\$ 96	\$ 83	\$ 45
Charged to costs and expenses.....	167	172	127
Acquired.....	-	-	16
Net uncollectible balances written off.....	(163)	(159)	(105)
	-----	-----	-----
Balance, end of year.....	\$ 100	\$ 96	\$ 83
	=====	=====	=====

</TABLE>

6. INVENTORIES

Merchandise inventories were \$3,239 million at January 31, 1998, compared to \$3,246 million at February 1, 1997. At these dates, the cost of inventories using the LIFO method approximated the cost of such inventories using the first-in, first-out method. The application of the LIFO method did not impact cost of sales for the 52 weeks ended January 31, 1998 and February 1, 1997 or the 53 weeks ended February 3, 1996.

7. PROPERTIES AND LEASES

<TABLE>
<CAPTION>

	JANUARY 31, 1998	FEBRUARY 1, 1997	
	(MILLIONS)		
	<C>	<C>	
Land.....	\$1,019	\$1,048	
Buildings on owned land.....	2,314	2,307	
Buildings on leased land and leasehold improvements.....	1,552	1,547	
Store fixtures and equipment.....	3,305	2,917	
Leased properties under capitalized leases.....	76	78	
	8,266	7,897	
Less accumulated depreciation and amortization.....	1,746	1,372	
	<u>\$6,520</u>	<u>\$6,525</u>	

</TABLE>

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 January 31, 1998, for noncancellable leases are:

<TABLE>
<CAPTION>

	CAPITALIZED LEASES	OPERATING LEASES	TOTAL	
	(MILLIONS)			
	<C>	<C>	<C>	
Fiscal year:				
1998.....	\$ 13	\$ 164	\$ 177	
1999.....	12	151	163	
2000.....	12	145	157	
2001.....	12	139	151	
2002.....	10	130	140	
After 2002.....	73	1,010	1,083	
Total minimum lease payments.....	132	\$1,739	\$1,871	
Less amount representing interest.....		61		
Present value of net minimum capitalized lease payments.....	<u>\$ 71</u>			

</TABLE>

Capitalized leases are included in the Consolidated Balance Sheets as property and equipment while the related obligation is included in short-term (\$5 million) and long-term (\$66 million) debt. Amortization of assets subject to 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 \$7 million on capitalized leases and \$19 million on operating leases.

Rental expense consists of:

<TABLE>
<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998	52 WEEKS ENDED FEBRUARY 1, 1997	53 WEEKS ENDED FEBRUARY 3, 1996
(MILLIONS)			
Real estate (excluding executory costs)			
Capitalized leases -			
Contingent rentals.....	\$ 4	\$ 4	\$ 4
Operating leases -			
Minimum rentals.....	149	151	137
Contingent rentals.....	23	21	20
	176	176	161
Less income from subleases -			
Capitalized leases.....	1	1	-
Operating leases.....	3	3	2
	4	4	2
	\$172	\$172	\$159
Personal property - Operating leases.....	\$ 37	\$ 60	\$ 64

</TABLE>

8. INTANGIBLE ASSETS

<TABLE>
<CAPTION>

	JANUARY 31, 1998	FEBRUARY 1, 1997
(MILLIONS)		
Reorganization value in excess of amount allocable to identifiable assets.....	\$100	\$100
Excess of cost over net assets acquired.....	294	294
Tradenames.....	458	458
	852	852
Less accumulated amortization.....	162	135
Intangible assets - net.....	\$690	\$717

</TABLE>

Intangible assets are being amortized on a straight-line basis over 20 years, except for tradenames which are being amortized over 40 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

9. FINANCING

<TABLE>
<CAPTION>

	JANUARY 31, 1998	FEBRUARY 1, 1997
(MILLIONS)		
Short-term debt:		
Receivables backed financings.....	\$ 375	\$ 675
Note monetization facility.....	176	176

Bank credit facility.....	-	132
Current portion of long-term debt.....	5	112
	-----	-----
Total short-term debt.....	\$ 556	\$1,095
	=====	=====
Long-term debt:		
Receivables backed financings.....	\$1,326	\$1,365
10.0% Senior notes due 2001.....	450	450
8.5% Senior notes due 2003.....	450	450
8.125% Senior notes due 2002.....	400	400
5.0% Convertible subordinated notes due 2003.....	350	350
7.45% Senior debentures due 2017.....	300	-
Short-term debt refinanced.....	294	-
6.79% Senior debentures due 2027.....	250	-
Note monetization facility.....	-	176
Bank credit facility, mortgages and other.....	99	1,415
	-----	-----
Total long-term debt.....	\$3,919	\$4,606
	=====	=====

</TABLE>

Interest expense was as follows:

<TABLE>

<CAPTION>

52 WEEKS ENDED 52 WEEKS ENDED 53 WEEKS ENDED
JANUARY 31, 1998 FEBRUARY 1, 1997 FEBRUARY 3, 1996

(MILLIONS)

<S>	<C>	<C>	<C>
Interest on debt.....	\$392	\$464	\$478
Amortization of financing costs.....	20	27	22
Interest on capitalized leases.....	8	9	9
	----	----	----
Subtotal.....	420	500	509
Less:			
Interest capitalized on construction.....	(2)	(1)	(1)
	----	----	----
	\$418	\$499	\$508
	=====	=====	=====

</TABLE>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Future maturities of long-term debt, other than capitalized leases and including unamortized original issue discount of \$1 million, are shown below:

<TABLE>

<CAPTION>

(MILLIONS)

<S>	<C>
Fiscal year:	
1999.....	\$523
2000.....	-
2001.....	689
2002.....	998
2003.....	800
After 2003.....	844

</TABLE>

On July 14, 1997, the Company issued \$300 million of 7.45% Senior Debentures due 2017 and \$250 million of 6.79% Senior Debentures due 2027 and, on July 28, 1997, the Company entered into new bank credit agreements which replaced its existing bank credit agreement.

During the 52 weeks ended January 31, 1998, with proceeds of the financings described above, proceeds of the \$200 million installment of a note receivable and other funds, the Company repaid significant borrowings including \$568 million of the Company's receivables backed certificates, \$516 million of outstanding term borrowings under its previous bank credit facility, the entire

\$345 million of outstanding borrowings under its mortgage loan facility, the entire \$221 million of borrowings outstanding under its secured promissory note and \$176 million of borrowings outstanding under its note monetization facility.

On February 6, 1998, the Company issued \$300 million of 7.0% Senior Debentures due 2028. The proceeds were used to refinance short-term borrowings which are classified as long-term debt as of January 31, 1998.

The following summarizes certain components of the Company's debt:

RECEIVABLES BACKED FINANCINGS

Receivables backed financings classified as short-term debt consist of receivables backed commercial paper issued by a subsidiary of the Company (of which \$375 million and \$146 million was outstanding as of January 31, 1998 and February 1, 1997, respectively), together with the current portion of amounts due under certain receivables backed certificates issued by a subsidiary of the Company. Receivables backed financings classified as long-term debt consist of receivables backed certificates issued by a subsidiary of the Company, which certificates represent undivided interests in a master trust originated by such subsidiary, bear interest at rates ranging from 6.70% to 7.95% per annum and mature between December 15, 1999 and September 15, 2002.

BANK CREDIT AGREEMENTS

The Company and certain financial institutions are parties to (i) the Five-Year Credit Agreement, pursuant to which such financial institutions have provided the Company with a \$1,500 million revolving loan facility (the "Five Year Facility") and (ii) the 364-Day Credit Agreement, pursuant to which such financial institutions have provided the Company with a \$500 million revolving loan facility (the "364-Day Facility" and, together with the Five-Year Facility, the "Revolving Loan Facilities"). The Company's obligations under the Revolving Loan Facilities are not secured or guaranteed.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

As of January 31, 1998, there were \$150 million of revolving credit loans outstanding under the Five-Year Facility which, as a result of a refinancing, has been classified as long term debt. Additionally, there were \$112 million of letters of credit outstanding under the Revolving Loan Facilities. Revolving loans under the Revolving Loan Facilities bear interest based on published rates. As of January 31, 1998, the average rate was 5.78% per annum.

COMMERCIAL PAPER

On January 30, 1997, the Company established a \$400 million facility for the issuance from time to time of unsecured commercial paper. The issuance of commercial paper under the facility will have the effect, while such commercial paper is outstanding, of reducing the Company's borrowing capacity under the Five-Year Facility by an amount equal to the principal amount of such commercial paper. As of January 31, 1998, there was \$144 million of such commercial paper outstanding which, as a result of a refinancing, has been classified as long-term debt. As of February 1, 1997, no such commercial paper was outstanding.

SENIOR NOTES AND DEBENTURES

The Senior Notes and the Senior Debentures are unsecured obligations of the Company. The holders of the Senior Debentures due 2027 may elect to have such debentures repaid on July 15, 2004 at 100% of the principal amount thereof, together with accrued and unpaid interest to the date of repayment.

CONVERTIBLE SUBORDINATED NOTES

The Convertible Subordinated Notes are unsecured obligations of the Company and are subordinated to all existing and future senior debt of the Company. The Convertible Subordinated Notes are convertible into shares of Common Stock at the rate of 29.2547 shares of Common Stock per \$1,000 stated principal amount, subject to adjustment in certain circumstances to prevent dilution. In addition, the Convertible Subordinated Notes will be redeemable at the Company's option, in whole or in part, at anytime on or after October 1, 1998, at specified

redemption prices plus accrued interest to the date of redemption.

NOTE MONETIZATION FACILITY

The note monetization facility represents debt of a grantor trust formed by the Company, the final installment of which matures on May 3, 1998. Recourse under such debt is limited to the trust's assets (consisting primarily of a \$200 million receivable due on May 3, 1998) and the Company's interest in the trust.

OTHER FINANCING ARRANGEMENT

In addition to the financing arrangements discussed above, on January 22, 1997, the Company entered into an arrangement providing for off balance sheet financing of up to \$200 million (subsequently increased to \$300 million) of non-proprietary credit card receivables arising under accounts owned by the Company. At January 31, 1998 and February 1, 1997, \$243 million and \$104 million of borrowings were outstanding under this arrangement, respectively.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

<TABLE>
<CAPTION>

	JANUARY 31, 1998		FEBRUARY 1, 1997	
	(MILLIONS)			
	<C>	<C>	<C>	<C>
Merchandise and expense accounts payable.....			\$1,587	\$1,699
Liabilities to customers.....		173		111
Taxes other than income taxes.....			116	119
Accrued wages and vacation.....			86	78
Accrued interest.....		51		62
Other.....		403		423
		-----	-----	
		\$2,416	\$2,492	
		=====	=====	

</TABLE>

11. TAXES

Income tax expense is as follows:

<TABLE>
<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998			52 WEEKS ENDED FEBRUARY 1, 1997			53 WEEKS ENDED FEBRUARY 3, 1996		
	CURRENT	DEFERRED	TOTAL	CURRENT	DEFERRED	TOTAL	CURRENT	DEFERRED	TOTAL
	(MILLIONS)								
	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Federal.....	\$319	\$(1)	\$318	\$176	\$(31)	\$145	\$91	\$13	\$104
State and local.....	66	(1)	65	36	(6)	30	20	3	23
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	\$385	\$(2)	\$383	\$212	\$(37)	\$175	\$111	\$16	\$127
	=====	=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

The income tax expense reported differs from the expected tax computed by applying the federal income tax statutory rate of 35% for the 52 weeks ended January 31, 1998 and February 1, 1997, and the 53 weeks ended February 3, 1996 to income before income taxes and extraordinary item. The reasons for this difference and their tax effects are as follows:

<TABLE>
<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998	52 WEEKS ENDED FEBRUARY 1, 1997	53 WEEKS ENDED FEBRUARY 3, 1996
	-----	-----	-----

	(MILLIONS)		
<S>	<C>	<C>	<C>
Expected tax.....	\$335	\$154	\$ 71
State and local income taxes, net of federal income tax expense.....	43	20	15
Permanent difference arising from amortization of intangible assets...	9	9	16
Permanent difference resulting from Broadway acquisition.....	-	-	23
Other.....	(4)	(8)	2
	----	----	----
	<u>\$383</u>	<u>\$175</u>	<u>\$127</u>

</TABLE>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

<TABLE>
<CAPTION>

	JANUARY 31, FEBRUARY 1, 1998 1997	

	(MILLIONS)	
<S>	<C>	<C>
Deferred tax assets:		
Operating loss carryforwards.....	\$ 174	\$ 328
Accrued liabilities accounted for on a cash basis for tax purposes.....	175	189
Postretirement benefits other than pensions.....	171	179
Capitalized lease debt.....	31	31
Allowance for doubtful accounts.....	40	38
Alternative minimum tax credit carryforwards.....	63	53
Other.....	122	148
	-----	-----
Total gross deferred tax assets.....	776	966
	-----	-----
Deferred tax liabilities:		
Excess of book basis over tax basis of property and equipment.....	(1,345)	(1,376)
Prepaid pension expense.....	(68)	(68)
Deferred gain from sale of divisions.....	(41)	(82)
Merchandise inventories.....	(122)	(115)
Other.....	(81)	(68)
	-----	-----
Total gross deferred tax liabilities.....	(1,657)	(1,709)
	-----	-----
Net deferred tax liability.....	<u>\$ (881)</u>	<u>\$ (743)</u>

</TABLE>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and tax planning strategies in making this assessment. Tax law limits the use of an acquired enterprise's net operating loss carryforwards to subsequent taxable income of the acquired enterprise in a consolidated tax return for the combined enterprise. As of January 31, 1998, the Company estimated that the Macy's net operating loss carryforwards, which are available to offset future taxable income of the acquired Macy's enterprise through 2008, were approximately \$170 million and that Broadway's net operating loss carryforwards, which are available to offset future taxable income of the acquired Broadway enterprise through 2009, were approximately \$303 million. The Company also had alternative minimum tax credit carryforwards of \$63 million, which are available to reduce future income taxes, if any, over an indefinite period.

12. RETIREMENT PLANS

The Company has a defined benefit plan ("Pension Plan") and a defined contribution plan ("Savings Plan") which cover substantially all employees who work 1,000 hours or more in a year. In addition, the Company has a defined benefit supplementary retirement plan which includes benefits, for certain employees, in excess of qualified plan limitations. For the 52 weeks ended January 31, 1998 and February 1, 1997, and the 53 weeks ended February 3, 1996, net retirement expense for these plans totaled \$35 million, \$29 million and \$22 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

ended February 3, 1996, net retirement expense for these plans totaled \$35 million, \$29 million and \$22 million, respectively.

Measurements of plan assets and obligations for the Pension Plan and the defined benefit supplementary retirement plan are calculated as of December 31 of each year. The discount rates used to determine the actuarial present value of projected benefit obligations under such plans were 7.25% as of December 31, 1997 and 7.75% as of December 31, 1996. The assumed average rate of increase in future compensation levels under such plans was 5.0% as of December 31, 1997 and December 31, 1996. The long-term rate of return on assets (Pension Plan only) was 9.75% as of December 31, 1997 and December 31, 1996.

PENSION PLAN

Net pension expense for the Company's Pension Plan included the following actuarially determined components:

<TABLE>

<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998	52 WEEKS ENDED FEBRUARY 1, 1997	53 WEEKS ENDED FEBRUARY 3, 1996
	(MILLIONS)		
<S>	<C>	<C>	<C>
Service cost.....	\$ 30	\$ 36	\$ 31
Interest cost.....	99	94	83
Actual return on assets.....	(247)	(193)	(243)
Net amortization and deferrals.....	115	74	134
Cost of special termination benefits.....	9	-	-
	-----	-----	-----
	\$ 6	\$ 11	\$ 5
	=====	=====	=====

</TABLE>

In connection with a program to modify certain health care benefits for future retirees at one division, the Company incurred \$9 million of special termination benefits to eligible employees who elected to retire within a specified time period.

The following table sets forth the projected actuarial present value of benefit obligations and funded status at December 31, 1997 and 1996, for the Pension Plan:

<TABLE>

<CAPTION>

	1997	1996
	(MILLIONS)	
<S>	<C>	<C>
Net accumulated benefit obligations, including vested benefits of \$1,286 million and \$1,164 million, respectively.....	\$1,304	\$1,189
Projected compensation increases.....	99	92
	-----	-----
Projected benefit obligations.....	1,403	1,281
	-----	-----
Plan assets (primarily stocks, bonds and U.S. government securities).....	1,590	1,469
Unrecognized gain.....	(21)	(16)

Unrecognized prior service cost.....	3	4
	-----	-----
	1,572	1,457
	-----	-----
Prepaid pension expense.....	\$ 169	\$ 176
	=====	=====

</TABLE>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The Company's policy is to fund the Pension Plan at or above the minimum required by law. For the 1997 and 1996 plan years, the Company was impacted by the full funding limitation resulting in a zero contribution requirement for both years. Plan assets are held by independent trustees.

SUPPLEMENTARY RETIREMENT PLAN

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

<TABLE>
<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998	52 WEEKS ENDED FEBRUARY 1, 1997	53 WEEKS ENDED FEBRUARY 3, 1996
	(MILLIONS)		
<S>	<C>	<C>	<C>
Service cost.....	\$ 2	\$ 2	\$ 2
Prior service cost.....	-	-	1
Interest cost on projected benefit obligations.....	5	5	3
Net amortization and deferral.....	2	1	1
	---	---	---
	\$ 9	\$ 8	\$ 7
	===	===	===

</TABLE>

The following table sets forth the projected actuarial present value of unfunded benefit obligations at December 31, 1997 and 1996, for the supplementary retirement plan:

<TABLE>
<CAPTION>

	1997	1996
	---	---
	(MILLIONS)	
<S>	<C>	<C>
Accumulated benefit obligations, including vested benefits of \$87 million and \$65 million, respectively.....	\$89	\$66
Projected compensation increases.....	5	9
	---	---
Projected benefit obligations.....	94	75
Unrecognized gain (loss).....	(9)	6
Unrecognized prior service cost.....	(7)	(5)
Minimum funding liability.....	11	-
	---	---
Accrued supplementary retirement obligation.....	\$89	\$76
	===	===

</TABLE>

In order to recognize the required minimum liability at December 31, 1997 for the defined benefit supplementary retirement plan, the Company recorded an additional pension accrual, an intangible asset to the extent of unrecognized prior service cost and a reduction in shareholders' equity, net of applicable income taxes.

SAVINGS PLAN

The Savings Plan includes a voluntary savings feature for eligible employees. The Company's contribution is based on the Company's annual earnings and the minimum Company contribution is 33 1/3% of an employee's eligible

savings. Expense for the Savings Plan amounted to \$20 million for the 52 weeks ended January 31, 1998, \$10 million for the 52 weeks ended February 1, 1997, and \$10 million for the 53 weeks ended February 3, 1996.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

DEFERRED COMPENSATION PLAN

The Company has a deferred compensation plan wherein eligible executives may elect to defer a portion of their compensation each year as either stock credits or cash credits. The Company transfers shares to a trust to cover the number it estimates will be needed for distribution on account of stock credits currently outstanding. At January 31, 1998, February 1, 1997, and February 3, 1996, the liability under the plan, which is reflected in other liabilities, was \$17 million, \$12 million, and \$8 million, respectively. Expense for the 52 weeks ended January 31, 1998, 52 weeks ended February 1, 1997, and the 53 weeks ended February 3, 1996 was immaterial.

13. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to pension and other supplemental benefits, certain retired employees currently are provided with specified health care and life insurance benefits. Eligibility requirements for such benefits vary by division and subsidiary, but generally state that benefits are available to eligible employees who retire after a certain age with specified years of service. Certain employees are subject to having such benefits modified or terminated.

Net postretirement benefit expense included the following actuarially determined components:

<TABLE>
<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998	52 WEEKS ENDED FEBRUARY 1, 1997	53 WEEKS ENDED FEBRUARY 3, 1996
	(MILLIONS)		
<S>	<C>	<C>	<C>
Service cost.....	\$ 2	\$ 5	\$ 6
Interest cost.....	23	27	29
Net amortization and deferral.....	(15)	(6)	(7)
Reduction for special termination benefits.....	(3)	-	-
	----	---	---
	\$ 7	\$26	\$28
	====	====	====

</TABLE>

The measurement of the postretirement benefit obligations is calculated as of December 31. The following table sets forth the projected actuarial present value of unfunded postretirement benefit obligations at December 31, 1997 and 1996:

<TABLE>
<CAPTION>

	1997	1996	
	----	----	
	(MILLIONS)		
<S>	<C>	<C>	
Accumulated postretirement benefit obligation:			
Retirees.....	\$278	\$280	
Fully eligible active plan participants.....	26	39	
Other active plan participants.....	21	45	
	----	----	
Accumulated postretirement benefit obligation.....	325	364	
Unrecognized net gain.....	73	69	
Unrecognized prior service cost.....	31	16	
	----	----	
Accrued postretirement benefit obligation.....	\$429	\$449	
	====	====	

</TABLE>

The discount rate used in determining the actuarial present value of unfunded postretirement benefit obligations was 7.25% as of December 31, 1997 and 7.75% as of December 31, 1996.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The future medical benefits provided by the Company for certain employees are based on a fixed amount per year of service, and the accumulated postretirement benefit obligation is not affected by increases in health care costs. However, the future medical benefits provided by the Company for certain other employees are affected by increases in health care costs. For purposes of determining the present values of unfunded postretirement benefit obligations, the annual growth rate in the per capita cost of various components of such medical benefit obligations was assumed to range from 5.5% to 10.0% in the first year, and to decrease gradually for each such component to 5.5% by 2003 and to remain at that level thereafter. The foregoing growth-rate assumption has a significant effect on such determination. To illustrate, increasing such assumed growth rates by one percentage point would increase the present value of unfunded postretirement benefit obligation as of December 31, 1997 by \$12 million and the net periodic postretirement benefit expense for 1997 by \$1 million.

14. EQUITY PLAN

The Company has adopted 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.

Stock option transactions are as follows:

<TABLE>
<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998		52 WEEKS ENDED FEBRUARY 1, 1997		53 WEEKS ENDED FEBRUARY 3, 1996	
	WEIGHTED AVERAGE OPTION SHARES	PRICE	WEIGHTED AVERAGE OPTION SHARES	PRICE	WEIGHTED AVERAGE OPTION SHARES	PRICE
(SHARES IN THOUSANDS)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding, beginning of year.....	9,140.2	\$24.65	7,415.7	\$20.48	6,151.5	\$19.83
Granted.....	4,133.7	34.49	3,057.8	33.14	2,291.1	21.82
Canceled.....	(630.0)	29.51	(403.9)	23.95	(435.6)	20.74
Exercised.....	(1,818.6)	20.80	(929.4)	19.60	(591.3)	18.63
Outstanding, end of year.....	10,825.3	\$28.78	9,140.2	\$24.65	7,415.7	\$20.48
Exercisable, end of year.....	3,315.0	\$22.56	3,136.8	\$20.33	2,750.2	\$19.41
Weighted average fair value of options granted during the year.....		\$14.26		\$13.04		\$ 9.89

</TABLE>

As of January 31, 1998, 10.8 million shares of Common Stock were available for additional grants pursuant to the Company's equity plan, of which 1.2 million shares were available for grant in the form of restricted stock. During the 52 weeks ended January 31, 1998, 30,000 shares of Common Stock were granted in the form of restricted stock at a market value of \$34.38 and fully vest after 3 years. No shares of Common Stock were granted in the form of restricted stock during the 52 weeks ended February 1, 1997 or the 53 weeks ended February 3,

1996. Compensation expense is recorded for all restricted stock grants based on the amortization of the fair market value at the time of grant of the restricted stock over the period the restrictions lapse. There have been no grants of stock appreciation rights under the equity plan.

The Company applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for compensation cost under its equity plan. Had compensation cost for the Company's equity plan been determined consistent with Statement of Financial Accounting Standards No. 123 for options granted subsequent to January 28, 1995, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

		52 WEEKS ENDED JANUARY 31, 1998	52 WEEKS ENDED FEBRUARY 1, 1997	53 WEEKS ENDED FEBRUARY 3, 1996
(MILLIONS, EXCEPT PER SHARE DATA)				
<S>	<C>	<C>	<C>	<C>
Net income	As Reported.....	\$ 536	\$ 266	\$ 75
	Pro forma.....	521	258	72
Basic earnings	As Reported.....	2.56	1.28	.39
per share	Pro forma.....	2.49	1.24	.37
Diluted earnings	As Reported.....	2.41	1.24	.39
per share	Pro forma.....	2.34	1.21	.37

The fair value of each option grant subsequent to January 28, 1995 is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used.

<TABLE>
<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998	52 WEEKS ENDED FEBRUARY 1, 1997	53 WEEKS ENDED FEBRUARY 3, 1996
<S>	<C>	<C>	<C>
Dividend yield.....	-	-	-
Expected volatility.....	29.7%	25.2%	31.5%
Risk-free interest rate.....	5.7%	6.1%	7.0%
Expected life.....	6 years	6 years	6 years

The following summarizes information about stock options granted subsequent to January 28, 1995, which remain outstanding as of January 31, 1998:

<TABLE>
<CAPTION>

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
	WEIGHTED AVERAGE					
	RANGE OF	NUMBER	REMAINING	WEIGHTED AVERAGE	NUMBER	WEIGHTED AVERAGE
	EXERCISE PRICES	OUTSTANDING	CONTRACTUAL LIFE	EXERCISE PRICE	EXERCISABLE	EXERCISE PRICE
		(THOUSANDS)		(THOUSANDS)		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
\$19.00 - 28.50	1,250.6	7 years....	\$22.40	485.2	\$22.40	
33.13 - 34.63	2,604.5	8 years....	33.14	519.8	33.14	
34.38 - 45.13	3,944.1	9 years....	34.49	-	-	

15. SHAREHOLDERS' EQUITY

The authorized shares of the Company consist of 125.0 million shares of preferred stock ("Preferred Stock"), par value of \$.01 per share, with no shares issued, and 500.0 million shares of Common Stock, par value

of \$.01 per share, with 239.9 million shares of Common Stock issued and 209.9 million shares of Common Stock outstanding at January 31, 1998 and 237.8 million shares of Common Stock issued and 208.0 million shares of Common Stock outstanding at February 1, 1997 (with shares held in the Company's treasury or by subsidiaries of the Company being treated as issued, but not outstanding).

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 shareholders. Subject to preferential rights that may be applicable to any Preferred Stock, holders 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.

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. 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 shares of 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 redeemed by the Company at a redemption price of \$.03 per Right (subject to adjustment).

FUTURE STOCK ISSUANCES

The Company is authorized to issue 10.2 million shares of Common Stock (subject to adjustment) upon the conversion of the Convertible Subordinated Notes, 1.0 million shares of Common Stock (subject to adjustment) upon the exercise of the Company's Series B Warrants, 9.0 million shares of Common Stock (subject to adjustment) upon the exercise of the Company's Series C Warrants, 9.0 million shares of Common Stock (subject to adjustment) upon the exercise of the Company's Series D Warrants and 0.2 million shares of Common Stock

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(subject to adjustment) upon the exercise of the Company's Series E Warrants. The warrants have the following terms:

<TABLE>
<CAPTION>

	SHARES PER WARRANT	EXERCISE PRICE	EXPIRATION DATE
<S>	<C>	<C>	<C>
Series B.....	1.047	\$35.00	2/15/00
Series C.....	1.000	25.93	12/19/99
Series D.....	1.000	29.92	12/19/01
Series E.....	0.270	17.00	10/08/99

</TABLE>

In addition to the stock options described in Note 14, the Company issued options to purchase 1.5 million shares of Common Stock at prices ranging from \$14.81 to \$51.85 in connection with the acquisition of Broadway (of which options to purchase 300 thousand shares of Common Stock remained outstanding as of January 31, 1998).

TREASURY STOCK

Treasury stock contains shares issued to wholly owned subsidiaries of the Company in connection with the acquisition of Macy's, shares maintained in a trust related to the deferred compensation plans and shares repurchased to cover employee tax liabilities related to other stock plan activity.

Changes in the number of shares held in the treasury are as follows:

<TABLE>
<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998	52 WEEKS ENDED FEBRUARY 1, 1997	53 WEEKS ENDED FEBRUARY 3, 1996
(THOUSANDS)			
Balance, beginning of year.....	84.8	40.8	-
Additions:			
Restricted stock.....	70.0	41.9	40.8
Deferred compensation plan.....	4.5	2.1	-
Balance, end of year.....	159.3	84.8	40.8

</TABLE>

Additions to treasury stock for restricted stock and the deferred compensation plan represent shares accepted in lieu of cash to cover employee tax liability upon lapse of restrictions for restricted stock and upon distribution of common stock under the deferred compensation plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Under the deferred compensation plan, shares are maintained in a trust to cover the number estimated to be needed for distribution on account of stock credits currently outstanding. Changes in the number of shares held in the trust are as follows:

<TABLE>
<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998	52 WEEKS ENDED FEBRUARY 1, 1997	53 WEEKS ENDED FEBRUARY 3, 1996
(THOUSANDS)			
Balance, beginning of year.....	283.5	213.9	130.5
Additions.....	123.7	90.6	88.0
Distributions.....	(28.5)	(21.0)	(4.6)
Balance, end of year.....	378.7	283.5	213.9

</TABLE>

16. FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and short-term investments

The carrying amount approximates fair value because of the short maturity of these instruments.

Accounts receivable

The carrying amount approximates fair value because of the short average maturity of the instruments, and because the carrying amount reflects a reasonable estimate of losses from doubtful accounts.

Long-term debt

The fair values of the Company's long-term debt, excluding capitalized leases, are estimated based on the quoted market prices for publicly traded debt or by using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Interest rate cap agreements

The fair values of the interest rate cap agreements are estimated based on current settlement prices of comparable contracts obtained from dealer quotes.

Interest rate swap agreements

The fair values of the interest rate swap agreements are obtained from dealer quotes. The values represent the estimated amount the Company would pay to terminate the agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The estimated fair values of certain financial instruments of the Company are as follows:

<TABLE>
<CAPTION>

	JANUARY 31, 1998			FEBRUARY 1, 1997		
	NOTIONAL AMOUNT	CARRYING AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	CARRYING AMOUNT	FAIR VALUE
	(MILLIONS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Long-term debt.....	\$3,854	\$3,853	\$4,179	\$4,534	\$4,533	\$4,703
Interest rate cap agreements.....	827	-	-	1,852	8	-
Interest rate swap agreements.....	376	-	(2)	752	-	(8)

The interest rate cap agreements in effect at January 31, 1998 are used to hedge interest rate risk related to variable rate indebtedness under the Company's Revolving Loan Facilities and commercial paper programs. These interest rate cap agreements are recorded at cost and are amortized on a straight-line basis over the life of the cap.

The interest rate swap agreements relate to the note monetization and Revolving Loan Facilities. The note monetization facility bears interest based on LIBOR, subject to certain adjustments. The interest rate swap agreement for the note monetization facility effectively converts this variable rate debt (LIBOR plus 0.40%) to a fixed rate of 10.344% (9.944% fixed rate plus 0.40%). The trust that is the borrower under the note monetization facility receives fixed-rate interest on the promissory note constituting such trust's principal asset. The other interest rate swap agreements are used, in effect, to fix the interest on a portion of the debt outstanding under the Revolving Loan Facilities.

Commitments to extend credit under revolving agreements relate primarily to the aggregate unused credit limits and unused lines of credit for the Company's credit plans. These commitments generally can be terminated at the option of the Company. It is unlikely that the total commitment amount will represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables. The Company places its temporary cash investments in what it believes to be high credit quality financial instruments. Credit risk with respect to trade receivables is concentrated in the geographic regions in which the Company operates stores. Such concentrations, however, are considered to be limited because of the Company's large number of customers and their dispersion across many regions.

17. EARNINGS PER SHARE

The reconciliation of basic earnings per share to diluted earnings per share based on income before extraordinary item is as follows:

<TABLE>
<CAPTION>

	52 WEEKS ENDED JANUARY 31, 1998		52 WEEKS ENDED FEBRUARY 1, 1997		53 WEEKS ENDED FEBRUARY 3, 1996	
	SHARES	INCOME	SHARES	INCOME	SHARES	INCOME
(MILLIONS, EXCEPT PER SHARE DATA)						
Income before extraordinary item and average number of shares outstanding.....	209.2	\$575	207.5	\$266	191.5	\$75
Shares to be issued to IRS....			.1	.1		
Shares to be issued under deferred compensation plan.....	.3	.2	.2			
	209.5	\$575	207.8	\$266	191.8	\$75
Basic earnings per share.....	\$2.74	\$1.28	\$1.28	\$1.28	\$0.39	\$0.39
Effect of dilutive securities:						
Warrants.....	5.4	2.8	2.8	.6		
Stock options.....	2.0	1.6	1.6	.9		
Convertible notes.....	10.2	10	10.2	11		
	227.1	\$585	222.4	\$277	193.3	\$75
Diluted earnings per share.....	\$2.58	\$1.24	\$1.24	\$1.24	\$0.39	\$0.39

</TABLE>

18. QUARTERLY RESULTS (UNAUDITED)

Unaudited quarterly results for the 52 weeks ended January 31, 1998 and February 1, 1997, were as follows:

<TABLE>
<CAPTION>

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
(MILLIONS, EXCEPT PER SHARE DATA)				
52 Weeks Ended January 31, 1998:				
Net sales.....	\$3,409	\$3,453	\$3,746	\$5,060
Operating income.....	148	212	268	713
Income before extraordinary item.....	24	67	105	379
Net income.....	24	28	105	379
Basic earnings per share:				
Income before extraordinary item.....	.12	.32	.50	1.80
Net income.....	.12	.13	.50	1.80
Diluted earnings per share:				
Income before extraordinary item.....	.11	.31	.47	1.66
Net income.....	.11	.13	.47	1.66
52 Weeks Ended February 1, 1997:				
Net sales.....	\$3,301	\$3,284	\$3,609	\$5,035
Operating income.....	55	76	187	575
Net income (loss).....	(38)	(27)	42	289
Basic earnings (loss) per share.....	(.18)	(.13)	.20	1.39
Diluted earnings (loss) per share.....	(.18)	(.13)	.20	1.31

</TABLE>

Exhibit 4.6

SERIES B WARRANT AGREEMENT

This Amended and Restated Series B Warrant Agreement, dated as of June 1, 1995 (this "Agreement"), is made and entered into by and between Federated Department Stores, Inc., a Delaware corporation (the "Company"), and The Bank of New York, a New York banking corporation (the "Warrant Agent").

RECITALS

A. The Company and CS First Boston Corporation, a Massachusetts corporation formerly known as The First Boston Corporation ("FBC"), are parties to a Series B Warrant Agreement, dated as of February 5, 1992 (the "Original Agreement"), pursuant to which the Company issued and delivered 1,000,000 warrants (the "Warrants") to FBC in connection with a plan of reorganization of Federated Department Stores, Inc., Allied Stores Corporation, and certain of their subsidiaries (the "Plan") which was confirmed by the United States Bankruptcy Court for the Southern District of Ohio, Western Division, on January 10, 1992.

B. Certain restrictions on the transferability of the Warrants set forth in the Original Agreement lapsed as of February 5, 1995.

C. The Company desires to facilitate transfers of Warrants and other dealings between the Company and holders of Warrants by, among other things, appointing the Warrant Agent to act as agent for the Company and the holders of Warrants in accordance with the terms hereof.

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, the parties hereto hereby agree as follows:

1. BASIC TERMS AND FORM OF WARRANTS.

1.1. BASIC TERMS OF WARRANTS. From and after the date hereof, the Warrants will be subject to and governed by the terms of this Agreement. As of the date hereof, (a) each Warrant represents the right to purchase 1.047 shares of Common Stock, par value \$.01 per share, of the Company (the "Common Stock") and (b) the purchase price per Warrant Share payable upon the exercise of a Warrant (the "Warrant Price") is \$33.43. The shares of Common Stock purchasable upon exercise of the Warrants are hereinafter referred to as the "Warrant Shares." The Warrant Price and the number and kind of Warrant Shares purchasable upon exercise of the Warrants are subject to adjustment pursuant to the provisions of Section 4.

1.2. FORM OF WARRANTS. Each Warrant, including without limitation any Warrants that may be issued upon partial exercise, replacement, or transfer of Warrants, will be evidenced by, and subject to the terms of, a Warrant certificate (including the Form of Exercise Notice and Form of Assignment to be printed on

the reverse thereof, a "Warrant Certificate") in substantially the form of Exhibit A, with such changes, marks of identification or designation, and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any applicable law or with any rule or regulation made pursuant thereto.

1.3. COUNTERSIGNATURE OF WARRANTS. The Warrant Certificates will be executed on behalf of the Company by the manual or facsimile signature of the Chairman of the Board, President, or any Vice President of the Company, and attested by the Secretary or any Assistant Secretary of the Company. The Warrant Certificates will be countersigned by the Warrant Agent, either manually or by facsimile signature, and will not be valid for any purpose unless so

countersigned. In case any officer of the Company who has signed any of the Warrant Certificates ceases to be such officer of the Company before countersignature by the Warrant Agent and issuance and delivery by the Company, such Warrant Certificates, nevertheless, may be countersigned by the Warrant Agent, and issued and delivered by the Company with the same force and effect as though the person who signed such Warrant Certificates had not ceased to be such officer of the Company; and any Warrant Certificate may be signed on behalf of the Company by any person who, at the actual date of the execution of such Warrant Certificate, is a proper officer of the Company to sign such Warrant Certificate, although at the date of the execution of this Agreement any such person was not such an officer.

1.4 REGISTRATION OF WARRANTS. The Warrant Agent will keep or cause to be kept, at the principal office of the Warrant Agent designated for such purpose, books for registration and transfer of the Warrant Certificates issued hereunder. Such books will show the names and addresses of the respective holders of the Warrant Certificates, the number of Warrants evidenced on its face by each of the Warrant Certificates, and the date of each of the Warrant Certificates. The Company and the Warrant Agent will be entitled to treat the registered holder of a Warrant (the "Holder") as the sole owner thereof for all purposes and will not be bound to recognize any equitable or other claim or interest in such Warrant on the part of any other person. Neither the Company nor the Warrant Agent will be liable for any registration of transfer of any Warrants that are registered or to be registered in the name of a fiduciary or the nominee of a fiduciary.

2. TRANSFER AND EXCHANGE OF WARRANTS.

2.1. TRANSFER AND EXCHANGE. Any Warrant Certificate may be transferred, split up, combined, or exchanged for another Warrant Certificate or Warrant Certificates entitling the Holder thereof to purchase a like number of Warrant Shares as the Warrant Certificate or Warrant Certificates surrendered then entitled such Holder (or former Holder in the case of a transfer) to

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purchase. Any Holder desiring to transfer, split up, combine, or exchange any such Warrant Certificate will make such request in writing delivered to the Warrant Agent, and will surrender the Warrant Certificate or Warrant Certificates to be transferred, split up, combined, or exchanged, with the Form of Assignment duly executed by the Holder thereof, at the principal office of the Warrant Agent designated for such purpose. Thereupon or as promptly as practicable thereafter, the Company will prepare, execute, and deliver to the Warrant Agent, and the Warrant Agent will countersign and deliver, a Warrant Certificate or Warrant Certificates, as the case may be, as so requested. Neither the Company nor the Warrant Agent will be required to issue or deliver any Warrant Certificates in connection with any transfer, split up, combination, or exchange of Warrants or Warrant Certificates unless and until the person or persons requesting the issuance or delivery thereof has paid to the Warrant Agent the amount of any tax or governmental charge that may be payable in connection with such transfer, split up, combination or exchange or has established to the satisfaction of the Warrant Agent that any tax or governmental charge has been paid. Holders will not be required to pay any service charges in connection with the transfer, split up, combination, or exchange of Warrants.

2.2. LOST, STOLEN, AND MUTILATED WARRANT CERTIFICATES. Upon receipt by the Company and the Warrant Agent of evidence reasonably satisfactory to them of the loss, theft, destruction, or mutilation of a Warrant Certificate, and, in case of loss, theft, or destruction, of indemnity or security reasonably satisfactory to them, and reimbursement to the Company and the Warrant Agent of all reasonable expenses incidental thereto, and upon surrender to the Warrant Agent and cancellation of the Warrant Certificate if mutilated, the Company will prepare, execute, and deliver a new Warrant Certificate of like tenor to the Warrant Agent and the Warrant Agent will countersign and deliver such new Warrant Certificate to the Holder in lieu of the Warrant Certificate so lost, stolen, destroyed, or mutilated.

2.3. PAYMENT OF TAXES. The Company will pay all documentary or stamp taxes, if any, attributable to the initial issuance of the Warrants and the initial issuance of the Warrant Shares upon the exercise of Warrants; PROVIDED,

HOWEVER, that the Company's obligations in this regard will in all events be conditioned upon the Holder cooperating with the Company and the Warrant Agent in any reasonable arrangement designed to minimize or eliminate any such taxes. Neither the Company nor the Warrant Agent will be required to pay any tax or governmental charge that may be payable in connection with any transfer, split up, combination, or exchange of Warrants or Warrant Certificates.

2.4. CANCELLATION AND DESTRUCTION OF WARRANT CERTIFICATES. All Warrant Certificates surrendered for the purpose of exercise, transfer, split up, combination, or exchange will, if surrendered to the Company, be delivered to the Warrant Agent for cancellation or in canceled form, or, if surrendered to the

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Warrant Agent, will be canceled by it, and no Warrant Certificates will be issued in lieu thereof except as expressly permitted by this Agreement. The Company will deliver to the Warrant Agent for cancellation and retirement, and the Warrant Agent will so cancel and retire, any other Warrant Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Warrant Agent will deliver all canceled Warrant Certificates to the Company, or will, at the written request of the Company, destroy such canceled Warrant Certificates, and in such case will deliver a certificate of destruction thereof to the Company.

3. EXERCISE OF WARRANTS.

3.1. EXERCISE OF WARRANTS. (a) Subject to the earlier expiration of Warrants pursuant to Section 3.2, Warrants may be exercised by the Holder thereof, in whole or in part, at any time and from time to time prior to 5:00 p.m., Cincinnati, Ohio time on February 15, 2000 (the "Expiration Date") by delivering to the Warrant Agent, at its principal office designated for such purpose, the following:

(i) the Warrant Certificate or Warrant Certificates representing the Warrants to be exercised, with the Form of Exercise Notice duly executed by the Holder thereof; and

(ii) cash, or a certified bank check payable to the order of the Company, in an amount equal to the product of (A) the number of Warrant Shares purchasable upon the exercise of the Warrants designated for exercise in the Form of Exercise Notice and (B) the Warrant Price.

Following the Expiration Date, the Warrants will be null, void, and of no force or effect, and no holder of a Warrant Certificate will have any right thereunder or under this Agreement.

(b) As promptly as practicable after an exercise of Warrants in accordance with Section 3.1(a), the Warrant Agent will (i) requisition from any transfer agent for the Common Stock (or make available, if the Warrant Agent is the transfer agent) certificates representing the number of Warrant Shares to be purchased (and the Company hereby irrevocably authorizes and directs its transfer agent to comply with all such requests), (ii) after receipt of such certificates, cause the same to be delivered to or upon the order of the Holder exercising such Warrants, registered in such name or names as may be designated by such Holder, (iii) when appropriate, requisition from the Company the amount of cash to be paid in lieu of the issuance of fractional Warrant Shares in accordance with the provisions of Section 5, and (iv) when appropriate, after receipt, deliver such cash to or upon the order of the Holder exercising such Warrants.

(c) If the number of Warrants represented by a Warrant Certificate are not exercised in full, the Company will prepare, execute, and deliver to the Warrant Agent a new Warrant

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Certificate evidencing Warrants equivalent to such Warrants remaining

unexercised and the Warrant Agent will countersign and deliver such new Warrant Certificate to or upon the order of the Holder exercising such Warrants, registered in such name or names as may be designated by such Holder.

(d) The Company will take all such action as may be necessary to ensure that all Warrant Shares delivered upon exercise of Warrants, at the time of delivery of the certificates for such Warrant Shares, will be (subject to payment of the Warrant Price) duly and validly authorized and issued, fully paid, and nonassessable.

(e) In the event that the Company is obligated to pay cash in lieu of fractional Warrant Shares pursuant to Section 5 in connection with any exercise of Warrants, it will make all arrangements necessary so that such cash is available for distribution by the Warrant Agent, if and when appropriate.

3.2. ACCELERATION OF THE EXPIRATION DATE. Notwithstanding anything to the contrary contained in this Agreement, in the event that the Closing Price (as defined in Section 4.1(e)) is equal to or greater than 160% of the Warrant Price (as it may be adjusted pursuant to Section 4) for 45 consecutive Trading Days (as hereinafter defined) ending after February 15, 1996, then, if the Expiration Day has not previously occurred, the Expiration Date will be 5:00 p.m., Cincinnati, Ohio time, on the fifth Business Day (as hereinafter defined) after the Company gives notice (the "Acceleration Notice") to the Holders, which notice makes reference to this Agreement, specifies that the Expiration Date is being accelerated by reason of the Closing Price so exceeding the Warrant Price for such period, and sets forth the accelerated Expiration Date of the Warrants.

3.3. CERTAIN DEFINITIONS. For purposes of this Agreement, (a) the term "Business Day" means any day other than a Saturday, Sunday, or a day on which banking institutions in the state of Ohio are authorized or obligated by law or executive order to close and (b) the term "Trading Day" means any day on which shares of Common Stock are traded on the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading or, if shares of Common Stock are not so listed or admitted to trading, in the over-the-counter market.

4. ADJUSTMENTS OF WARRANT PRICE AND NUMBER OF WARRANT SHARES. The Warrant Price and the number and kind of Warrant Shares purchasable upon exercise of the Warrants will be subject to adjustment from time to time upon the happening of certain events as provided in this Section 4.

4.1. MECHANICAL ADJUSTMENTS. The Warrant Price and the number and kind of Warrant Shares purchasable upon exercise of a Warrant will be subject to adjustment as follows:

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(a) Subject to Section 4.1(f), if the Company (i) pays a dividend or otherwise distributes to holders of its Common Stock, as such, shares of its capital stock (whether Common Stock or capital stock of any other class), (ii) subdivides its outstanding shares of Common Stock into a greater number of shares of Common Stock, (iii) combines its outstanding shares of Common Stock into a smaller number of shares of Common Stock, or (iv) issues any shares of its capital stock in a reclassification of its outstanding shares of Common Stock (including any such reclassification in connection with a consolidation, merger, or other business combination transaction in which the Company is the continuing or surviving corporation), then the number and kind of Warrant Shares purchasable upon exercise of each Warrant immediately prior thereto will be adjusted so that the Holder of each Warrant will be entitled to receive the number and kind of Warrant Shares or other securities of the Company that it would have owned or it would have been entitled to receive after the happening of any of the events described above, had such Warrant been exercised immediately prior to the record date, in the case of a dividend or distribution, or the effective date, in the case of a subdivision, combination, or reclassification. An adjustment made pursuant to this paragraph (a) will become effective immediately after the record date in the case of a dividend or distribution and will become effective immediately after the effective date in the case of a subdivision,

combination, or reclassification.

(b) Subject to Section 4.1(f), if the Company distributes to holders of its Common Stock, as such, (i) evidences of indebtedness or assets (excluding cash dividends or cash distributions payable out of consolidated retained earnings) of the Company or any corporation or other legal entity a majority of the voting equity securities or equity interests of which are owned, directly or indirectly, by the Company (a "Subsidiary"), (ii) shares of capital stock of any Subsidiary, (iii) securities convertible or exchangeable for capital stock of the Company (including Common Stock or capital stock of any other class) or any Subsidiary, or (iv) any rights, options, or warrants (other than the Warrants) to purchase any of the foregoing (excluding those described in Section 4.1(c)), then, the number of Warrant Shares thereafter purchasable upon exercise of each Warrant will be adjusted to the number that results from multiplying the number of Warrant Shares purchasable upon the exercise of each Warrant immediately prior to such distribution by a fraction, the numerator of which will be the then Current Market Price per share (as defined in Section 4.1(e)) of Common Stock on the date of such distribution, and the denominator of which will be the then Current Market Price per share of Common Stock less the then fair value (as determined in good faith by the Board of Directors of the Company, whose determination will be conclusive if based on the financial advice of a reputable

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investment banking firm) of the portion of the evidences of indebtedness, assets, securities, or rights, options, or warrants so distributed applicable to one share of Common Stock. Such adjustment will be made whenever any such distribution is made, and will become effective immediately after the record date for the determination of stockholders entitled to receive such distribution. Except as provided in Section 4.1(i), no further adjustments of the number of Warrant Shares will be made upon the actual issue of shares of Common Stock upon conversion or exchange of such securities convertible or exchangeable for shares of Common Stock or upon exercise of such rights, warrants, or options for shares of Common Stock.

(c) Subject to Section 4.1(f), if the Company issues rights, options, or warrants to holders of the outstanding shares of Common Stock, as such, entitling the holders of such rights, options, or warrants (for a period expiring within 60 calendar days after the record date mentioned below) to subscribe for or purchase shares of Common Stock at a price per share that is lower on the record date mentioned below than the Current Market Price per share of Common Stock on such date, then the number of Warrant Shares thereafter purchasable upon the exercise of each Warrant will be adjusted to the number that results from multiplying the number of Warrant Shares purchasable upon exercise of each Warrant immediately prior to such date by a fraction (not to be less than one), the numerator of which will be the number of shares of Common Stock outstanding on the date of issuance of such rights, options, or warrants plus the number of additional shares of Common Stock offered thereby for subscription or purchase and the denominator of which will be the number of shares of Common Stock outstanding on such date plus the number of shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so offered would purchase at the Current Market Price per share of Common Stock on such record date. Such adjustment will be made whenever such rights, options, or warrants are issued, and will become effective immediately after the record date for the determination of stockholders entitled to receive such rights, options, or warrants. In case such subscription or purchase price may be paid in a consideration part or all of which is in a form other than cash, the fair value of such consideration will be as determined by the Board of Directors of the Company, whose determination will be conclusive if based on the financial advice of a reputable investment banking firm. Except as provided in Section 4.1(i), no further adjustments of the number of Warrant Shares will be made upon the actual issue of such Common Stock upon exercise of such rights, options, or warrants.

(d) Subject to Section 4.1(f), if the Company issues shares of Common Stock or securities convertible into or exchangeable for shares of Common Stock (excluding (i)

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shares of Common Stock or convertible or exchangeable securities issued in any of the transactions described in paragraphs (a), (b), or (c) of this Section 4.1 and (ii) Warrant Shares issued upon exercise of the Warrants) for a price per share of Common Stock in the case of an issuance of shares of Common Stock, or for a price per share of Common Stock initially deliverable upon conversion or exchange of such securities, that is less than the Current Market Price per share of Common Stock on the date the Company fixed the offering, conversion, or exchange price of such additional shares of Common Stock, then the number of Warrant Shares thereafter purchasable upon the exercise of each Warrant will be adjusted to the number that results from multiplying the number of Warrant Shares purchasable upon exercise of each Warrant immediately prior to such date by a fraction (not to be less than one), the numerator of which will be the number of shares of Common Stock outstanding on such date plus the number of additional shares of Common Stock so issued or issuable upon such conversion or exchange, and the denominator of which will be the number of shares of Common Stock outstanding on such date plus the number of shares of Common Stock which the aggregate offering price received or receivable by the Company for such additional shares of Common Stock would purchase at the Current Market Price per share of Common Stock on such date. Such adjustment will be made whenever such shares of Common Stock or convertible securities are issued, and will become effective immediately after the effective date of such event. In case such purchase, conversion, or exchange price may be paid in a consideration part or all of which is in a form other than cash, the fair value of such consideration will be as determined by the Board of Directors of the Company, whose determination will be conclusive if based on the financial advice of a reputable investment banking firm. Except as provided in 4.1(i), no further adjustment will be made upon the actual issue of shares of Common Stock upon conversion or exchange of such securities convertible into or exchangeable for shares of Common Stock.

(e) For purposes of this Agreement, the "Current Market Price" per share of Common Stock on any date will be the average of the daily closing prices for 20 consecutive Trading Days commencing 30 Trading Days before the date of such computation. The closing price for each day (the "Closing Price") will be the last reported sales price regular way or, in case no such reported sale takes place on such day, the average of the closing bid and asked prices regular way for such day, in each case on the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading or, if not so listed or admitted to trading, the average of the closing bid and asked prices of the shares of Common Stock in the over-the-counter market as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or any

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comparable system. In the absence of one or more such quotations, the Board of Directors of the Company will determine the Current Market Price in good faith on the basis of such quotations as it considers appropriate.

(f) No adjustment in the number of Warrant Shares purchasable upon the exercise of a Warrant will be required unless such adjustment would require an increase or decrease in the number of Warrant Shares purchasable upon the hypothetical exercise of a Warrant of at least 1%; PROVIDED, HOWEVER, that any adjustments which by reason of this paragraph (f) are not required to be made currently will be carried forward and taken into account in any subsequent adjustment. All

calculations with respect to the number of Warrant Shares will be made to the nearest one-thousandth of a share and all calculations with respect to the Warrant Price will be to the nearest whole cent. No adjustment in the number of Warrant Shares purchasable upon the exercise of each Warrant will be made under Section 4.1(b)-(d) if the Company issues or distributes to each Holder of Warrants the shares, rights, options, warrants, convertible or exchangeable securities, evidences of indebtedness, assets, or other securities referred to in those paragraphs that each Holder of Warrants would have been entitled to receive had the Warrants been exercised prior to the happening of such event on the record date with respect thereto. No adjustment in the number of Warrant Shares purchasable upon the exercise of each Warrant will be made on account of: (1) any issuance of shares of Common Stock, or of options, rights, or warrants to purchase, or securities exchangeable for or convertible into, shares of Common Stock, pursuant to the Plan, (2) any issuance of shares of Common Stock upon the conversion of the Convertible Notes, (3) any issuance of shares of Common Stock, or of options, rights, or warrants to purchase, or securities exchangeable for or convertible into, shares of Common Stock, in accordance with the Equity Plan or any other plan adopted by the Directors of the Company for the benefit of the employees or Directors of the Company or any of its Subsidiaries, (4) any issuance of shares of Common Stock in connection with a Company-sponsored plan for reinvestment of dividends or interest, (5) any issuance of share purchase rights pursuant to the New Federated Share Purchase Rights Agreement, as from time to time amended, or any similar successor plan, or (6) any issuance of shares of Common Stock or securities convertible into or exchangeable for shares of Common Stock pursuant to an underwritten public offering for a price per share of Common Stock in the case of an issuance of shares of Common Stock, or for a price per share of Common Stock initially deliverable upon conversion or exchange of such securities, that is equal to or greater than 95% of the Closing Price per share of Common Stock on the date the Company fixed the offering, conversion, or exchange price of such additional shares of Common Stock. No adjustment in the number of

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Warrant Shares will be made for a change in the par value of the shares of Common Stock.

(g) Whenever the number of Warrant Shares purchasable upon the exercise of each Warrant is adjusted as herein provided, the Warrant Price payable upon exercise of each Warrant will be adjusted by multiplying such Warrant Price immediately prior to such adjustment by a fraction, the numerator of which will be the number of Warrant Shares purchasable upon the exercise of each Warrant immediately prior to such adjustment, and the denominator of which will be the number of Warrant Shares purchasable immediately thereafter.

(h) For the purpose of this Section 4, the term "Common Stock" means (i) the class of shares designated as the Common Stock of the Company as of the date of this Agreement, (ii) all shares of any class or classes (however designated) of the Company, now or hereafter authorized, the holders of which have the right, without limitation as to amount, either to all or to a part of the balance of current dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference, and the holders of which are ordinarily entitled to vote generally in the election of directors of the Company, or (iii) any other class of shares resulting from successive changes or reclassifications of such shares consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that at any time, as a result of an adjustment made pursuant to Section 4.1(a), the Holders of Warrants become entitled to purchase any securities of the Company other than Common Stock, thereafter the number of such other shares so purchasable upon exercise of each Warrant and the Warrant Price for such shares will be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Warrant Shares contained in this Section 4.1, and the

provisions of Sections 4.2 and 4.3, with respect to the Warrant Shares.

(i) Upon the expiration of any rights, options, warrants, or conversion or exchange privileges, if any thereof have not been exercised, the Warrant Price and the number of Warrant Shares purchasable upon the exercise of each Warrant will, upon such expiration, be readjusted and will thereafter be such as it would have been had it been originally adjusted (or had the original adjustment not been required, as the case may be) as if (i) the only shares of Common Stock so issued were the shares of Common Stock, if any, actually issued or sold upon the exercise of such rights, options, warrants, or conversion or exchange rights and (ii) such shares of Common Stock, if any, were issued or sold for the consideration actually received by the Company upon such exercise, conversion, or exchange plus the

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aggregate consideration, if any, actually received by the Company for the issuance, sale, or grant of all such rights, options, warrants, or conversion or exchange rights whether or not exercised; PROVIDED, HOWEVER, that no such readjustment will have the effect of increasing the Warrant Price or decreasing the number of Warrant Shares purchasable upon the exercise of each Warrant by an amount in excess of the amount of the adjustment initially made in respect of the issuance, sale, or grant of such rights, options, warrants, or conversion or exchange privileges.

4.2. NOTICE OF ADJUSTMENT. Whenever the Warrant Price or the kind or number of securities purchasable upon exercise of the Warrants is adjusted pursuant to any of the provisions of this Agreement, the Company will promptly give notice to the Holders of such adjustment or adjustments, together with a certificate of a firm of independent public accountants selected by the Company (who may be the regular accountants employed by the Company) setting forth the adjustments in the Warrant Price and in the number of Warrant Shares purchasable upon exercise of each Warrant, and also setting forth a brief statement of the facts requiring such adjustments and the computations upon which such adjustments are based. Such certificate will be conclusive evidence of the correctness of such adjustments.

4.3. NO ADJUSTMENT FOR DIVIDENDS. Except as provided in Section 4.1, no adjustment or payment in respect of any dividends will be made at any time.

4.4. PRESERVATION OF PURCHASE RIGHTS UPON MERGER, CONSOLIDATION, ETC.

In case of any consolidation of the Company with or merger of the Company into another corporation or in case of any sale, transfer, or lease to another corporation of all or substantially all the property of the Company, the Company or such successor or purchasing corporation, as the case may be, will execute an agreement providing that each Holder will have the right thereafter upon payment of the Warrant Price in effect immediately prior to such action to purchase upon exercise of each Warrant the kind and amount of shares and other securities and property that it would have owned or have been entitled to receive after the happening of such consolidation, merger, sale, transfer, or lease had such Warrant been exercised immediately prior to such action; PROVIDED, HOWEVER, that no adjustment in respect of dividends, interest, or other income on or from such shares or other securities and property will be made during the term of a Warrant or upon the exercise of a Warrant. Such agreement will provide for adjustments that will be as nearly equivalent as may be practicable to the adjustments provided for in this Section 4. The provisions of this Section 4.4 will similarly apply to successive consolidations, mergers, sales, transfers, or leases.

4.5. WARRANT CERTIFICATES. Whether or not any adjustments in the Warrant Price or the number or kind of shares purchasable upon the exercise of the Warrants has been made, Warrant

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Certificates theretofore or thereafter issued may continue to express the same price and number and kind of shares as are stated in the Warrant Certificate initially issued.

5. FRACTIONAL INTERESTS. Neither the Company nor the Warrant Agent will be required to issue fractional Warrant Shares on the exercise of the Warrants. If any fraction of a Warrant Share would, except for the provisions of this Section 5, be issuable upon the exercise of the Warrants, the Company will pay an amount in cash equal to the Current Market Price for one share of Common Stock, as defined in Section 4.1(e), on the Trading Day immediately preceding the date on which the Warrants are presented for exercise, multiplied by such fraction of a Warrant Share.

6. WARRANT AGENT MATTERS.

6.1. APPOINTMENT OF WARRANT AGENT. The Company hereby appoints the Warrant Agent to act as agent for the Company and the Holders in accordance with the terms and conditions hereof, and the Warrant Agent hereby accepts such appointment and hereby certifies that it complies with the requirements of the New York Stock Exchange governing transfer agents and registrars.

6.2. CONCERNING THE WARRANT AGENT. (a) The Company will pay to the Warrant Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Warrant Agent, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company will indemnify the Warrant Agent for, and hold it harmless against, any loss, liability, suit, action, proceeding or expense, incurred without negligence, bad faith or willful misconduct on the part of the Warrant Agent, for anything done or omitted by the Warrant Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability arising therefrom, directly or indirectly.

(b) The Warrant Agent will be protected and will incur no liability for or in respect of any action taken, suffered, or omitted by it in connection with its administration of this Agreement in reliance upon any Warrant Certificate or certificate evidencing Common Stock or other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed, and, where necessary, verified or acknowledged, by the proper person or persons.

6.3. MERGER OR CONSOLIDATION OR CHANGE OF NAME OF WARRANT AGENT. Any corporation into which the Warrant Agent or any successor Warrant Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Warrant Agent or any successor Warrant

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Agent is a party, or any corporation succeeding to the corporate trust business of the Warrant Agent or any successor Warrant Agent, will be the successor to the Warrant Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such corporation would be eligible for appointment as a successor Warrant Agent under the provisions of 6.5 hereof.

6.4. DUTIES OF WARRANT AGENT. The Warrant Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the Holders, by their acceptance of Warrant Certificates, will be bound:

(a) The Warrant Agent may consult with legal counsel (who may be legal counsel for the Company), and the opinion of such counsel will be full and complete authorization and protection to the Warrant Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.

(b) Whenever in the performance of its duties under this Agreement the Warrant Agent deems it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established

by a certificate signed by any one of the Chairman of the Board, the President, or any Vice President of the Company and delivered to the Warrant Agent; and such certificate will be full authorization to the Warrant Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Warrant Agent will be liable hereunder only for its own negligence, bad faith, or willful misconduct.

(d) The Warrant Agent will not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Warrant Certificates or be required to verify the same, but all such statements and recitals are and will be deemed to have been made by the Company only.

(e) The Warrant Agent will not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution and delivery hereof by the Warrant Agent) or in respect of the validity or execution of any Warrant Certificate; nor will it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Warrant Certificate; nor will it be responsible for any adjustment required under the provisions of Section 4 hereof or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Warrants evidenced by Warrant Certificates after actual notice of any such adjustment); nor will it by any

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act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of stock or other securities to be issued pursuant to this Agreement or any Warrant Certificate or as to whether any shares of stock or other securities will, when issued, be validly authorized and issued, fully paid, and nonassessable.

(f) The Company will perform, execute, acknowledge, and deliver or cause to be performed, executed, acknowledged, and delivered all such further and other acts, instruments, and assurances as may reasonably be required by the Warrant Agent for the carrying out or performing by the Warrant Agent of the provisions of this Agreement.

(g) The Warrant Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from any one of the Chairman of the Board, the President, or any Vice President of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it will not be liable for any action taken or suffered to be taken by it in good faith in accordance with instructions of any such officer.

(h) The Warrant Agent and any stockholder, director, officer, or employee of the Warrant Agent may buy, sell, or deal in any of the Warrants or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Warrant Agent under this Agreement. Nothing herein will preclude the Warrant Agent from acting in any other capacity for the Company or for any other legal entity.

(i) The Warrant Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Warrant Agent will not be answerable or accountable for any act, default, neglect, or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect, or misconduct, provided reasonable care was exercised in the selection and continued employment thereof. The Warrant Agent will not be under any duty or responsibility to insure compliance with any applicable federal or state securities laws in connection with the issuance, transfer, or exchange of Warrant Certificates.

6.5. CHANGE OF WARRANT AGENT. The Warrant Agent or any successor Warrant Agent may resign and be discharged from its duties under this Agreement

upon 30 calendar days' notice in writing mailed to the Company and to each transfer agent of the Common Stock by registered or certified mail, and to the Holders by first-class mail. The Company may remove the Warrant Agent or any successor Warrant Agent upon 30 calendar days' notice in writing, mailed to the Warrant Agent or successor Warrant Agent, as the case may be, and to each transfer agent of the Common

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Stock by registered or certified mail, and to the Holders by first-class mail. If the Warrant Agent resigns or is removed or otherwise becomes incapable of acting, the Company will appoint a successor to the Warrant Agent. If the Company fails to make such appointment within a period of 30 calendar days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Warrant Agent or by any Holder (who will, with such notice, submit his Warrant Certificate for inspection by the Company), then any Holder may apply to any court of competent jurisdiction for the appointment of a new Warrant Agent. Any successor Warrant Agent, whether appointed by the Company or by such a court, will be a corporation organized and doing business under the laws of the United States or of the States of Ohio or New York (or of any other state of the United States so long as such corporation is authorized to do business as a banking institution in the States of Ohio or New York), in good standing, having a principal office in the States of Ohio or New York, which is authorized under such laws to exercise corporate trust powers and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Warrant Agent a combined capital and surplus of at least \$50 million. After appointment, the successor Warrant Agent will be vested with the same powers, rights, duties, and responsibilities as if it had been originally named as Warrant Agent without further act or deed; but the predecessor Warrant Agent will deliver and transfer to the successor Warrant Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act, or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company will file notice thereof in writing with the predecessor Warrant Agent and each transfer agent of the Common Stock, and mail a notice thereof in writing to the registered holders of the Warrant Certificates. Failure to give any notice provided for in this Section 6.5, however, or any defect therein, will not affect the legality or validity of the resignation or removal of the Warrant Agent or the appointment of the successor Warrant Agent, as the case may be.

7. NO RIGHTS AS A STOCKHOLDER; NOTICES TO HOLDERS. Nothing contained in this Agreement or in the Warrant Certificate will be construed as conferring upon the Holders or their transferees the right to vote, or to receive dividends, or to consent or to receive notice as a stockholder in respect of any meeting of stockholders for the election of directors of the Company or any other matter, or any rights whatsoever as a stockholder of the Company; PROVIDED, HOWEVER, that if, at any time prior to the Expiration Date and prior to the exercise of all of the Warrants, any of the following events occur:

(a) The Company declares any dividend payable in any securities upon its shares of Common Stock or makes any distribution (other than a cash dividend payable out of consolidated retained earnings) to the holders of its shares of Common Stock;

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(b) The Company offers to the holders of its Common Stock any shares of capital stock of the Company or any Subsidiary or securities convertible into or exchangeable for shares of capital stock of the Company or any Subsidiary or any option, right, or warrant to subscribe for or purchase any thereof;

(c) The Company distributes to the holders of its Common Stock evidences of indebtedness or assets (including any cash dividend which would result in an adjustment under Section 4.1) of the Company or any Subsidiary;

(d) Any reclassification of the Common Stock, any consolidation of the Company with or merger of the Company into another corporation, or any sale, transfer, or lease to another corporation of all or substantially all the property of the Company; or

(e) A dissolution, liquidation, or winding up of the Company is proposed;

then in any one or more of such events the Company will give notice in writing of such event to the Holders, as provided in Section 11 hereof, such giving of notice to be completed at least ten days prior to the date fixed as a record date or the date of closing the transfer books for the determination of the shareholders entitled to such dividend, distribution, or subscription rights, or for the determination of shareholders entitled to vote on such proposed reclassification, consolidation, merger, sale, transfer or lease, dissolution, liquidation, or winding up; PROVIDED, HOWEVER, that no such notice will be required in respect of any of the matters referred to in the penultimate sentence of Section 4.1(f). Such notice will specify such record date or the date of closing the transfer books, as the case may be, for such event. Failure to mail or receive such notice or any defect therein or in the mailing thereof will not affect the validity of any action taken in connection with such event.

8. AGREEMENT OF WARRANT HOLDERS. Every Holder by accepting a Warrant Certificate consents and agrees with the Company and the Warrant Agent and with every other Holder that:

(a) The Warrant Certificates are transferable only in accordance with the terms of this Agreement and only on the registry books of the Warrant Agent if surrendered at the principal office of the Warrant Agent designated for such purpose, duly endorsed or accompanied by a proper instrument of transfer;

(b) The Company and the Warrant Agent may deem and treat the person in whose name the Warrant Certificate is registered as the absolute owner thereof and of the Warrants evidenced thereby (notwithstanding any notations of ownership or writing on the Warrant Certificate made by anyone other than the Company or the

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Warrant Agent) for all purposes whatsoever, and neither the Company nor the Warrant Agent will be affected by any notice to the contrary;

(c) Such Holder expressly waives any right to receive any fractional Warrants and any fractional securities upon exercise or exchange of a Warrant, except as otherwise provided in Section 5 hereof; and

(d) Notwithstanding anything in this Agreement to the contrary, neither the Company nor the Warrant Agent will have any liability to any Holder or other person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree, or ruling issued by a court of competent jurisdiction or by a governmental, regulatory, or administrative agency or commission, or any statute, rule, regulation, or executive order promulgated or enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation; PROVIDED, HOWEVER, that the Company will use reasonable efforts to have any such order, decree, or ruling lifted or otherwise overturned as soon as possible.

9. RESERVATION OF COMMON STOCK. The Company will, for so long as Warrants remain outstanding, reserve and keep available, solely for issuance and delivery upon the exercise of the Warrants, a number of shares of Common Stock (or, if applicable, other securities) sufficient to provide for the exercise of all outstanding Warrants. The transfer agent for the Common Stock (or, if applicable, other securities) will be irrevocably authorized and directed at all times until the exercise or expiration of the Warrants to reserve such number of authorized shares of Common Stock (or, if applicable, other securities) as necessary for such purpose. The Company will keep copies of this Agreement on file with the transfer agent and will supply the transfer agent with duly executed stock certificates for such purpose.

10. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company hereby represents and warrants to the Warrant Agent that:

(a) The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to execute, deliver, and perform its obligations hereunder and to consummate the transactions contemplated hereby;

(b) The execution, delivery, and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of the Company;

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(c) The execution, delivery, and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby in accordance with the terms hereof will not conflict with, violate, or constitute a breach of any material contract, agreement, or instrument by which the Company is bound or any judgment, order, decree, law, statute, rule, regulation, or other judicial or governmental restriction to which the Company is subject; and

(d) This Agreement constitutes the legal, valid, and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as the enforceability hereof may be limited by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights generally.

(e) The Warrants have been duly and validly issued and are fully paid and nonassessable, and the Warrant Shares issued upon exercise of the Warrants, when issued, paid for, and delivered as provided in this Agreement, will be duly and validly issued, fully paid, nonassessable, and free and clear of any and all liens and encumbrances, other than the restrictions contemplated by this Agreement.

11. NOTICES. All notices, requests, waivers, releases, consents, and other communications required or permitted by this Agreement (collectively, "Notices") must be in writing. Notices will be deemed sufficiently given for all purposes when delivered in person, when dispatched by telegram or electronic facsimile transmission, when sent by first-class mail, postage prepaid, or upon confirmation of receipt when dispatched by a nationally recognized overnight courier service to the appropriate party as follows: (a) if to a Holder, at the address of such Holder as shown in the registry books maintained by the Warrant Agent; (b) if to the Company, at 7 West Seventh Street, Cincinnati, Ohio 45202, Telecopy No. (513) 579-7897 (marked for the attention of the Chief Financial Officer and the General Counsel), or at such other address as the Company may have furnished to the Holders and the Warrant Agent in writing; and (c) if to the Warrant Agent, at 101 Barclay Street, New York, New York 10286, Telecopy No. (212) 815-3201 (marked for the attention of William J. Skinner), or at such other address as the Warrant Agent may have furnished to the Company and the Holders in writing.

12. AMENDMENT AND WAIVER. Subject to the last sentence of this Section 12, (a) if the Company so directs, the Company and the Warrant Agent will supplement or amend this Agreement without the approval of any Holders in order to cure any ambiguity or correct or supplement any provision contained herein which may be defective or inconsistent with any other provision herein and (b) the Company and the Warrant Agent may from time to time supplement or amend this Agreement, with the consent of Holders of at least 50% of the Warrants then outstanding, for any other for purpose. Notwithstanding anything in this Agreement to the

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contrary, no supplement or amendment will be made which increases the Warrant Price or decreases the period of time remaining during which the Warrants may be exercised without the consent of all Holders.

13. SUCCESSORS AND ASSIGNS. This Agreement will be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but will not be assignable or delegable by any party without the prior written consent of each other party. In the absence of such prior written consent, any purported assignment or delegation of any right or obligation hereunder will be null and void.

14. RIGHTS OF THE PARTIES. Except as provided in Section 13, nothing expressed or implied in this Agreement is intended or will be construed to confer upon or give any person or entity other than the parties hereto and the Holders any rights or remedies under or by reason of this Agreement or any transaction contemplated hereby.

15. TITLES AND HEADINGS. Titles and headings to Sections herein are inserted for convenience of reference only, and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

16. CERTAIN INTERPRETIVE MATTERS AND DEFINITIONS.

(a) Unless the context otherwise requires, (i) all references to Sections or Exhibits are to Sections or Exhibits of or to this Agreement, (ii) each term defined in this Agreement has the meaning assigned to it, (iii) "or" is disjunctive but not necessarily exclusive, and (iv) words in the singular include the plural and VICE VERSA. All references to "\$" or dollar amounts will be to lawful currency of the United States of America.

(b) No provision of this Agreement will be interpreted in favor of, or against, any party hereto by reason of the extent to which such party or its counsel participated in the drafting thereof or by reason of the extent to which any such provision is inconsistent with any prior draft hereof or thereof.

17. ENTIRE AGREEMENT. This Agreement, together with its Exhibits, constitutes the entire agreement among the parties hereto with respect to the subject matter hereof, and there are no agreements among the parties hereto with respect thereto except as expressly set forth herein.

18. SEVERABILITY. In case any provision contained in this Agreement is invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions will not in any way be affected or impaired thereby.

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19. GOVERNING LAW. This Agreement will be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the principles of conflict of laws thereof.

20. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which so executed will be deemed to be an original; such counterparts will together constitute but one agreement.

21. REFERENCES TO THE PLAN. Terms used herein with initial capital letters that are not otherwise defined are used herein as defined in the Plan.

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

FEDERATED DEPARTMENT STORES, INC.

By: /s/ John R. Sims

Name: John R. Sims

the exercise of the Warrants designated for exercise in the Form of Exercise Notice and (b) the Warrant Price.

The number of Warrant Shares which may be purchased upon exercise of the Warrants evidenced by this Warrant Certificate are the number as of June 1, 1995, based on the shares of Common Stock of the Company as constituted at such date. As provided in the Warrant Agreement, the Warrant Price and the number and kind of Warrant Shares purchasable upon exercise of the Warrants are subject to adjustment.

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This Warrant Certificate and the Warrants it represents are subject to, and entitled to the benefits of, all of the terms, provisions, and conditions of the Amended and Restated Series B Warrant Agreement, dated as of June 1, 1995 (the "Warrant Agreement"), by and between the Company and The Bank of New York, a New York banking corporation (the "Warrant Agent"), which Warrant Agreement is hereby incorporated herein by reference and made a part hereof and to which Warrant Agreement reference is hereby made for a full description of the rights, limitation of rights, obligations, duties, and immunities hereunder of the Company and the Holder. A copy of the Warrant Agreement will be made available by the Company upon request.

Subject to the provisions set forth in the Warrant Agreement or in this Certificate, this Warrant Certificate, with or without other Warrant Certificates, may be transferred, split up, combined, or exchanged for another Warrant Certificate or Warrant Certificates, entitling the Holder to purchase a like number of Warrant Shares as the Warrant Certificate or Warrant Certificates surrendered entitled such Holder (or former Holder in the case of a transfer) to purchase, upon presentation and surrender hereof at the principal office of the Warrant Agent designated for such purpose, with the Form of Assignment (if appropriate) and the related Certificate duly executed.

The Company will not be required to issue fractional Warrant Shares upon the exercise of any Warrants evidenced by this Warrant Certificate, but in lieu thereof a cash payment will be made, as provided in the Warrant Agreement.

Nothing contained in the Warrant Agreement or in this Warrant Certificate will be construed as conferring upon the holder of this Warrant Certificate the right to vote, or to receive dividends, or to consent or (except as provided in the Warrant Agreement) to receive notice in respect of any meeting of stockholders for the election of directors of the Company or any other matter, or any rights whatsoever as a stockholder of the Company.

This Warrant Certificate will not be valid or obligatory for any purpose until it has been countersigned by the Warrant Agent.

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IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be executed by its corporate officers duly authorized.

Attest: FEDERATED DEPARTMENT STORES, INC.

By:

[Name, title]

[Name, title]

Dated:

Countersigned:

By

[Authorized Signature]

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Form of Reverse Side of Warrant Certificate

FORM OF ASSIGNMENT

(To be executed if the Holder desires to transfer Warrants)

FOR VALUE RECEIVED, _____
hereby sells, assigns, and transfers unto _____

(Please print name and address of transferee)

this Warrant Certificate, together with all right, title, and interest therein,
and does hereby irrevocably constitute and appoint _____ Attorney,
to transfer the within Warrant Certificate on the books of the within-named
Company, with full power of substitution.

Dated: _____, 19

Signature

Signature Guaranteed:

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FORM OF EXERCISE NOTICE

(To be executed if the Holder desires to exercise Warrants)

TO FEDERATED DEPARTMENT STORES, INC.:

The undersigned hereby irrevocably elects to exercise
_____ Warrants evidenced by this Warrant Certificate to purchase the
Warrant Shares issuable upon the exercise of such Warrants and requests that
certificates for such Warrant Shares be issued in the name of:

(Please print name and address)

Please insert social security or other identifying number:

If such number of Warrants is not all the Warrants evidenced by this Warrant
Certificate, a new Warrant Certificate for the balance remaining of such
Warrants will be registered in the name of and delivered to:

(Please print name and address)

Please insert social security or other identifying number:

Dated: _____, 19

Signature
Signature Guaranteed:

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NOTICE

Signatures on the foregoing Form of Assignment and Form of Exercise Notice and in the related Warrant Certificates must correspond to the name as written upon the face of this Warrant Certificate in every particular, without alternation or enlargement or any change whatsoever.

Signatures must be guaranteed by a member firm of a registered national securities exchange, a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States.

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Exhibit 10.3.2

SECOND AMENDMENT TO LOAN AGREEMENT

THIS SECOND AMENDMENT TO LOAN AGREEMENT (this "AMENDMENT") is made as of July 28, 1997, by and between LAZARUS PA, INC., an Ohio corporation, as successor to JOSEPH HORNE CO., INC. (the "BORROWER"), and PNC BANK, OHIO, NATIONAL ASSOCIATION, a national banking association, as the sole lender (the "BANK"), and in its capacity as agent for the Banks (the "AGENT").

WITNESSETH:

WHEREAS, the Borrower (or its predecessor in interest) has executed and delivered to the Agent and the Banks a Loan Agreement dated as of May 26, 1994, which was subsequently amended by a First Amendment to Loan Agreement dated as of December 6, 1995 (collectively, the "LOAN AGREEMENT") which evidences some or all of the Borrower's obligations for one or more loans or other extension of credit (the "OBLIGATIONS"); and

WHEREAS, the parties desire to amend the Loan Agreement as provided for below;

NOW THEREFORE, in consideration of the mutual covenants herein contained and intending to be legally bound hereby, the parties hereto agree as follows:

1. The Loan Agreement is amended as follows:

1.1 Section 2.2b of the Loan Agreement is deleted in its entirety and the following inserted in its place:

2.2b "INTEREST RATE. The Term Loan shall bear interest at a rate per annum equal to the (A) Eurodollar Rate plus (B) the applicable Drawn Cost.

As used in this Section, 'Drawn Cost' means the applicable Drawn Cost delineated in the grid in the definition of 'Applicable Margin' in the Five Year Credit Agreement dated as of July 28, 1997 among the Guarantor, and Citibank, N.A. as Administrative Agent and as Paying Agent, and the other agents and lenders named therein (the "GUARANTOR'S CREDIT AGREEMENT"). The applicable Drawn Cost will be determined by reference to the Performance Level of the Guarantor as defined in and as in effect under the Guarantor's Credit Agreement, and such Drawn Cost will change five Business Days after the Guarantor's chief financial officer provides a certificate to the Agent hereunder setting forth that a change in the applicable Performance Level under the Guarantor's Credit Agreement has become effective. As of August 1, 1997, the Drawn Cost is 0.3000%."

2. Any and all references to the Loan Agreement in any other loan documents relating to the Obligations (the "Loan Documents") shall be deemed to refer to such Loan Agreement as amended hereby. Any initially capitalized terms used in this Amendment without definition shall have the meanings assigned to those terms in the Loan Agreement.

3. This Amendment is deemed incorporated into each of the Loan Documents. To the extent any term or provision of this Amendment is or may be deemed expressly inconsistent with any term or provision in any Loan Document, the terms and provisions hereof shall control.

4. The Borrower hereby represents and warrants that (a) all of its representations and warranties in the Loan Documents are true and correct, (b) no default or Event of Default exists under any Loan Document, and (c) this Amendment has been duly authorized, executed and delivered and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms,

subject to the operation of applicable bankruptcy and other creditor relief laws in effect from time to time.

5. The Borrower hereby confirms that any collateral for the Obligations, including but not limited to liens, security interests, mortgages, and pledges granted by the Borrower or third parties (if applicable), shall continue unimpaired and in full force and effect.

6. This Amendment may be signed in any number of counterpart copies and by the parties hereto on separate counterparts, but all copies shall constitute one and the same instrument.

7. This Amendment will be binding upon and inure to the benefit of the Borrower, the Agent and the Banks and their respective successors and assigns.

8. Except as amended hereby, the terms and provisions of the Loan Documents remain unchanged and in full force and effect. Except as expressly provided herein, this Amendment shall not constitute an amendment, waiver, consent or release with respect to any provision of any Loan Document, a waiver of any default thereunder, or a waiver or release of any of the Agent's or the Banks rights and remedies (all of which are hereby reserved). THE BORROWER EXPRESSLY RATIFIES AND CONFIRMS THE WAIVER OF JURY TRIAL PROVISIONS.

Executed as of the date first written above.

LAZARUS PA, INC.,
an Ohio corporation

By: /s/ Karen M. Hoguet

Print Name: Karen M. Hoguet

Title: Treasurer

PNC BANK, OHIO, NATIONAL
ASSOCIATION, a national
banking association, in its
capacity as the sole Bank
and Agent

By: /s/ Bruce A. Kintner

Print Name: Bruce A. Kintner

Title: Vice President

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CONSENT OF GUARANTOR

The undersigned guarantor hereby consents to the provisions of the foregoing Second Amendment to Loan Agreement (the "Amendment"), and confirms and agrees that that undersigned's obligations under the Guaranty Agreement dated as of May 26, 1994 (the "Guaranty"), relating to some or all of the Obligations mentioned in the foregoing Amendment shall be unimpaired by the Amendment and that the undersigned has no defenses or setoffs against the Bank, its officers, directors, employees, agents or attorneys with respect to the Guaranty except as may be provided in the Guaranty and that all of the terms, conditions and covenants in the Guaranty remain unaltered and in full force and effect and are hereby ratified and confirmed. The undersigned hereby certifies that the representations and warranties made in the Guaranty are true and correct. The undersigned hereby ratifies and confirms the waiver of jury trial provisions contained in the Guaranty.

Executed as of July 28, 1997, intending to be legally bound hereby.

FEDERATED DEPARTMENT STORES, INC.,
a Delaware corporation

By: /s/ Karen M. Hoguet

Print Name: Karen M. Hoguet

Title: SVP - Planning and Treasurer

FEDERATED DEPARTMENT STORES, INC.

1992 INCENTIVE BONUS PLAN

(AS AMENDED AND RESTATED AS OF MARCH 28, 1997 AND DECEMBER 12, 1997)

Federated Department Stores, Inc., a Delaware corporation (the "Company"), hereby amends and restates this 1992 Incentive Bonus Plan (this "Bonus Plan") effective as of December 12, 1997.

1. PURPOSE. The purpose of this Bonus Plan is to promote the attainment of the Company's performance goals by providing incentive compensation for certain designated key executives and employees of the Company and its Subsidiaries.

2. DEFINITIONS. As used in this Bonus Plan, the following terms have the following meanings when used herein with initial capital letters:

(a) "Annual Incentive Award" means the incentive bonus earned by a Participant pursuant to Section 5.

(b) "Board" means the Board of Directors of the Company or, pursuant to any delegation by the Board to the Compensation Committee pursuant to Section 12, the Compensation Committee.

(c) "Chief Executive Officer" means the Chief Executive Officer of the Company.

(d) "Chief Operating Officer" means the Chief Operating Officer of the Company.

(e) "Chief Merchandising Officer" means the Chief Merchandising Officer of the Company.

(f) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(g) "Compensation Committee" means a committee appointed by the Board in accordance with the By-Laws of the Company consisting of at least three Non-Employee Directors.

(h) "Covered Employee" means a Participant who is, or is determined by the Board to be likely to become, a "covered employee" within the meaning of Section 162(m) of the Code (or any successor provision).

(i) "Long-Term Incentive Award" means the incentive bonus, if any, earned by a Participant pursuant to Section 6.

(j) "Non-Employee Director" means a Director of the Company who is not a full-time employee of the Company or any Subsidiary.

(k) "Operating Unit" means the Company as a whole and each other individual subsidiary, division, store, or other business unit of the Company in which individuals employed thereby or therein have been approved to participate in this Bonus Plan by the Board.

(l) "Participant" means a person who is designated by the Chief Executive Officer, the Chief Operating Officer, or the Chief Merchandising Officer, with the approval of the Board, to receive benefits under this Bonus Plan and who is at the time an officer, executive, or other employee of the Company or any one or more of its Subsidiaries, or who has agreed to commence serving in any of such capacities.

(m) "Performance Goal" means the target level of performance for each Performance Period for the Company as a whole and for each Operating Unit of the Company and, where applicable, for an individual Participant, in each case as established by the Board pursuant to Section 4. The Performance Goals applicable

to

any Annual Incentive Award or Long-Term Incentive Award made to a Covered Employee will be based solely upon one or more of the following measures of performance:

- (1) total sales;
- (2) comparable store sales;
- (3) gross margin;
- (4) operating or other expenses;
- (5) earnings before interest and taxes ("EBIT");
- (6) earnings before interest, taxes, depreciation and amortization;
- (7) net income;
- (8) earnings per share;
- (9) cash flow;
- (10) return on investment (determined with reference to one or more categories of income or cash flow and one or more categories of assets, capital or equity); and
- (11) stock price appreciation.

Such Performance Goals may be expressed with respect to the Company or one or more other Operating Units and may be expressed in terms of absolute levels or percentages or ratios expressing relationships between two or more of the foregoing measures of performance (E.G., EBIT as a percentage of total sales), period-to-period changes, relative to business plans or budgets, or relative to one or more other companies or one or more indices. The two immediately preceding sentences are intended to comply with the exception from Section 162(m) of the Code for qualified performance-based compensation, and will be construed, applied, and administered accordingly.

(n) "Performance Period" means, in the case of determining Annual Incentive Awards pursuant to Section 5, one fiscal year of the Company, and in the case of determining Long-Term Incentive Awards pursuant to Section 6, a period determined by the Board not longer than five consecutive fiscal years of the Company. The initial Performance Period under this Bonus Plan in either case will commence on February 2, 1992 and terminate, in the case of Annual Incentive Awards and Long-Term Incentive Awards, on such date or dates as the Board may determine. Any new Performance Period in each case would commence on the first day of each fiscal year of the Company.

(o) "Retirement" means a Participant's voluntary termination of employment with the Company on or after attainment of age 65, or such other age as may from time to time be established as the normal retirement date under the Company's principal retirement benefit plan in which the Participant is a participant, and before being informed by the Company that his or her employment will be terminated.

(p) "Rule 16b-3" means Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (or any successor rule substantially to the same effect), as in effect from time to time.

(q) "Subsidiary" has the meaning specified in Rule 405 promulgated under the Securities Act of 1933, as amended (or under any successor rule substantially to the same effect).

3. ELIGIBILITY. (a) Except as otherwise provided in this Section 3, an employee of the Company or one of its Subsidiaries will become a Participant for a particular Performance Period (i) in respect of Annual Incentive Awards if such employee (x) is an executive of the Company (including without limitation a

store principal, general merchandise manager, divisional merchandise manager, store manager, senior vice president, or other vice president or elected officer of the Company or another Operating Unit) on or as of the first day of the Performance Period, (y) is recommended for participation by the Chief Executive Officer, the Chief Operating

Officer, or the Chief Merchandising Officer or any designee thereof, and (z) is approved as a Participant by the Board, and (ii) in respect of Long-Term Incentive Awards if such employee has overall responsibility for day-to-day and long-term achievement of results of the Company or is in a key broad-based strategy formulation and decision-making position of the Company or another Operating Unit selected by the Board to participate in this Bonus Plan, in each case as specifically determined by the Chief Executive Officer, the Chief Operating Officer, or the Chief Merchandising Officer and approved by the Board on or as of the first day of the Performance Period.

(b) An executive employee who first becomes eligible to participate after the beginning of a particular Performance Period will become a Participant for such Performance Period only in accordance with this Section 3(b). The Chief Executive Officer, the Chief Operating Officer, or the Chief Merchandising Officer may, with the approval of the Board, allow participation for a portion of such Performance Period for such employee on such terms and conditions as the Chief Executive Officer, the Chief Operating Officer, or the Chief Merchandising Officer (with such approval) may determine. In the event that at any time during any Performance Period with respect to Annual Incentive Awards an executive employee is first hired by the Company or a Subsidiary, or is promoted by the Company or any such Subsidiary to a position in a different Operating Unit and as a result thereof becomes eligible to participate in this Bonus Plan, then, except as otherwise determined by the Board or as otherwise provided in Section 10, such employee will be entitled to be a Participant for purposes of Annual Incentive Awards, which will be prorated on the basis of the number of months of such employee's participation during such Performance Period to the aggregate number of months in such Performance Period. In the event that within the first one-half of any Performance Period with respect to Long-Term Incentive Awards an executive employee is first hired by the Company or a Subsidiary, or is promoted by the Company or any such Subsidiary to a position in a different Operating Unit and as a result thereof becomes eligible to participate in this Bonus Plan, then, except as otherwise determined by the Board or as otherwise provided in Section 10, such employee will be entitled to be a Participant for purposes of Long-Term Incentive Awards, which will be prorated on the basis of the ratio of the number of months of such employee's participation during such Performance Period to the aggregate number of months in such Performance Period.

(c) The Board may, in its discretion, allow an executive employee who is not otherwise eligible to participate in this Bonus Plan to be treated as a Participant for all or a portion of any Performance Period on such basis as the Board may determine.

4. PERFORMANCE GOALS. (a) The Board will approve for each Performance Period the applicable Performance Goals for the Company and each other Operating Unit, as well as for individual Participants in this Bonus Plan, where appropriate, based upon the consolidated business plan of the Company. Such Performance Goals will not be adjusted during a Performance Period, except that such Performance Goals may be so adjusted to prevent dilution or enlargement of any Annual Incentive Award or Long-Term Incentive Award as a result of extraordinary events or circumstances as determined by the Board or to exclude the effects of extraordinary, unusual or nonrecurring events, changes in accounting principles, discontinued operations, acquisitions, divestitures and material restructuring charges; provided, however, in the case of a Covered Employee, that no such adjustment will be made if the effect of such adjustment would be to cause the related compensation to fail to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code.

(b) Prior to the beginning of each Performance Period, the Chief Executive Officer, the Chief Operating Officer, or the Chief Merchandising Officer or any designee thereof will (i) notify each eligible employee who has been selected to participate in this Bonus Plan that he or she is a Participant under this Bonus Plan for such Performance Period and (ii) communicate in writing to each Participant the minimum, maximum, and target Performance Goals

applicable to such Participant for the Company and each other Operating Unit for such Performance Period, and the corresponding minimum, maximum, and target levels of Annual Incentive Awards and Long-Term Incentive Awards for performance by the Participant with respect to such Performance Goals.

5. ANNUAL INCENTIVE AWARDS. (a) Subject to Section 4, unless changed by the Board, each eligible Participant may earn Annual Incentive Awards as hereinafter provided. Each Operating Unit's actual performance during a particular Performance Period will be measured against the Performance Goals established therefor by the Board in accordance with Section 4. In the event such Operating Unit's performance for the Performance Period

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(A)(i) in respect of Participant's who are Covered Employees, is below the minimum Performance Goal established therefor, no Annual Incentive Awards will be paid to such Participants in respect thereof, or (ii) in respect of Participants who are not Covered Employees, is below the minimum Performance Goal established therefor, the level of Annual Incentive Awards to be paid to such Participants in respect thereof will be a level extrapolated by the Board below the minimum level of Annual Incentive Award paid in respect of such minimum Performance Goal, (B) is equal to the minimum Performance Goal established therefor, the minimum level of Annual Incentive Awards will be paid to Participants in respect thereof, (C) is equal to the target Performance Goal established therefor, the target level of Annual Incentive Awards will be paid to Participants in respect thereof, (D) is equal to or greater than the maximum Performance Goal established therefor, the maximum level of Annual Incentive Awards will be paid to Participants in respect thereof, and (E) is between any two of the Performance Goal levels described in the immediately preceding clauses (B), (C), and (D), the level of Annual Incentive Awards to be paid to Participants in respect thereof will be a level interpolated by the Board between the corresponding levels of Annual Incentive Awards paid in respect of such Performance Goal levels.

(b) Except in the case of a Covered Employee, the Annual Incentive Award determined pursuant to Section 5(a) may be modified by the Board to recognize a Participant's individual performance or in other circumstances deemed appropriate by the Board.

(c) Notwithstanding any other provision of this Bonus Plan to the contrary, in no event will an Annual Incentive Award paid to any Participant for a fiscal year exceed \$2.0 million.

6. LONG-TERM INCENTIVE AWARDS. (a) Unless changed by the Board, each eligible Participant may earn Long-Term Incentive Awards as hereinafter provided. Each Operating Unit's actual performance during a particular Performance Period will be measured against the Performance Goals established therefor by the Board in accordance with Section 4. In the event such Operating Unit's performance for such Performance Period (A) is below the minimum Performance Goal established therefor, no Long-Term Incentive Awards will be paid to Participants in respect thereof, (B) is equal to the minimum Performance Goal established therefor, the minimum level of Long-Term Incentive Awards will be paid to Participants in respect thereof, (C) is equal to the target Performance Goal established therefor, the target level of Long-Term Incentive Awards will be paid to Participants in respect thereof, (D) is equal to or greater than the maximum Performance Goal established therefor, the maximum level of Long-Term Incentive Awards will be paid to Participants in respect thereof, and (E) is between any two of the Performance Goal levels described in the immediately preceding clauses (B), (C), and (D), the level of Long-Term Incentive Awards to be paid to Participants in respect thereof will be a level interpolated by the Board between the corresponding levels of Long-Term Incentive Awards paid in respect of such Performance Goal levels.

(b) Except in the case of a Covered Employee, the Long-Term Incentive Award determined pursuant to Section 6(a) may be modified by the Board to recognize a Participant's individual performance or in other circumstances deemed appropriate by the Board.

(c) Notwithstanding any other provision of this Bonus Plan to the contrary, in no event will a Long-Term Incentive Award paid to any Participant

for a Performance Period exceed \$3.0 million.

7. PAYMENT OF AWARDS. Annual Incentive Awards and Long-Term Incentive Awards will be paid to Participants in respect of any particular Performance Period (i) in cash and/or Company equity (including stock options, stock credits or equity equivalents), (ii) in a lump sum and/or in deferred payments or grants, and (iii) on the date(s) and other terms, including any premium in respect of deferred payments or grants, as each of (i), (ii) and (iii) shall be determined by the Board at the time that Performance Goals are established for a particular Performance Period. All Annual Incentive Awards and Long-Term Incentive Awards that are paid in cash will be paid in U.S. dollars. The Company may deduct from any payment such amounts as may be required to be withheld under any federal, state, or local tax laws.

8. TERMINATION OF EMPLOYMENT. If a Participant terminates employment with the Company and its Subsidiaries before the last day of a Performance Period due to death, disability, or Retirement with the consent of

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the Company, the Participant's Annual Incentive Awards and Long-Term Incentive Awards will be prorated on the basis of the ratio of the number of months of participation during the Performance Period to which the Annual Incentive Awards and Long-Term Incentive Awards relate to the aggregate number of months in such Performance Period. If a Participant's employment with the Company and its Subsidiaries is terminated by the Company or any such Subsidiary before the last day of a Performance Period for any reason other than for Cause (as hereinafter defined), the Participant's Annual Incentive Awards and Long-Term Incentive Awards will be prorated on the basis of the ratio of the number of months of participation during the Performance Period to which the Annual Incentive Awards and the Long-Term Incentive Awards relate to the aggregate number of months in such Performance Period, unless otherwise determined by the Board. Except as otherwise provided in this Section 8, if a Participant's employment with the Company and its Subsidiaries is terminated before the last day of a Performance Period for any reason, the Participant will not be entitled to any Annual Incentive Award or Long-Term Incentive Award for such Performance Period unless otherwise determined by the Board. For purposes of this Agreement, "Cause" means any act of dishonesty, fraud, or willful misconduct by a Participant in the performance of the Participant's duties as an employee of the Company, or any conviction of a Participant for any felony involving moral turpitude.

9. CHANGE IN CONTROL. In connection with any actual or potential change in control of the Company, whether as a result of any stock acquisition, merger, or other business combination transaction, or any restructuring or recapitalization of the Company, then the Board will take all such actions hereunder as it may determine to be necessary or appropriate to treat Participants equitably hereunder, including without limitation the modification or waiver of applicable Performance Goals, Performance Periods, Annual Incentive Awards, or Long-Term Incentive Awards, notwithstanding the terms of any initial award, and whether to establish or fund a trust or other arrangement intended to secure the payment of such awards.

10. TRANSFERS AND CHANGES IN RESPONSIBILITIES. (a) If a Participant's responsibilities materially change or the Participant is transferred during a Performance Period to another Operating Unit or to a position that is not designated or eligible to participate in this Bonus Plan, the Company may, as determined by the Board, either (i) continue the Participant's participation in this Bonus Plan and, except in the case of a Covered Employee, as of the date of such change or transfer, establish new performance awards (as determined pursuant to Section 10(b)) in respect of Annual Incentive Awards and/or Long-Term Incentive Awards, as the case may be, for the Participant with respect to his or her new position, or (ii) terminate the Participant's participation in this Bonus Plan in respect of Annual Incentive Awards and/or Long-Term Incentive Awards, as the case may be, and, as of the date of such change or transfer, the Participant's Annual Incentive Awards and/or Long-Term Incentive Awards, as the case may be, would be prorated on the basis of the ratio of the number of months of the Participant's participation during the Performance Period to which such Annual Incentive Awards and/or Long-Term Incentive Awards, as the case may be, relate to the aggregate number of months in such Performance Period.

(b) If in the event of such a change or transfer the Participant's participation in this Bonus Plan in respect of Annual Incentive Awards and/or Long-Term Incentive Awards, as the case may be, is not terminated pursuant to Section 10(a)(ii), then the Participant's Annual Incentive Awards and/or Long-Term Incentive Awards, as the case may be, will be prorated on the basis of the number of months of service by the Participant at each Operating Unit during the Performance Period.

11. SECURITY OF PAYMENT OF BENEFITS. Unless otherwise determined by the Board, all Annual Incentive Awards and Long-Term Incentive Awards will be paid from the Company's general assets, and nothing contained in this Bonus Plan will require the Company to set aside or hold in trust any funds for the benefit of any Participant, who will have the status of a general unsecured creditor of the Company.

12. ADMINISTRATION OF THE PLAN. (a) This Bonus Plan will be administered by the Board, which may from time to time delegate all or any part of its authority under this Bonus Plan to the Compensation Committee.

(b) The Board will take such actions as are required to be taken by it hereunder, may take the actions permitted to be taken by it hereunder, and will have the authority from time to time to interpret this Bonus Plan and to adopt, amend, and rescind rules and regulations for implementing and administering this Bonus Plan. All such actions will be in the sole discretion of the Board and, when taken, will be final, conclusive, and binding. Without

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limiting the generality or effect of the foregoing, the interpretation and construction by the Board of any provision of this Bonus Plan or of any agreement, notification, or document evidencing the grant of benefits payable to Participants and any determination by the Board in its sole discretion pursuant to any provision of this Bonus Plan or any provision of such agreement, notification, or document will be final and conclusive. Without limiting the generality or effect of any provision of the Certificate of Incorporation of the Company, neither the Chief Executive Officer, the Chief Operating Officer, or the Chief Merchandising Officer nor any member of the Board will be liable for any action or determination made in good faith.

(c) The provisions of Sections 5 and 6 will be interpreted as authorizing the Board, in taking any action under or pursuant to this Bonus Plan, to take any action it determines in its sole discretion to be appropriate, subject only to the express limitations therein contained, and no authorization in either such Section or any other provision of this Bonus Plan is intended or may be deemed to constitute a limitation on the authority of the Board.

(d) The existence of this Bonus Plan or any right granted or other action taken pursuant hereto will not affect the authority of the Board or the Company to take any other action, including in respect of the grant or award of any annual or long-term bonus or other right or benefit, whether or not authorized by this Bonus Plan, subject only to limitations imposed by applicable law as from time to time applicable thereto.

13. MISCELLANEOUS. (a) This Bonus Plan will not confer upon any Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate or modify the terms of such Participant's employment or other service at any time.

(b) Except as otherwise provided in this Bonus Plan, no right or benefit under this Bonus Plan will be subject to anticipation, alienation, sale, assignment, pledge, encumbrance, or charge, and any attempt to anticipate, alienate, sell, assign, pledge, encumber, or charge such right or benefit will be void. No such right or benefit will in any manner be liable for or subject to the debts, liabilities, or torts of a Participant.

(c) This Bonus Plan may be amended or terminated from time to time by the Board. In the event this Bonus Plan is terminated before the last day of a Performance Period, Annual Incentive Awards and Long-Term Incentive Awards payable for such Performance Period will be prorated on the basis of the ratio

of the number of months in such Performance Period prior to such termination to the aggregate number of months in such Performance Period and will be paid only after the end of such Performance Period, which will be deemed to continue until the expiration thereof as if this Bonus Plan had not been terminated.

(d) If any provision in this Bonus Plan is held to be invalid or unenforceable, no other provision of this Bonus Plan will be affected thereby.

(e) This Bonus Plan will be governed by and construed in accordance with applicable United States federal law and, to the extent not preempted by such federal law, in accordance with the laws of the State of Delaware, without giving effect to the principles of conflict of laws thereof.

14. EFFECTIVENESS. The amendment and restatement of this Bonus Plan set forth herein will become effective as of December 12, 1997.

EMPLOYMENT AGREEMENT

As of March 10, 1997

between

FEDERATED CORPORATE SERVICES, INC.

and

TERRY J. LUNDGREN

EMPLOYMENT AGREEMENT

THIS AGREEMENT, made in the City of Cincinnati and State of Ohio, as of the 10th day of March, 1997, between Federated Corporate Services, Inc., a Delaware corporation (hereinafter called the "Employer"), and TERRY J. LUNDGREN of Greenwich, Connecticut (hereinafter called the "Employee").

In consideration of the premises, it is agreed by and between the parties hereto as follows:

ARTICLE I

EMPLOYMENT

1.1 TERMS AND DUTIES. The Employer shall employ the Employee, and the Employee shall serve the Employer, as an executive for the period (the "Term") beginning on May 16, 1997 and ending on the later of (a) the date set forth on Exhibit A hereto and (b) any later date to which the term may have been extended by agreement of the parties. During the Term the Employee shall faithfully and in conformity with the directions of the Board of Directors of the Employer (the "Board") or its delegate perform the duties of his employment and shall devote to the performance of such duties his full time and attention. During the Term the Employee shall serve in the office or offices of the Employer to which the Board may from time to time elect or appoint him. The Employee shall be excused from performing any services hereunder during periods of temporary incapacity and during vacations in accordance with the Employer's disability and vacation policies.

1.2 COMPENSATION. In consideration of his services during the Term, the Employer shall pay the Employee cash compensation at an annual rate not less than the greater of his current base salary as set forth on Exhibit A hereto or the base salary of the Employee most

recently approved by the Board or its delegate ("Base Compensation"). Employee's Base Compensation shall be subject to such increases as may be approved by the Board or its delegate.

1.3 PAYMENT SCHEDULE. The Base Compensation specified in Section 1.2(a) hereof shall be payable as current salary, in installments not

less frequently than monthly, and at the same rate for any fraction of a month unexpired at the end of the Term.

1.4 EXPENSES. During the Term the Employee shall be allowed reasonable traveling expenses and shall be furnished office space, assistance and accommodations suitable to the character of his position with the Employer and adequate for the performance of his duties hereunder.

1.5 TERMINATION IN CASE OF DISABILITY. The Employee shall not be in breach of this Agreement if he shall fail to perform his duties hereunder because of physical or mental disability. If for a continuous period of 12 months during the Term the Employee fails to render services to the Employer because of the Employee's physical or mental disability, the Board or its delegate may end the Term prior to its stated termination date. If there should be any dispute between the parties as to the Employee's physical or mental disability at any time, such question shall be settled by the opinion of an impartial reputable physician agreed upon for the purpose by the parties or their representatives, or failing agreement within 10 days of a written request therefor by either party to the other, then one designated by the then president of the local Academy of Medicine. The written opinion of such physician as to the matter in dispute shall be final and binding on the parties.

1.6 TERMINATION OF SERVICES. If the Employer notifies the Employee that his services will no longer be required during the Term, the Employee shall be entitled (except as otherwise provided in Section 1.5 or Section 1.7 hereof) to continue to receive his Base Compensation for the remainder of the Term.

1.7 MITIGATION. If the Employee received notice from the Employer pursuant to Section 1.6 hereof, the Employee (subject to Section 2.4 hereof) shall be free to become actively engaged with another business and shall use his best efforts to find other comparable

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employment. Upon the payment to the Employee of compensation for employment or other services by any unaffiliated third party, the Employee shall automatically cease to be an employee of the Employer. The Employee shall promptly notify the Employer of any such employment or other services and of the compensation received, to be received or receivable from his subsequent employer or such other party attributable to the Term. All Base Compensation otherwise payable to the Employee by the Employer under this Agreement during the remainder of the Term shall be reduced to the extent of his similar compensation received, to be received or receivable from such other employment or other services.

1.8 TERMINATION FOR CAUSE. The Employer may terminate the employment of the Employee and this Agreement and all of its obligations hereunder, except for obligations accrued but unpaid to the effective date of termination, for Cause upon notice given pursuant to this Section. As used in this Agreement, the Term "Cause" shall mean:

(a) an intentional act of fraud, embezzlement, theft or any other material violation of law in connection with the Employee's duties or in the course of his employment with the Employer;

(b) intentional wrongful damage to material assets of the Employer;

(c) intentional wrongful disclosure of material confidential information of the Employer;

(d) intentional wrongful engagement in any competitive activity which would constitute a material breach of the duty of loyalty; or

(e) intentional breach of any stated material employment policy of the Employer.

No act, or failure to act, on the part of an Employee shall be deemed "intentional" if it was due primarily to an error in judgment or

negligence, but shall be deemed "intentional" only if done, or omitted to be done, by the Employee not in good faith and without reasonable belief that his action or omission was in or not opposed to the best interest of the

Employer. Failure to meet performance standards or objectives of the Employer shall not constitute Cause for purposes hereof.

1.9 ELECTION OF BENEFITS. If the Employee receives notice from the Employer pursuant to Section 1.6 hereof, the Employee shall have the right to elect to receive (in lieu of the payments hereunder specified in such Section 1.6) any benefits that may be payable to him pursuant to any severance plan of the Employer applicable to him. If no such election is made, the amounts specified in such Section 1.6 shall be payable as specified therein, no benefit shall be payable to the Employee under such severance plan, and the Employee hereby expressly waives any benefits that might otherwise be due him under such severance plan.

ARTICLE II

CERTAIN OBLIGATIONS OF THE EMPLOYEE

2.1 NO PARTICIPATION IN OTHER BUSINESSES. During the Term (except as otherwise expressly provided in Section 1.7 hereof) the Employee shall not, without the consent of the Board or its delegate, become actively associated with or engage in any business other than that of the Employer or a division or affiliate of the Employer, and he shall do nothing inconsistent with his duties to the Employer. If the Employee shall breach his obligations under this Section, he shall promptly reimburse the Employer for any monies paid by the Employer in connection with his relocation during the Term or in contemplation of the signing of this Agreement, including, without limitation, any bonus or relocation expenses paid for or incurred by the Employer, including, without limitation, carrying costs for property purchased from or on behalf of the Employee. Any such reimbursement shall be in addition to any other remedy for breach of this Agreement that the Employer may be entitled to at law or in equity.

2.2 TRADE SECRETS AND CONFIDENTIAL INFORMATION. Employee shall not (either during the Term or thereafter) without the consent of the Employer disclose to anyone outside of the Employer, or use in other than the Employer's business, trade secrets or confidential infor-

mation relating to the Employer's business in any way obtained by him while employed by the Employer.

2.3 NONCOMPETITION. It is recognized by the Employee and the Employer that Employee's duties hereunder will entail the receipt of trade secrets and confidential information, which include not only information concerning the Employer's current operations, procedures, suppliers and other contacts, but also its short-range and long-range plans, and that such trade secrets and confidential information have been developed by the Employer and its affiliates at substantial cost and constitute valuable and unique property of the Employer. Accordingly, the Employee acknowledges that the foregoing makes it reasonably necessary for the protection of the Employer's business interests that the Employee not compete with the Employer or any of its affiliates during the Term and for a reasonable and limited period thereafter. Therefore, during the Term and for a period of one year thereafter, the Employee shall not have an investment of \$100,000 or more in a Competing Business (as hereinafter defined) and shall not render personal services to any such Competing Business in any manner, including, without limitation, as owner, partner, director, trustee, officer, employee, consultant or advisor thereof. The noncompete provisions of this section shall not be applicable to Employee if he has been notified

pursuant to Section 1.6 hereof that his services will no longer be required during the Term or if Employee has been advised that his services will no longer be required after the expiration of the Term.

If the Employee shall breach the covenants contained in this Section 2.3 or in Section 2.2 hereof, the Employer shall have no further obligation to make any payment to the Employee pursuant to this Agreement and may recover from the Employee all such damages as it may be entitled to at law or in equity. In addition, the Employee acknowledges that any such breach is likely to result in immediate and irreparable harm to the Employer for which money damages are likely to be inadequate. Accordingly, the Employee consents to injunctive and other appropriate equitable relief upon the institution of proceedings therefor by the Employer in order to protect the Employer's rights hereunder. Such relief may include, without limitation, an injunction to prevent the Employee from disclosing any trade secrets or confidential information

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concerning the Employer to any Competing Business, to prevent any Competing Business from receiving from the Employee or using any such trade secrets or confidential information and/or to prevent any such Competing Business from retaining or seeking to retain any other employees of the Employer. Employer agrees, however, that it will not seek injunctive relief for the purposes of preventing Employee from competing with Employer after the expiration of the Term. The provisions of the foregoing sentence shall not apply, however, to injunctions of the type described in the preceding sentence.

(a) As used in this Agreement, the term "affiliate" shall mean, with respect to a particular person, a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such person.

(b) As used in this Agreement, the term "Competing Business" shall mean any business which:

(i) at the time of determination, is substantially similar to the whole or a substantial part of the business conducted by the Employer or any of its divisions or affiliates;

(ii) at the time of determination, is operating a store or stores which, during its or their fiscal year preceding the determination, had aggregate net sales, including sales in leased and licensed departments, in excess of \$10,000,000, if such store or any of such stores is or are located in a city or within a radius of 25 miles from the outer limits of a city where the Employer or any of its division's or affiliates, is operating a store or stores which, during its or their fiscal year preceding the determination, had aggregate net sales, including sales in leased and licensed departments, in excess of \$10,000,000; and

(iii) had aggregate net sales at all its locations, including sales in leased and licensed departments and sales by its divisions and affiliates, during its fiscal year preceding that in which the Employee made such an investment therein, or first rendered personal services thereto, in excess of \$25,000,000.

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2.4 CONFLICTS OF INTEREST. The Employee shall not engage in any activity that would violate the Conflict of Interest or Business Ethics Statement signed from time to time by the Employee.

ARTICLE III

MISCELLANEOUS

3.1 ASSIGNMENT. This Agreement may be assigned by the Employer

to any of its affiliates. This Agreement shall not otherwise be assignable by the Employer without the consent of the Employee, except that, if the Employer shall merge or consolidate with, or transfer all or any substantial portion of its assets, including goodwill, to another corporation or other form of business organization, this Agreement shall (or, in the case of any such transfer, may) be assigned to and shall bind and run to the benefit of the successor of the Employer resulting from such merger, consolidation or transfer. The Employee may not assign, pledge or encumber his interest in this Agreement or any part hereof.

3.2 GOVERNING LAW. This Agreement has been executed on behalf of the Employer by an officer of the Employer located in the City of Cincinnati, Ohio. This Agreement and all questions arising in connection herewith shall be governed by the internal substantive laws of the State of Ohio. The Employer and the Employee each consent to the jurisdiction of, and agree that any controversy between them arising out of this Agreement shall be brought in, the United States District Court for the Southern District of Ohio, Western Division; the Court of Common Pleas for Hamilton County, Ohio; or such other court venued within Hamilton County, Ohio as may have subject matter jurisdiction over the controversy.

3.3 SEVERABILITY. If any portion of this Agreement is held to be invalid or unenforceable, such holding shall not affect any other portion of this Agreement.

3.4 ENTIRE AGREEMENT. This Agreement comprises the entire agreement between the parties hereto and as of the date hereof, supersedes, cancels and annuls any and all prior agreements between the parties hereto. This Agreement may not be modified, renewed or

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extended orally, but only by a written instrument referring to this Agreement and executed by the parties hereto.

3.5 GENDER AND NUMBER. Words in the masculine herein may be interpreted as feminine or neuter, and words in the singular as plural, and vice versa, where the sense requires.

3.6 NOTICES. Any notice or consent required or permitted to be given under this Agreement shall be in writing and shall be effective when given by personal delivery or five business days after being sent by certified U.S. mail, return receipt requested, to the Secretary of Federated Department Stores, Inc. at its principal place of business in the City of Cincinnati or to the Employee at his last known address as shown on the records of the Employer.

3.7 WITHHOLDING TAXES. The Employer may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

3.8 WAIVER AND RELEASE. In consideration of the Employer's entering into this Agreement, and the receipt of other good and valuable consideration, the sufficiency of which is expressly acknowledged, the Employee, for himself and his successors, assigns, heirs, executors and administrators, hereby waives and releases and forever discharges the Employer and its affiliates and their officers, directors, agents, employees, shareholders, successors and assigns from all claims, demands, damages, actions and causes of action whatsoever which he now has on account of any matter, whether known or unknown to him and whether or not previously disclosed to the Employee or the Employer, that relates to or arises out of (a) any existing or former employment agreement (written or oral) entered into between the Employee and the Employer or any of its affiliates (or any amendment or supplement to any such agreement), (b) any agreement providing for a payment or payments or extension of the employment relationship triggered by a merger or sale or other disposition of the stock or assets or restructuring of the Employer or any affiliate of the Employer, or (c) any applicable severance plan.

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IN WITNESS WHEREOF, the parties hereto have hereunto and to a duplicate hereof set their signatures as of March 10, 1997.

FEDERATED CORPORATE SERVICES, INC.

By: /s/ Dennis J. Broderick

Dennis J. Broderick
Title: President

TERRY J. LUNDGREN

/s/ Terry J. Lundgren

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EXHIBIT A

to

EMPLOYMENT AGREEMENT

Effective as of May 16, 1997

Name: Terry J. Lundgren

End of Term: May 16, 2000

Annual Base
Compensation: \$1 million

Stock Options: Effective as March 28, 1997 (the Grant Date"), Federated Department Stores, Inc. ("Federated") will grant to Employee options for 250,000 shares, with options for 75,000 shares vesting on each of the first two anniversaries of the Grant Date and options for 100,000 shares vesting on the third anniversary of the Grant Date; the purchase price under each of said options shall be 100% of the closing price of said stock on the New York Stock Exchange on March 27, 1997; the grant of stock options is subject to the terms of the Non-Qualified Stock Option Agreement substantially in the form attached hereto.

Bonus: Employee shall participate in the annual and long-term bonus programs of the Employer under its 1992 Incentive Bonus Plan, as such may be amended from time to time, with the award, commencing in respect of the 1997 annual performance period and the 1997-1999 long-term performance period, calculated by applying the applicable payout percent rate to the Employee's then annual base compensation at the commencement of the annual or long-term performance period, as the case may be.

Date: As of March 10, 1997

Exhibit 21

Subsidiaries

22 East Advertising Agency, Inc.
22 East Realty Corporation
3240 Properties Corp.
A&S Real Estate, Inc.
Allied Mortgage Financing Corp.
Allied Stores General Real Estate Company
Allied Stores International Sales Company, Inc.
Allied Stores International, Inc.
Allied Stores Marketing Corp.
Astoria Realty, Inc.
Auburndale Realty, Inc.
Bamrest Del, Inc.
BFC Real Estate Company
Bloomingdale's By Mail Ltd.
Bloomingdale's Real Estate, Inc.
Bloomingdale's, Inc.
Broadway Receivables, Inc.
Broadway Stores, Inc.
Bullock's, Inc.
Burdine's Main Store Real Estate, Inc.
Burdine's Real Estate II, Inc.
Burdine's Real Estate, Inc.
Burdines, Inc.
Calclove Realty Corp.
Camelback Funding Corporation
Carter Hawley Hale Properties, Inc.
Cowie & Company, Limited
Delphis Corporation
Douglaston Plaza, Inc.
Executive Placements Consultants, Inc.
FACS Group, Inc.
FDS National Bank
Federated Claims Administration, Inc.
Federated Claims Services Group, Inc.
Federated Corporate Services, Inc.
Federated Credit Holdings Corporation
Federated Department Stores Foundation
Federated Department Stores Insurance Company, Ltd.
Federated Department Stores, Inc.
Federated Noteholding Corporation
Federated Noteholding Corporation II

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Federated Real Estate, Inc.
Federated Retail Holdings, Inc.
Federated Specialty Stores, Inc.
Federated Stores Realty, Inc.
Federated Systems Group, Inc.
Finite Limited
Garage Park Corp.
Hamilton By Appointment
Hunt Valley Properties Corp.
I. Magnin Properties Corp.
I. Magnin Properties Corp. II
I. Magnin, Inc.
Jor-Mar, Inc.
Jordan Marsh Insurance Agency, Inc.
Jordan Servicenter, Inc.
Kings Plaza Shopping Center of Avenue U, Inc.
L&K Properties Corp.
Lazarus PA, Inc.
Lazarus Real Estate, Inc.
Lazarus, Inc.

M H L Properties Corp. of Massachusetts
Macy Credit Corp.
Macy Financial, Inc.
Macy N. R. Properties Corp.
Macy Special Real Estate Capital Corp.
Macy's By Mail, Inc.
Macy's Close-Out, Inc.
Macy's Data and Credit Services Corp.
Macy's East, Inc.
Macy's Hamilton By Appointment, Inc.
Macy's Kings Plaza Real Estate, Inc.
Macy's Primary Real Estate, Inc.
Macy's Real Estate, Inc.
Macy's Secondary Real Estate, Inc.
Macy's West, Inc.
MOA Rest, Inc.
MSS-Delaware, Inc.
Nasstock, Inc.
New Haven Properties Corp..
Paramustock, Inc.
Pasadena Properties Corp.
Prime II Receivables Corporation
Prime Receivables Corporation
R. H. Macy (France) S.A.R.L.
R. H. Macy Holdings (HK), Ltd.

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R. H. Macy Overseas Finance N.V.
R. H. Macy Warehouse (HK), Ltd.
Rich's Department Stores, Inc.
Rich's Main Store Real Estate, Inc.
Rich's Real Estate, Inc.
Sabugo, Limited
Sacvent Garage
Sanstoff East Properties Corp.
Saramaas Realty Corp.
Seven Hills Funding Corporation
Seven West Seventh, Inc.
Shop 34 Advertising, Inc.
Stern's Department Stores, Inc.
Stern's-Echelon, Inc.
Stern's-Granite Run, Inc.
Sunsac Properties Corp.
The Bon, Inc.
U & F Realty Corp.
W. P. Properties Corp.
Wise Chat Limited

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INDEPENDENT AUDITORS' CONSENT

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

We consent to the incorporation by reference in the registration statement No. 333-34321 on Form S-3 and the registration statement No. 333-44373 on Form S-8 of Federated Department Stores, Inc. of our report dated March 3, 1998, relating to the consolidated balance sheets of Federated Department Stores, Inc. and subsidiaries as of January 31, 1998 and February 1, 1997 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the fifty-two week period ended January 31, 1998, the fifty-two week period ended February 1, 1997 and the fifty-three week period ended February 3, 1996, which report appears in the January 31, 1998 annual report on Form 10-K of Federated Department Stores, Inc.

KPMG Peat Marwick LLP

Cincinnati, Ohio
April 16, 1998

Exhibit 23

POWER OF ATTORNEY

The undersigned, a director and/or officer of Federated Department Stores, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Dennis J. Broderick, John R. Sims and Padma Tatta Cariappa, 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 1934, as amended (the "Exchange Act"), and any rules, regulations, and requirements of the Securities and Exchange Commission (the "Commission"), in connection with an Annual Report on Form 10-K to be filed by the Company pursuant to Section 13 of the Exchange Act, including without limitation, power and authority to sign for me, in my name in the capacity or capacities referred to above, such Annual Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the 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: April 16, 1998

/s/ James M. Zimmerman

James M. Zimmerman

POWER OF ATTORNEY

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Dated: April 16, 1998

/s/ Terry J. Lundgren

Terry J. Lundgren

POWER OF ATTORNEY

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Dated: April 16, 1998

/s/ Ronald W. Tysoe

Ronald W. Tysoe

POWER OF ATTORNEY

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Dated: April 16, 1998

/s/ Karen M. Hoguet

Karen M. Hoguet

POWER OF ATTORNEY

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Dated: April 16, 1998

/s/ Joel A. Belsky

Joel A. Belsky

POWER OF ATTORNEY

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Dated: April 16, 1998

/s/ Meyer Feldberg

Meyer Feldberg

POWER OF ATTORNEY

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Dated: April 16, 1998

/s/ Earl G. Graves, Sr.

Earl G. Graves, Sr.

POWER OF ATTORNEY

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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: April 16, 1998

/s/ Joseph Neubauer

Joseph Neubauer

POWER OF ATTORNEY

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Dated: April 16, 1998

/s/ Joseph A. Pichler

Joseph A. Pichler

POWER OF ATTORNEY

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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: April 16, 1998

/s/ Karl M. von der Heyden

Karl M. von der Heyden

POWER OF ATTORNEY

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Dated: April 16, 1998

/s/ Craig E. Weatherup

Craig E. Weatherup

POWER OF ATTORNEY

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pursuant to Section 13 of the Exchange Act, including without limitation, power and authority to sign for me, in my name in the capacity or capacities referred to above, such Annual Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the 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: April 16, 1998

/s/ Marna C. Whittington

Marna C. Whittington

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<F1> Supplies and prepaid expenses	115
Deferred income tax assets	58

<F2> Intangible assets - net	690
Other assets	334

<F3> Deferred income taxes	939
Other liabilities	564
Shareholders' Equity	5,256

<F4> Interest Income	35
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