

FEDERATED DEPARTMENT STORES INC /DE/

Form DEF 14A

April 13, 2006

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

Federated Department Stores, Inc.

Name of the Registrant as Specified In Its Charter

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

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

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

(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

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

Amount Previously Paid:

Form, Schedule or Registration Statement No.:

Filing Party:

Date Filed:

Table of Contents

FEDERATED DEPARTMENT STORES, INC.

7 West Seventh Street, Cincinnati, Ohio 45202

and

151 West 34th Street, New York, New York 10001

April 13, 2006

To the Stockholders:

You are cordially invited to attend the 2006 annual meeting of the stockholders of Federated Department Stores, Inc. The annual meeting will be held on Friday, May 19, 2006, at 11:00 a.m., Eastern Daylight Time, at Federated's offices located at 7 West Seventh Street, Cincinnati, Ohio 45202. The official notice of meeting, proxy statement and form of proxy are enclosed with this letter. The matters listed in the notice of meeting are described in the attached proxy statement.

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

Thank you for your cooperation and support of Federated.

Sincerely,

Terry J. Lundgren
*Chairman of the Board, President
and Chief Executive Officer*

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

Table of Contents

FEDERATED DEPARTMENT STORES, INC.

7 West Seventh Street, Cincinnati, Ohio 45202

and

151 West 34th Street, New York, New York 10001

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders:

Federated hereby gives notice that the annual meeting of its stockholders will be held at 11:00 a.m., Eastern Daylight Time, on Friday, May 19, 2006, at Federated's offices located at 7 West Seventh Street, Cincinnati, Ohio 45202. The items on the agenda for the annual meeting are:

1. To elect three members of Federated's board of directors;
2. To ratify the appointment of KPMG LLP as Federated's independent registered public accounting firm for the fiscal year ending February 3, 2007;
3. To act upon a proposal to amend Federated's Certificate of Incorporation;
4. To act upon a proposal to amend Federated's 1995 Executive Equity Incentive Plan;
5. To act upon a proposal to amend Federated's 1994 Stock Incentive Plan;
6. To act upon a stockholder proposal, if properly presented at the annual meeting, to adopt a policy that would limit the number of boards on which Federated's directors may concurrently serve; and
7. To act upon such other business as may properly come before the annual meeting or any postponements or adjournments thereof.

Each of these matters is more fully described in the attached proxy statement. Stockholders of record at the close of business on March 31, 2006 are entitled to vote at the annual meeting or any postponements or adjournments thereof.

Dennis J. Broderick

Secretary

April 13, 2006

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

TABLE OF CONTENTS

PROXY STATEMENT

GENERAL

STOCK OWNERSHIP

ITEM 1 -- ELECTION OF DIRECTORS

FURTHER INFORMATION CONCERNING THE BOARD OF DIRECTORS

ITEM 2 -- APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

ITEM 3 -- PROPOSAL TO AMEND FEDERATED S CERTIFICATE OF INCORPORATION

ITEM 5 -- PROPOSAL TO AMEND THE 1994 STOCK INCENTIVE PLAN

ITEM 6 -- STOCKHOLDER PROPOSAL SEEKING A LIMIT ON THE NUMBER OF BOARDS ON WHICH FEDERATED S DIRECTORS MAY CONCURRENTLY SERVE

EXECUTIVE COMPENSATION

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

PENSION PLAN TABLE

COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE REPORT

REPORT OF THE AUDIT COMMITTEE

SUBMISSION OF FUTURE STOCKHOLDER PROPOSALS

OTHER MATTERS

Table of Contents

FEDERATED DEPARTMENT STORES, INC.

7 West Seventh Street, Cincinnati, Ohio 45202

and

151 West 34th Street, New York, New York 10001

PROXY STATEMENT

The board of directors of Federated (the Board) is furnishing this proxy statement in connection with its solicitation of proxies for use at the annual meeting of Federated's stockholders. The annual meeting will be held at 11:00 a.m., Eastern Daylight Time, on Friday, May 19, 2006, at Federated's offices located at 7 West Seventh Street, Cincinnati, Ohio 45202. The proxies received will be used at the annual meeting and at any postponements or adjournments of the annual meeting for the purposes set forth in the accompanying notice of meeting. This proxy statement, the notice of meeting and accompanying proxy are being mailed to stockholders on or about April 13, 2006.

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

GENERAL

The record date for the annual meeting is March 31, 2006. The holders of record of shares of common stock of Federated at the close of business on the record date are entitled to vote such shares at the annual meeting. As of the record date, 275,265,327 shares of common stock were outstanding. Shares held in the treasury of Federated and shares issuable in connection with the acquisition of The May Department Stores Company (May) to former holders of May common stock who had not, as of the record date, properly surrendered May stock certificates are not treated as being outstanding for any purpose relating to the annual meeting. Each outstanding share of common stock is entitled to one vote on each of the matters listed in the notice of meeting.

The holders of a majority of the outstanding shares of common stock as of the record date will constitute a quorum for the transaction of business at the annual meeting. For purposes of determining whether a quorum exists, abstentions and broker non-votes will be included in determining the number of shares present or represented at the annual meeting. However, with respect to any matter, other than the matter described under Item 3, that is brought to a vote at the annual meeting, abstentions and broker non-votes will be treated as shares not voted for purposes of determining whether the requisite vote has been obtained. In order to obtain approval of any such matter the affirmative vote of the holders of a majority (or, in the case of the election of any nominee as a director, a plurality) of the shares of common stock represented at the annual meeting and actually voted is required. Consequently, abstentions and broker non-votes will have no effect on the outcome of the vote on any such matter. In order to obtain approval of the matter described under Item 3, the affirmative vote of a majority of the outstanding shares entitled to vote at the annual meeting is required and, with respect to such matter, abstentions and broker non-votes will have the effect of votes against such matter. If the persons present or represented by proxy at the annual meeting constitute the holders of less than a majority of the outstanding shares of common stock as of the record date, the annual meeting may be adjourned to a subsequent date for the purpose of obtaining a quorum.

Table of Contents

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

if required by applicable law;

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

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

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

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

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

The policy described above will apply to the annual meeting.

All shares of common stock represented at the annual meeting by proxies properly submitted prior to or at the annual meeting will be voted at the annual meeting in accordance with the instructions on the proxies, unless such proxies previously have been revoked. If no instructions are indicated, such shares will be voted:

FOR the nominees for director identified below;

FOR the ratification of the appointment of Federated's independent registered public accounting firm;

FOR the proposal to amend Federated's Certificate of Incorporation;

FOR the proposal to amend the 1995 Executive Equity Incentive Plan (the 1995 Equity Plan);

FOR the proposal to amend the 1994 Stock Incentive Plan (the 1994 Stock Incentive Plan); and

AGAINST the stockholder proposal to adopt a policy that would limit the number of boards on which Federated's directors may concurrently serve.

Stockholders have three voting options:

Internet: Stockholders can vote over the Internet at the Web address shown on their proxy cards. Internet voting is available 24 hours a day, seven days a week. When stockholders vote over the Internet, they should not return their proxy cards.

Telephone: Stockholders can vote by telephone by calling the toll-free number on their proxy cards. Telephone voting is available 24 hours a day, seven days a week. Easy-to-follow voice prompts allow stockholders to vote their shares and confirm that their instructions have been properly recorded. When stockholders vote by telephone, they should not return their proxy cards.

Mail: Stockholders can vote by mail by simply signing, dating and mailing their proxy cards in the postage-paid envelope included with the proxy statement.

Table of Contents

A number of banks and brokerage firms participate in a program that also permits stockholders whose shares are held in street name to direct their vote over the Internet or by telephone. This option, if available, will be reflected in the voting instructions from the bank or brokerage firm that accompany this proxy statement. Stockholders may use the Internet or telephone to direct the vote of shares held in an account at a bank or brokerage firm by following the voting instructions enclosed with the proxy form from the bank or brokerage firm. The Internet and telephone proxy procedures are designed to authenticate stockholders' identities, to allow stockholders to give their proxy voting instructions and to confirm that those instructions have been properly recorded. Votes directed over the Internet or by telephone through such a program must be received by 5:00 p.m., Eastern Daylight Time, on Thursday, May 18, 2006. Requesting a proxy prior to the deadline described above will automatically cancel any voting directions stockholders have previously given over the Internet or by telephone with respect to their shares. Directing the voting of their shares will not affect stockholders' right to vote in person if they decide to attend the annual meeting; however, they must first obtain a signed and properly executed proxy from their bank, broker or other nominee to vote their shares held in street name at the annual meeting.

Stockholders who are participants in Federated's Profit Sharing 401(k) Investment Plan or May's Profit Sharing Plan will receive voting instruction cards for the Federated common stock allocated to their accounts in those plans. Plan participants may instruct the plan trustee on how to vote their proportional interest in any Federated shares held by the plans by signing, dating and mailing the enclosed voting instruction cards, or by submitting their voting instructions by telephone or over the Internet. The plan trustees will vote participants' proportional interests in accordance with the instructions received from participants and the terms of the plans. If a plan participant under either plan fails to vote, the trustee for that plan, subject to its fiduciary obligations under ERISA, will vote the participant's proportional interests in the same proportion as it votes the proportional interests for which it receives instructions from other plan participants. Under the terms of the plans, the trustees must receive voting instructions from plan participants by 5:00 p.m., Eastern Daylight Time, on Wednesday, May 17, 2006.

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

STOCK OWNERSHIP

Certain Beneficial Owners. The following table sets forth information as to the beneficial ownership of each person known to Federated to own more than 5% of Federated's outstanding common stock as of December 31, 2005.

Name and Address	Most Recent Schedule 13G	Number of Shares	Percent of Class
Private Capital Management Bruce S. Sherman Gregg J. Powers (collectively, Private Capital) 8889 Pelican Bay Boulevard Naples, FL 34108(1)	February 14, 2006	14,828,251	5.4%
FMR Corp. (FMR) 82 Devonshire Street Boston, MA 02109(2)	February 14, 2006	13,640,520	5.0%

Table of Contents

1. According to the Private Capital Schedule 13G, (i) each of Private Capital Management, Bruce S. Sherman and Gregg J. Powers has shared power to vote and shared power to dispose of 14,797,101 of the 14,828,251 shares beneficially owned by Private Capital, and (ii) Bruce S. Sherman has sole power to vote and the sole power to dispose of 31,150 of such shares.

2. According to the FMR Schedule 13G, (a) 10,924,794 of the 13,640,520 shares beneficially owned by FMR (approximately 4.0% of the total number of shares of common stock outstanding) were beneficially owned by Fidelity Management & Research Company, a wholly-owned subsidiary of FMR (FMRC), as a result of acting as investment advisor to various investment companies, (b) 896,851 of such shares (approximately 0.3% of the total number of shares of common stock outstanding) were beneficially owned by Fidelity Management Trust Company, a wholly-owned subsidiary of FMR (FMTC), as a result of its serving as investment manager of institutional account(s), (c) 1,818,400 of such shares (approximately 0.7% of the total number of shares outstanding) were beneficially owned by Fidelity International Limited (FIL), and (d) 475 of such shares were beneficially owned by Strategic Advisers, Inc., a wholly-owned subsidiary of FMR. According to the FMR Schedule 13G:

Each of Edward C. Johnson 3d, Chairman of FMR and FMR, through its control of FMRC, has sole power to dispose of 10,924,794 shares described in clause (a) above. Neither Edward C. Johnson 3d nor FMR has sole voting power over such shares owned directly by the Fidelity Funds. The Fidelity Funds Boards of Trustees has the power to vote such shares;

Edward C. Johnson 3d and FMR, through its control of FMTC, each has sole power to dispose of and vote the 896,851 shares described in clause (b) above, and

A partnership controlled predominantly by family members of Edward C. Johnson 3d or trusts for their benefit owns shares of FIL voting stock with the right to cast approximately 38% of the total votes that may be cast by all holders of FIL voting stock.

According to the FMR Schedule 13G, Edward C. Johnson 3d and various Johnson family members are the predominant owners of the Series B shares of common stock of FMR, representing approximately 49% of the voting power of FMR. According to the FMR Schedule 13G, through their ownership of FMR s voting common stock and related agreements, members of the Johnson family may be deemed to form a controlling group with respect to FMR.

Table of Contents

Stock Ownership of Directors and Executive Officers. The following table sets forth the shares of common stock beneficially owned (or deemed to be beneficially owned pursuant to the rules of the SEC) as of March 31, 2006 by each director of Federated, by each of the Named Executives (as defined below) and by directors and executive officers of Federated as a group. The business address of each of the individuals named in the table is 7 West Seventh Street, Cincinnati, Ohio 45202.

Name	Number of Shares		Percent of Class
	(1)	(2)	
Meyer Feldberg	32,658	26,750	less than 1%
Sara Levinson	31,811	30,250	less than 1%
Joseph Neubauer	46,770	31,983	less than 1%
Joseph A. Pichler	30,650	26,750	less than 1%
Joyce M. Roché	996	0	less than 1%
William P. Stiritz	283,628	0	less than 1%
Karl M. von der Heyden	35,450	26,750	less than 1%
Craig E. Weatherup	33,823	30,823	less than 1%
Marna C. Whittington	37,354	30,250	less than 1%
Terry J. Lundgren	1,260,439	1,140,988	less than 1%
Thomas G. Cody	330,229	302,485	less than 1%
Thomas L. Cole	336,069	317,590	less than 1%
Janet E. Grove	300,655	299,799	less than 1%
Susan D. Kronick	307,049	289,741	less than 1%
Ronald W. Tysoe	698,711	698,241	less than 1%
All directors and executive officers as a group	4,107,481	3,564,369	1.49%

(1) Aggregate number of shares of common stock currently held and which may be acquired within 60 days after March 31, 2006 through the exercise of options granted under the 1995 Equity Plan.

(2) Number of shares of common stock which may be acquired within 60 days after March 31, 2006 through the exercise of options granted under the 1995 Equity Plan.

Table of Contents

Securities Authorized for Issuance Under Equity Compensation Plans. The following table presents certain aggregate information, as of January 28, 2006, with respect to (i) the 1995 Equity Plan (included on the line captioned Equity compensation plans approved by security holders), and (ii) the 1994 Stock Incentive Plan, which plan, including outstanding options granted thereunder to certain former May executives, was assumed by Federated in connection with Federated's acquisition of May (included on the line captioned Equity compensation plans not approved by security holders).

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (\$) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	16,271,502	43.82	4,386,618
Equity compensation plans not approved by security holders	7,910,816	65.80	5,875,471
Total	24,182,318	51.01	10,262,089

For a summary of the material terms of the 1995 Equity Plan, see Item 4 Proposal to Amend the 1995 Executive Equity Incentive Plan. For a summary of the material terms of the 1994 Stock Incentive Plan, see Item 5 Proposal to Amend the 1994 Stock Incentive Plan.

The foregoing table does not reflect shares of restricted stock previously issued under the 1995 Equity Plan or the 1994 Stock Incentive Plan. As of January 28, 2006, there were 50,750 shares of restricted stock outstanding that remained subject to possible forfeiture and 54,291 shares of common stock available for future issuance as restricted stock under the 1995 Equity Plan and 1,075,993 shares of common stock available for future issuance as restricted stock under the 1994 Stock Incentive Plan. The shares remaining available for future issuance as restricted stock are included in the totals reflected in column (c). Under the 1995 Equity Plan and the 1994 Stock Incentive Plan, if these shares are not issued as restricted stock they may be made subject to grants of stock options.

The foregoing table does not reflect stock credits issued under Federated's Executive Deferred Compensation Plan, the compensation program for directors who are not employees of Federated (the Non-Employee Directors), the Non-Employee Directors' deferred compensation plan, and the Associated Dry Goods Corporation Executives Deferred Compensation Plan (assumed by Federated in connection with its acquisition of May), which have not been approved by Federated's stockholders. Pursuant to the Executive Deferred Compensation Plan, eligible executives may elect to receive a portion of their cash compensation in the form of stock credits. For a discussion of stock credits issued to Non-Employee Directors under the Non-Employee Directors' compensation program, see Further Information Concerning the Board of Directors' Director Compensation. Pursuant to the Associated Dry Goods Corporation Executives Deferred Compensation Plan, participants elected to receive a portion of their cash compensation in the form of stock credits.

Under the plans described in the immediately preceding paragraph, entitlements due to participants are expressed as dollar amounts and then converted to stock credits in amounts equal to the number of shares of common stock that could be purchased by the applicable plan at current market prices with the cash that otherwise would have been

payable to the participant. In general, each stock credit, other than a stock credit payable in cash under the terms of the applicable plan, entitles the holder to receive one share of common stock three years after the issuance of the stock credit, or, in the case of the Executive Deferred Compensation Plan,

Table of Contents

the Non-Employee Directors' deferred compensation plan and the Associated Dry Goods Corporation Executives' Deferred Compensation Plan, upon the termination of the holder's employment or service with Federated, together with amounts equal to any dividends paid on one share of common stock. No specific number of shares are authorized for issuance under the deferred compensation plans.

ITEM 1 ELECTION OF DIRECTORS

Federated's Certificate of Incorporation (the "Certificate of Incorporation") and By-Laws (the "By-Laws"), as amended with the approval of Federated's stockholders obtained at the 2005 annual meeting, provide that beginning at the 2006 annual meeting, as current terms expire, directors will be elected at each annual meeting of Federated stockholders for a one-year term. Directors elected prior to the 2006 annual meeting would continue to serve for their current terms. By 2008, all directors would be elected annually and would serve one-year terms.

In accordance with the recommendation of its NCG Committee, the Board has nominated Joyce M. Roché, William P. Stirtz and Craig E. Weatherup, each of whom is currently a member of the Board, for election as directors. If elected, such nominees will serve for a one-year term to expire at Federated's annual meeting of stockholders in 2007 or until their successors are duly elected and qualified. Information regarding these nominees, as well as the other persons who are expected to serve on the Board following the annual meeting, is set forth below.

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

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

Nominees for Election as Directors Terms Expire at the 2007 annual meeting

Joyce M. Roché

Ms. Roché, age 59, is the President and Chief Executive Officer of Girls Incorporated, a national non-profit research, education and advocacy organization. Prior to assuming her position at Girls Incorporated in September 2000, Ms. Roché was an independent marketing consultant from 1998 to August 2000. She served as President and Chief Operating Officer of Carson, Inc. from 1996 to 1998 and also held senior marketing positions at Carson, Inc., Revlon, Inc. and Avon, Inc. Ms. Roché is also a member of the boards of directors of Anheuser-Busch Companies, Inc., AT&T and Tupperware Corporation. Ms. Roché is a member of the Audit and NCG Committees of the Board. Ms. Roché has been a director since February 2006.

William P. Stirtz

Mr. Stirtz, age 71, is Chairman of the Boards of Energizer Holding, Inc. and Ralcorp Holdings, Inc. He served as Chairman of the Board, President and Chief Executive Officer of Agribrands International, Inc. from 1998 to May 2001. Mr. Stirtz is also a member of the board of directors of Vail Resorts, Inc. Mr. Stirtz is a member of the Audit and Finance Committees of the Board. Mr. Stirtz has been a director since October 2005.

Table of Contents

Craig E. Weatherup

Mr. Weatherup, age 60, was Chairman and Chief Executive Officer of The Pepsi Bottling Group, Inc. from November 1998 until January 2003. Mr. Weatherup is also a member of the board of directors of Starbucks Corporation. Mr. Weatherup is a member of the Compensation and Management Development and NCG Committees of the Board. Mr. Weatherup has been a director since August 1996.

Directors Terms Expire at the 2008 annual meeting

Meyer Feldberg

Professor Feldberg, age 64, has been Dean Emeritus and Sanford Bernstein Professor of Leadership and Ethics at Columbia Business School at Columbia University since June 2004. Prior thereto he served as the Dean of the Columbia Business School at Columbia University from 1989 to June 2004. He is currently on leave of absence from Columbia University and is serving as a Senior Advisor at Morgan Stanley. He is also a member of the boards of directors of Revlon, Inc., Primedia, Inc., UBS Global Asset Management and SAPPI Limited. Professor Feldberg is a member of the NCG and Compensation and Management Development Committees of the Board. Professor Feldberg has been a director since May 1992.

Terry J. Lundgren

Mr. Lundgren, age 54, has been Chairman of Federated since January 15, 2004 and President and Chief Executive Officer of Federated since February 26, 2003. Prior thereto he served as the President/ Chief Operating Officer and Chief Merchandising Officer of Federated since April 15, 2002. From May 1997 until April 15, 2002, he was President and Chief Merchandising Officer of Federated. Mr. Lundgren has been a director since May 1997.

Marna C. Whittington

Dr. Whittington, age 58, has been President of Nicholas Applegate Capital Management since 2001 and Chief Operating Officer of Allianz Dresdner Asset Management, the parent of Nicholas Applegate Capital Management, since 2002. Dr. Whittington is also a member of the board of directors of Rohm & Haas Company. Dr. Whittington is a member of the Audit and Finance Committees of the Board. Dr. Whittington has been a director since June 1993.

Directors Terms Expire at the 2007 annual meeting

Sara Levinson

Ms. Levinson, age 55, has been the Non-Executive Chairman of ClubMom, Inc. since October 2002 and was President of the Women's Group of Rodale, Inc. from October 2002 until June 2005. Prior to October 2000, she was President of NFL Properties, Inc. since September 1994. Ms. Levinson is also a member of the board of directors of Harley Davidson, Inc. Ms. Levinson is a member of the NCG and Compensation and Management Development Committees of the Board. Ms. Levinson has been a director since May 1997.

Joseph Neubauer

Mr. Neubauer, age 65, has been Chairman and Chief Executive Officer of ARAMARK Corporation since September 2004. From January 2004 to September 2004 he served as Executive Chairman of ARAMARK Corporation. Prior to that, he was Chief Executive Officer of ARAMARK Corporation from 1983 until

Table of Contents

December 2003 and Chairman from 1984 until December 2003. He is also a member of the boards of directors of ARAMARK Corporation, Verizon Communications, Inc. and Wachovia Corporation. Mr. Neubauer is a member of the Audit, Compensation and Management Development and NCG Committees of the Board. Mr. Neubauer has been a director since September 1992.

Joseph A. Pichler

Mr. Pichler, age 66, was Chairman of The Kroger Co. from June 2003 until June 2004 and was Chairman and Chief Executive Officer of The Kroger Co. from June 1990 until June 2003. Mr. Pichler is a member of the NCG and Compensation and Management Development Committees of the Board. Mr. Pichler has been a director since December 1997.

Karl M. von der Heyden

Mr. von der Heyden, age 69, was Vice Chairman of the Board of Directors of PepsiCo, Inc. from September 1996 to January 2001. He is also a member of the board of directors of ARAMARK Corp., PanAmSat Corp., New York Stock Exchange Group and Dreamworks Animation SKG, Inc. Mr. von der Heyden is a member of the Audit and Finance Committees of the Board. Mr. von der Heyden has been a director since February 1992.

FURTHER INFORMATION CONCERNING THE BOARD OF DIRECTORS

Attendance at Meetings

The Board held nine meetings during the fiscal year ended January 28, 2006 (fiscal 2005). During fiscal 2005, no director attended fewer than 75%, in the aggregate, of the total number of meetings of the Board and Board Committees on which such director served.

Director Attendance at Annual Meetings

As a matter of policy, Federated expects its directors to make reasonable efforts to attend Federated's annual meetings of stockholders. Six of Federated's directors attended its most recent annual meeting of stockholders.

Communications with the Board

Interested parties may communicate with the full Board, the Audit Committee, directors who are not employees of Federated, referred to as the Non-Employee Directors, or any individual director by communicating through Federated's Internet website at www.fds.com/ir/corpgov or by mailing such communications to 7 West Seventh Street, Cincinnati, Ohio 45202, Attn: General Counsel. Such communications should indicate to whom they are addressed. Any communications received that relate to accounting, internal accounting controls or auditing matters will be referred to members of the Audit Committee unless the communication is otherwise addressed. Parties may communicate anonymously and/or confidentially if they desire. All communications received will be collected by the Office of the General Counsel of Federated and forwarded to the appropriate director(s).

Director Independence

Federated's Corporate Governance Principles require that a majority of the Board consist of directors who the Board has determined do not have any material relationship with Federated and are independent. The Board

Table of Contents

has adopted standards for independence (the Standards for Director Independence), a copy of which is attached hereto as Appendix A, to assist the Board in determining if a director is independent.

The Board has determined that the members of the Board who are Non-Employee Directors qualify as independent. Each of the directors who were determined to be independent by the Board satisfied the Standards for Director Independence.

Non-Employee Directors Meetings

The Non-Employee Directors of the Board meet in executive session without management either before or after all regularly scheduled Board meetings. The chairpersons of the Board Committees preside at such sessions by rotation. If a Non-Employee Director were not independent under the New York Stock Exchange (the NYSE) listing standards, that director could participate in these executive sessions, but the Board would hold at least one executive session each year exclusively for Non-Employee Directors who are independent under the NYSE listing standards.

Committees of the Board

The following standing committees of the Board were in existence throughout fiscal 2005: the Audit Committee, the Compensation and Management Development Committee, the Finance Committee and the NCG Committee.

Audit Committee. The Audit Committee is presently composed of Dr. Whittington, Ms. Roché and Messrs. Neubauer, Stiritz and von der Heyden. The Audit Committee Charter is disclosed on Federated's website at www.fds.com/ir/corpgov. As required by the Audit Committee Charter, the Board has determined that all members of the Audit Committee are independent under Federated's Standards for Director Independence and that Dr. Whittington and other members of the Audit Committee qualify as financial experts. During fiscal 2005, Mr. von der Heyden served on the audit committees of three other public companies. The Board previously determined that such service did not impair Mr. von der Heyden's ability to serve on Federated's Audit Committee.

The responsibilities of the Audit Committee include:

reviewing the professional services provided by Federated's independent accountants and the independence of such firm;

reviewing the scope of the audit by Federated's independent accountants;

reviewing any proposed non-audit services by Federated's independent accountants to determine if the provision of such services is compatible with the maintenance of their independence, and approval of same;

reviewing Federated's annual financial statements, systems of internal accounting controls, material legal developments relating thereto, and legal compliance policies and procedures;

reviewing matters with respect to the legal, accounting, auditing and financial reporting practices and procedures of Federated as it may find appropriate or as may be brought to its attention, including Federated's compliance with applicable laws and regulations;

Table of Contents

reviewing with members of Federated's internal audit staff the internal audit department's staffing, responsibilities and performance, including its audit plans, audit results and actions taken with respect to those results; and

establishing procedures for the Audit Committee to receive, review and respond to complaints regarding accounting, internal accounting controls, and auditing matters, as well as confidential, anonymous submissions by employees of concerns related to questionable accounting or auditing matters.

See Report of the Audit Committee for further information regarding the Audit Committee's review. The Audit Committee met five times during fiscal 2005.

Compensation and Management Development Committee. The CMD Committee is presently composed of Ms. Levinson and Messrs. Feldberg, Neubauer, Pichler and Weatherup. The charter for the Compensation and Management Development Committee (CMD Committee) is disclosed on Federated's website at www.fds.com/ir/corpgov. As required by the CMD Committee Charter, all current members of the CMD Committee are independent under Federated's Standards for Director Independence.

The responsibilities of the CMD Committee include:

reviewing and approving any proposed employment agreement with, and any proposed severance, termination or retention plans, agreements or payments applicable to, any executive officer of Federated;

reviewing the salaries of the chief executive officer and other executive officers of Federated and making recommendations to all of the independent directors related thereto;

administering the bonus, incentive and stock option plans of Federated, including (i) establishing any annual or long-term performance goals and objectives and maximum annual or long-term incentive awards for the chief executive officer and the other executives, (ii) determining whether and the extent to which annual and/or long-term performance goals and objectives have been achieved, and (iii) determining related annual and/or long-term incentive awards for the chief executive officer and the other executives;

reviewing and approving the benefits of the chief executive officer and the other executive officers of Federated;

advising and consulting with Federated's management regarding pension, benefit and compensation plans, policies and practices of Federated;

establishing chief executive officer and key executive succession plans, including plans in the event of an emergency, resignation or retirement; and

reviewing management development plans for key executives.

The CMD Committee met seven times during fiscal 2005.

Finance Committee. The Finance Committee is presently composed of Dr. Whittington and Messrs. Stiritz and von der Heyden.

The responsibilities of the Finance Committee include:

reviewing the financial considerations relating to acquisitions and dispositions of businesses and operations involving projected costs or income above \$15 million and below \$25 million and approving

Table of Contents

all such transactions, and reporting to the Board on all such transactions involving projected costs or income of \$25 million and above;

reporting to the Board on potential transactions affecting Federated's capital structure, such as financings, refinancings and the issuance, redemption or repurchase of Federated's debt or equity securities;

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

reviewing capital projects and other financial commitments and approving such projects and commitments above \$15 million and below \$25 million, reviewing and tracking the actual progress of approved capital projects against planned projections and reporting to the Board on all such projects and commitments of \$25 million and above; and

reviewing the management and performance of the assets of Federated's retirement plans.

The Finance Committee met nine times during fiscal 2005.

Nominating and Corporate Governance Committee. The NCG Committee is presently composed of Ms. Levinson and Ms. Roché and Messrs. Feldberg, Neubauer, Pichler and Weatherup. The charter for the NCG Committee is disclosed on Federated's website at www.fds.com/ir/corpgov. As required by the NCG Committee Charter, all current members of the NCG Committee are independent under Federated's Standards for Director Independence.

The responsibilities of the NCG Committee include:

identifying and screening candidates for future Board membership;

proposing candidates to the Board to fill vacancies as they occur, and proposing nominees to the Board for election by the stockholders at annual meetings;

reviewing Federated's Corporate Governance Principles and recommending to the Board any modifications that the NCG Committee deems appropriate;

overseeing the evaluation of and reporting to the Board on the performance and effectiveness of the Board and its committees, and other issues of corporate governance and recommending to the Board any changes concerning the composition, size, structure and activities of the Board and the committees of the Board as the NCG Committee deems appropriate based on its evaluations;

reviewing and reporting to the Board with respect to director compensation and benefits and make recommendations to the Board as the Committee deems appropriate; and

considering possible conflicts of interest of Board members and management and making recommendations to prevent, minimize, or eliminate such conflicts of interest.

The NCG Committee met six times during fiscal 2005.

Table of Contents

Among other means of identifying potential candidates, under the NCG Committee Charter, the NCG Committee is authorized to employ third-party search firms. The criteria considered by the NCG Committee in evaluating potential candidates include the following:

personal qualities and characteristics, accomplishments and reputation in the business community;

knowledge of the communities in which Federated does business and Federated's industry or other industries relevant to Federated's business;

relevant experience and background that would be of benefit to Federated;

ability and willingness to commit adequate time to Board and committee matters;

the fit of the individual's skills and personality with those of other directors and potential directors in building a Board that is effective, collegial and responsive to the needs of Federated; and

diversity of viewpoints, background, experience and demographics.

The NCG Committee also takes into consideration whether particular individuals satisfy the independence criteria set forth in the NYSE listing standards together with any special criteria applicable to service on various standing committees of the Board. The full Board (a) considers candidates recommended to it by the NCG Committee, (b) considers the optimum size of the Board, (c) determines the manner in which any vacancies on the Board are addressed, and (d) determines the composition of all Board committees.

The NCG Committee will consider nominees for directors recommended by stockholders of Federated and will evaluate such nominees using the same criteria used to evaluate director candidates otherwise identified by the NCG Committee. Stockholders wishing to make such recommendations should write to the Nominating and Corporate Governance Committee, c/o Dennis J. Broderick, Secretary, Federated Department Stores, Inc., 7 West Seventh Street, Cincinnati, Ohio 45202. Persons making submissions should include the full name and address of the recommended nominee, a description of the proposed nominee's qualifications and other relevant biographical information. See Director Nomination Procedures for a discussion of nomination procedures under Federated's By-Laws.

Director Nomination Procedures

Federated's By-Laws provide that nominations for election of directors by the stockholders will be made by the Board or by any stockholder entitled to vote in the election of directors generally. The By-Laws require that stockholders intending to nominate candidates for election as directors deliver written notice thereof to the Secretary of Federated not less than 60 days prior to the meeting of stockholders. However, in the event that the date of the meeting is not publicly announced by Federated by inclusion in a report filed with the SEC or furnished to stockholders, or by mail, press release or otherwise more than 75 days prior to the meeting, notice by the stockholder to be timely must be delivered to the Secretary of Federated not later than the close of business on the tenth day following the day on which such announcement of the date of the meeting was so communicated. The By-Laws further require, among other things,

that the notice by the stockholder set forth certain information concerning such stockholder and the stockholder's nominees, including their names and addresses;

a representation that the stockholder is entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;

the class and number of shares of Federated's stock owned or beneficially owned by such stockholder;

Table of Contents

a description of all arrangements or understandings between the stockholder and each nominee;

such other information as would be required to be included in a proxy statement soliciting proxies for the election of the nominees of such stockholder; and

the consent of each nominee to serve as a director of Federated if so elected.

The chairman of the Board may refuse to acknowledge the nomination of any person not made in compliance with these requirements. Similar procedures prescribed by the By-Laws are applicable to stockholders desiring to bring any other business before an annual meeting of the stockholders. See Submission of Future Stockholders Proposals.

The merger agreement between Federated and May provided that Federated would appoint to the Federated board two individuals who were directors of May as of the date of the merger agreement (February 27, 2005) and recommended by the NCG Committee. Upon the recommendation of the NCG Committee, the Board elected Mr. Stirtz as a director, effective October 27, 2005, and Ms. Roché as a director, effective February 23, 2006. The Board has waived the application of the mandatory retirement policy set forth in Federated's Corporate Governance Principles with respect to Mr. Stirtz until the 2007 annual meeting. Ms. Roché and Mr. Stirtz have been nominated by the Board for election by the stockholders through the 2007 annual meeting.

Corporate Governance Principles and Code of Business Conduct and Ethics

The Corporate Governance Principles and Code of Business Conduct and Ethics approved by the Board for adoption by Federated are disclosed on Federated's website at www.fds.com/ir/corpgov.

Director Compensation

Non-Employee Directors receive the following compensation:

Type of Compensation	Amount of Compensation
Base Retainer	\$60,000 annually*
Board or Board Committee Meeting Fee	\$2,000 for each meeting attended and for each review session with one or more members of management
Committee Chairperson Fee	\$10,000 annually
Equity Grant	Options to purchase up to 5,000 shares of common stock**

* Effective January 1, 1999, the annual base retainer fee (including the fee payable to a committee chair) and the meeting fee payable to Non-Employee Directors was paid 50% (or such greater percentage, in ten percent increments, as any individual director may have elected) in credits representing the right to receive shares of common stock, with the balance being paid in cash, in each case three years following the crediting of such stock credits (or at such later time as any individual director's service on the Board ends, if such individual director has elected to defer compensation under the Non-Employee Directors' deferred compensation plan). Effective as of March 31, 2006, the Non-Employee Directors' compensation program was amended to provide that such stock credits credited between April 2004 and through the date of the 2007 annual shareholders' meeting will be settled in cash.

** In connection with the termination of the retirement plan for Non-Employee Directors described below, the 1995 Equity Plan was amended to make each Non-Employee Director eligible to receive annual grants of options to purchase up to 3,500 shares of common stock. The 1995 Equity Plan was further amended to

Table of Contents

make each Non-Employee Director eligible to receive, commencing with fiscal year 2001, annual grants of options to purchase up to 5,000 shares of common stock. Each Non-Employee Director who was a director during fiscal 2005 was granted an option to purchase 5,000 shares of common stock in respect of his or her service during fiscal 2005, except that Mr. Stiritz, who became a director in October 2005, received options to purchase 833 shares of common stock.

Subject to the holding period described above for stock credits covering a portion of retainer and meeting fees, any Non-Employee Director may defer all or a portion of the total fees received by him or her either as stock credits or cash credits under the Non-Employee Directors' deferred compensation plan until such director's service on the Board ends, provided that the stock credits subject to the holding period described above may be deferred under the Non-Employee Directors' deferred compensation plan only as stock credits.

Directors who are also full-time employees of Federated receive no additional compensation for service as directors.

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

Each Non-Employee Director, his or her spouse and eligible dependents also receive executive discounts on merchandise purchased at Federated stores, which benefit remains available to them following such director's retirement from the Board.

In 2005, the NCG Committee recommended, and the Board adopted, stock ownership guidelines for Non-Employee Directors. Under these guidelines, Non-Employee Directors are required to accumulate over time shares of Federated common stock equal in value to at least five times the annual base retainer. Shares counted toward this requirement include:

any shares beneficially owned by the director; and

stock credits or other stock units credited to a director's account.

Federated common stock subject to unvested or unexercised stock options and unexpired restricted stock, if any, granted to Non-Employee Directors do not count toward the ownership requirement. Non-Employee Directors must comply with these guidelines by December 9, 2010 or within five years from the date the director's Board service commenced, whichever is later.

Table of Contents**Certain Relationships and Related Transactions**

Earl G. Graves, Sr., a former director of Federated who retired on July 13, 2005, is the Publisher and Chief Executive Officer of Black Enterprise Magazine and Chairman and Chief Executive Officer of Earl G. Graves, Ltd. In fiscal 2005, Federated purchased \$80,325 in advertising space in Black Enterprise Magazine and spent \$35,000 for event sponsorship with Earl G. Graves, Ltd. These expenditures were made in furtherance of Federated's minority hiring programs.

Section 16(a) Beneficial Ownership Reporting Compliance

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

To Federated's knowledge, based solely on a review of the copies of reports furnished to Federated and written representations signed by all directors and executive officers that no other reports were required with respect to their beneficial ownership of common stock during fiscal 2005, all reports required by Section 16(a) of the Exchange Act to be filed by the directors and executive officers and all beneficial owners of more than 10% of the common stock outstanding to report transactions in securities were timely filed, except for a report filed two days late by Mr. Graves due to a miscommunication.

ITEM 2 APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed KPMG LLP, an independent registered public accounting firm, to audit the books, records and accounts of Federated for the fiscal year ending February 3, 2007. The Audit Committee's appointment is subject to ratification by Federated's stockholders. KPMG LLP and its predecessors have served as the independent registered public accounting firm for Federated since 1988, and the Board considers them well qualified. Representatives of KPMG LLP are expected to be present at the annual meeting and will have the opportunity to make a statement if they desire to do so. It is also expected that they will be available to respond to appropriate questions.

Fees Paid to Independent Registered Public Accounting Firm

The table below summarizes the fees paid to KPMG LLP during fiscal 2005 and fiscal year 2004:

Year	Audit(\$)	Audit-Related(\$)	Tax(\$)	All Other(\$)	Total(\$)
2005	6,700,000	3,842,700	163,665	0	10,706,365
2004	3,723,000	830,500	309,747	0	4,863,247

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

Table of Contents

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

Tax fees represent professional services related to tax compliance and consulting services, provided, however, that such tax consulting services did not involve the provision of advice regarding tax strategy or planning.

All other fees represent professional services other than those covered above.

The Audit Committee has adopted policies and procedures for the pre-approval of all permitted non-audit services provided by Federated's independent registered public accounting firm. A description of such policies and procedures is attached as Appendix B to this proxy statement and incorporated herein by reference.

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

ITEM 3 PROPOSAL TO AMEND FEDERATED'S CERTIFICATE OF INCORPORATION

The Board has approved, subject to stockholder approval, an amendment to Federated's Certificate of Incorporation to increase the number of authorized shares of common stock from 500 million shares to one billion shares. The affirmative vote of a majority of the shares entitled to vote at the annual meeting is required to approve this amendment to Federated's Certificate of Incorporation.

As of February 25, 2006, approximately 191,400,000 shares of common stock were neither issued nor reserved for issuance. The Board believes that this number of shares of common stock is not sufficient to provide Federated the needed flexibility to conduct its business and plan for future events, including issuances of common stock for such general corporate purposes as stock splits, stock dividends, incentive awards, acquisitions and other similar transactions. The number of shares of common stock available for issuance by Federated was reduced by approximately 114 million shares in connection with the May acquisition, including approximately 100 million shares issued to former May stockholders and approximately 14 million shares reserved for issuance under equity incentive plans assumed by Federated.

If the amendment to the Certificate of Incorporation is approved by Federated's stockholders, the Board presently intends to approve a two-for-one stock split to be effected in the form of a stock dividend. In such event, pursuant to the provisions of Federated's equity compensation plans, the Board would also adjust the number of shares of common stock available for issuance and the number of shares covered by outstanding awards or stock units issued under such plans to give effect to the split. The issuance of shares of common stock in connection with the stock split would not require stockholder approval. Based on the number of shares of common stock outstanding and reserved for issuance as of February 25, 2006, if the stock split were approved by the Board and implemented, the number of shares of common stock outstanding and reserved for issuance would be increased to approximately 617,200,000 and the number of shares of common stock remaining available for issuance would be increased to approximately 382,800,000. Federated has no other present plan, arrangement or understanding to issue additional shares of common stock, other than shares previously reserved for issuance and shares to be reserved if stockholders approve the amendment to the 1995 Equity Plan pursuant to Item 4.

If this amendment is approved by Federated's stockholders, Section 1 of Article Fourth of Federated's Certificate of Incorporation would be amended and restated in its entirety to read as follows:

Table of Contents

FOURTH. Section 1. *Authorized Capital Stock.* The Company is authorized to issue two classes of capital stock, designated Common Stock and Preferred Stock. The total number of shares of capital stock that the Company is authorized to issue is 1,125,000,000 shares, consisting of 1,000,000,000 shares of Common Stock, par value \$0.01 per share, and 125,000,000 shares of Preferred Stock, par value \$0.01 per share.

The additional authorized shares of Federated common stock, if and when issued, would be part of the existing class of Federated common stock and would have the same rights and privileges as the shares of Federated common stock presently issued and outstanding. Although the additional shares of common stock would not have any effect on the rights and privileges of Federated's existing stockholders, the issuance of additional shares of common stock, other than in connection with a stock split or stock dividend, may dilute the voting power of existing stockholders. In addition, the issuance of additional shares of common stock may decrease earnings and the book value attributable to shares presently issued and outstanding.

In addition, the availability of additional authorized but unissued shares of common stock could have an anti-takeover effect. Although the Board has no present intention of doing so, new shares of common stock could be issued without stockholder approval to dilute the percentage ownership of current stockholders, thereby increasing the cost and difficulty of obtaining control of Federated. Federated is not aware of any pending or proposed effort to obtain control of Federated or to change Federated's management.

If the amendment to Federated's Certificate of Incorporation is approved, it will become effective upon its filing with the Delaware Secretary of State, which will occur as soon as reasonably practicable after approval. No changes will be made in the respective rights and privileges pertaining to the outstanding shares of common stock upon the filing of the amendment to Federated's Certificate of Incorporation.

The Board recommends that stockholders vote FOR the amendment to Federated's Certificate of Incorporation. Proxies solicited by the Board will be so voted except where authority has been withheld.

ITEM 4 PROPOSAL TO AMEND THE 1995 EXECUTIVE EQUITY INCENTIVE PLAN

Overview

Items 4 and 5. Items 4 and 5 relate to proposed amendments to Federated's two equity incentive plans that provide for grants of stock options, restricted stock and performance restricted stock for Federated employees. The 1995 Equity Plan has historically applied to Federated employees. The 1994 Stock Incentive Plan has historically applied to May employees. In connection with Federated's 2005 acquisition of May, Federated assumed May's obligations under the 1994 Stock Incentive Plan. In Items 4 and 5, the Board recommends, among other things, that the stockholders approve amendments to:

increase the number of shares available for issuance and grants under both plans by an aggregate of six million shares;

increase the portion of those available shares that may be granted as restricted stock or restricted stock units to an aggregate of two million shares;

provide identical per person limits under each plan and provide that those limits apply as though both plans were one plan;

Table of Contents

permit Federated to grant performance-based restricted stock and performance-based restricted stock units under both plans designed to qualify for an exemption from the limitation on deductibility of certain executive compensation imposed by Section 162(m) of the Internal Revenue Code;

conform the terms of future option, appreciation right, restricted stock and restricted stock unit awards under the 1994 Stock Incentive Plan to the terms of such awards under the 1995 Equity Plan;

permit the grant of all forms of awards to non-employee directors.

Items 4 and 5 are independent matters. Stockholders are entitled to vote on them separately. However, the Board encourages stockholders to review and consider them as related Items. The shares available as of April 1, 2006, under each plan are as follows:

(Shares in thousands)	Total Available Shares(a)	Portion of Total Available Shares for Restricted Stock and Restricted Stock Units(b)
1995 Equity Plan		
As of April 1, 2006	2,370.2	7.3
Proposed additional shares	6,000.0	916.7
	8,370.2	924.0
1994 Stock Incentive Plan		
As of April 1, 2006	6,014.7	1,076.0
Total	14,384.9	2,000.0

(a) May be issued as options, appreciation rights, restricted stock or restricted stock units

(b) If not issued as restricted stock or restricted stock units, may be used for options and appreciation rights.

Commitment to Making Responsible Awards of Equity Compensation. The Board is committed to making responsible awards of equity compensation. For example, under both the 1995 Equity Plan and the 1994 Stock Incentive Plan:

the terms of options and appreciation rights do not exceed 10 years;

the exercise price is not less than the market price of the underlying common stock on the date of grant;

the plans do not include reload provisions; and

options may not be repriced, unless approved by Federated's stockholders.

In addition, Federated has reduced the numbers of stock options it has granted under the 1995 Equity Plan over the last three years to the named executive officers and to all employees as a group.

Prudent Management of Stock Option Program. Management believes that it has managed Federated's stock option program prudently, as demonstrated by Federated's burn rate and option overhang.

Burn Rate. Federated has reduced the size of employee stock option grants significantly from prior years and thereby reduced Federated's Burn Rate to lower levels. The Burn Rate is the level of option grants

Table of Contents

made by Federated divided by the shares outstanding at the beginning of the period. For the last four fiscal years, the amounts were as follows:

Year	Grants	Rate(1)
2002	4.40	2.19%
2003	3.47	1.82%
2004	2.12	1.19%
2005	2.18	1.30%
2006 Projected, with options for Federated executives alone	2.00	1.15%(2)
Projected, with options for Federated and former May executives	3.20	1.17%(3)

- (1) The burn rate for fiscal years 2002-2005 is calculated by dividing the shares of common stock covered by option grants in a year by the shares of common stock outstanding at the beginning of the fiscal year.
- (2) The burn rate projected for fiscal year 2006 with options for Federated executives alone is calculated by dividing the shares of common stock covered by options projected to be granted to former Federated executives during fiscal year 2006 by the shares of common stock outstanding at the beginning of fiscal year 2006 (excluding the shares issued in connection with the merger).
- (3) The burn rate projected for fiscal year 2006 with options for Federated and former May executives is calculated by dividing the shares of common stock covered by options projected to be granted to all executives during fiscal year 2006 by the shares of common stock outstanding at the beginning of fiscal year 2006 (including the shares issued in connection with the merger).

For the past four fiscal years, Federated has maintained its Burn Rate at below 2.2%. The Board expects that Federated will be able to continue to contain its Burn Rate, while still attracting, retaining and motivating outstanding employees. The anticipated increase in 2006 results primarily from anticipated grants to former May executives as part of the Federated option program.

Option Overhang. Federated has also focused on reducing the potential dilution caused by stock option grants, which is referred to as the Option Overhang. The Option Overhang is calculated by dividing (A) the total number of shares of Federated's common stock issuable upon exercise of all stock options outstanding and available for grant (the Total Option Shares) by (B) the sum of the total number of shares of Federated's common stock outstanding at the beginning of the year, plus the Total Option Shares. The following graph highlights the downward trend in Federated's Option Overhang through 2005 and projected for 2006:

	Beginning of Year Overhang
2002	14.2%
2003	12.8%
2004	12.7%
2005	11.0%
2006 Projected, before stockholder approval	11.2%
Projected, including additional six million shares	12.9%

The Board believes that the proposed amendments to the 1995 Equity Plan and the 1994 Stock Incentive Plan are in the best interests of Federated's stockholders because of Federated's continuing need to provide stock options and other forms of equity compensation to attract and retain quality employees. The current hiring environment is more

competitive than in the past. Having additional stock options and other forms of equity

Table of Contents

compensation available for grant under both plans will enable Federated to recruit the top talent necessary to enable it to achieve continued success.

The Board will continue to monitor changes in the marketplace relating to equity compensation and respond appropriately. The CMD Committee periodically revises Federated's option grant guidelines in response to evolving market practices and will continue to be vigilant in this regard so that, in its efforts to provide competitive equity compensation, Federated will match, but not significantly exceed, prevailing market standards.

Federated's executive officers and directors will be eligible to receive awards under the amended 1995 Equity Plan and the 1994 Stock Incentive Plan, and therefore have an interest in Items 4 and 5.

For further information, the principal provisions of the 1995 Equity Plan and the 1994 Stock Incentive Plan, assuming approval of the proposed amendments, are summarized below.

Item 4: Specific Proposal

The CMD Committee and the Board recommend that the stockholders approve the proposal to amend the 1995 Equity Plan to:

increase the number of shares available for issuance and grants under the 1995 Equity Plan by six million shares;

increase the portion of those available shares that may be granted as restricted stock or restricted stock units by 916,716 shares (so that, together with the 1994 Stock Incentive Plan, Federated can issue an aggregate of two million shares as restricted stock or restricted stock units);

provide for the per person limits under the 1995 Equity Plan and the 1994 Stock Incentive Plan to be identical and apply as though both plans were one plan;

permit Federated to grant performance-based restricted stock and performance-based restricted stock units under the 1995 Equity Plan designed to qualify for an exemption from the limitation on deductibility of certain executive compensation imposed by Section 162(m) of the Internal Revenue Code;

permit forfeited and cancelled restricted stock to be reissued; and

permit Federated to grant all forms of awards to Non-Employee Directors on a non-discriminatory basis.

As of April 1, 2006, an aggregate of 2,370,243 shares of common stock remained available for issuance as or pursuant to awards under the 1995 Equity Plan. The Board believes it is important to Federated's continued success to have available an adequate reserve of shares under the 1995 Equity Plan for use in attracting, motivating and retaining qualified employees.

If the holders of a majority of the shares of common stock present in person or by proxy at the annual meeting vote **FOR** the proposed amendment to the 1995 Equity Plan, it will immediately become effective. If Federated's stockholders do not approve the proposed amendment at this annual meeting, the proposed amendment to the 1995 Equity Plan will not become effective, and the 1995 Equity Plan as it presently exists will continue in effect. The results of the vote will not affect any awards outstanding under the 1995 Equity Plan at the time of the annual meeting.

Table of Contents

Background

Purpose. As one of the key elements of its strategic plan, Federated links the compensation of key employees to the creation of stockholder value. The 1995 Equity Plan is intended to provide an equity interest in Federated to key management personnel and thereby provide additional incentives for such persons to devote themselves to the maximum extent practicable to the business of Federated and its subsidiaries. The 1995 Equity Plan is also intended to help attract people with outstanding ability to enter and remain in the employ of Federated and its subsidiaries.

Participants. The CMD Committee may grant awards to key executives, officers and employees of Federated and its subsidiaries. The Board grants awards to the Chief Executive Officer and the Non-Employee Directors upon the recommendation of the CMD Committee.

Administration. The Board has delegated authority to the CMD Committee, as the Compensation Committee, to administer the 1995 Equity Plan. No voting member of the CMD Committee may be an employee of Federated or its subsidiaries. Each voting member must be independent of Federated within the meaning of the NYSE listing standards.

Awards. Pursuant to the 1995 Equity Plan, the CMD Committee is authorized to grant stock options (Options), stock appreciation rights (SARs), shares of restricted stock (Restricted Stock) and restricted stock units (Restricted Stock Units) and, collectively with Options, SARs and Restricted Stock, Awards) to officers, directors and key employees of Federated and its subsidiaries (approximately 2,800 persons in the aggregate at the date of this Proxy Statement). The Board may determine the date on which an Award becomes effective, which may be on or after (but not before) the date on which the Board acts.

Per Person Limitations. The per person limitations on Awards are combined with the limitations under the 1994 Stock Incentive Plan.

Options and SARs. No participant will be granted Options or SARs for more than one million shares of common stock in any period of three fiscal years under the 1995 Equity Plan and the 1994 Stock Incentive Plan, in the aggregate.

Performance Restricted Stock and Performance Restricted Stock Units. No participant will be granted Performance Restricted Stock or Performance Restricted Stock Units for more than 333,333 shares of common stock in any period of three fiscal years under both plans, in the aggregate.

Non-Employee Directors. In addition to the limitations described above, no Non-Employee Director (nine persons at the date of this proxy statement) may be granted Options to purchase more than 5,000 shares of common stock in any year under both plans, in the aggregate. Awards for Non-Employee Directors must be granted on a non-discriminatory basis.

Transferability. The 1995 Equity Plan provides that Awards generally may be transferred only upon death or pursuant to qualified domestic relations orders, except that certain participants may transfer Awards to members of their immediate family (as defined in the Rule 16a-1(e) under the Exchange Act). Particular Awards may be subject to additional restrictions on transfer.

Shares. As of April 1, 2006, 2,370,243 shares, which were not the subject of outstanding Awards, remained available for issuance as or pursuant to Awards under the 1995 Equity Plan (of which 7,291 shares were available for issuance as Restricted Stock). Upon the effectiveness of the proposed amendment, the total number of shares available for issuance as or pursuant to Awards under the 1995 Equity Plan will be equal to the sum of (a) the number of shares remaining available for issuance as or pursuant to Awards under the 1995 Equity Plan

Table of Contents

immediately prior to the effectiveness of such amendment and (b) six million. Of such total number of shares, the number of shares that will be available for issuance under the 1995 Equity Plan as Restricted Stock or Restricted Stock Units will be 2 million.

Options. Options granted under the 1995 Equity Plan may be incentive stock options (ISOs), nonqualified stock options, or combinations of the foregoing. The maximum term of Options is ten years. The exercise price (the Exercise Price) of Options may not be less than:

the closing sale price per share of the common stock as reported in the NYSE Composite Transactions Report (or any other consolidated transactions reporting system which subsequently may replace such Composite Transactions Report) for the trading day immediately preceding the date determined as the grant date in accordance with the authorization of the Board, or if there are no reported sales on such date, on the next preceding day on which there were sales;

the average (whether weighted or not) or mean price, determined by reference to the closing sales prices, average between the high and low sales prices, or any other standard for determining price adopted by the Board, per share of the common stock as reported in the NYSE Composite Transactions Report as of the date or for the period determined in accordance with the authorization of the Board; or

in the event that the common stock is not listed for trading on the NYSE as of a relevant date of grant, an amount determined in accordance with standards adopted by the Board.

If an executive sells some or all of the shares of common stock to which an exercise relates through a bank or broker on the exercise date, then the executive may defer payment of the Exercise Price if the bank or broker agrees to pay the Exercise Price from the proceeds of the sale.

Each grant of Options will specify whether the Exercise Price is payable in cash, by the actual or constructive transfer to Federated of nonforfeitable, unrestricted shares of common stock already owned by the participant having an actual or constructive value as of the time of exercise equal to the total Exercise Price, by any other legal consideration authorized by the CMD Committee, or by a combination of such methods of payment. The 1995 Equity Plan does not require that a participant hold shares received upon the exercise of an Option for a specified period and permits immediate sequential exercises of Options with the Exercise Price therefore being paid in shares of common stock, including shares acquired as a result of prior exercises of Options.

Repricing of Options Prohibited. The Board may not authorize the amendment of any outstanding Option or SAR to reduce the Exercise Price, or to cancel and replace any outstanding Option or SAR with awards having a lower Exercise Price, without further approval of the stockholders of Federated.

SARs. SARs may be granted under the 1995 Equity Plan in tandem with Options. Upon exercise, a holder of a SAR would receive, in the discretion of the CMD Committee, cash, shares of common stock, or a combination thereof having an aggregate value equal to all or some portion of the excess of the market value of the shares of common stock in respect of which the SAR is exercised, determined in the manner specified in the 1995 Equity Plan as of the date of such exercise, over the aggregate Exercise Price of the related Option. The Option to which the SAR is related would be canceled to the extent of the exercise of the SAR. The Exercise Price per share of the related Option may not be less than the market value thereof as of the grant date. Under the 1995 Equity Plan, the market value of SARs is determined in the same manner as the Exercise Price of Options discussed above. The maximum term for SARs is ten years.

Table of Contents

Restricted Stock. Restricted Stock involves the immediate transfer by Federated to a participant of ownership of a specified number of shares of common stock in consideration of the performance of services. The participant is entitled immediately to voting, dividend, and other ownership rights in such shares, provided, however, that at least a portion of the Restricted Stock covered by such issuance or transfer is subject to a substantial risk of forfeiture within the meaning of section 83 of the Internal Revenue Code for a period of (i) at least one year following the date of grant in the case of Performance Restricted Stock, and (ii) at least three years following the date of grant in the case of any grant of Restricted Stock that is not Performance Restricted Stock.

Restricted Stock Units. A grant of Restricted Stock Units is Federated's agreement to provide compensation based on the value of the common stock and the other terms of the Restricted Stock Unit grant. Restricted Stock Units involve Federated crediting Restricted Stock Units to a participant's account in consideration of the performance of services. The participant is entitled to receive credits for dividend equivalents, but has no voting or other rights as a stockholder. A portion of the Restricted Stock Units is subject to forfeiture for a period of (i) at least one year following the date of grant in the case of Performance Restricted Stock Units and (ii) at least three years following the date of grant in the case of any grant of Restricted Stock Units that are not Performance Restricted Stock Units.

Performance Restricted Stock and Performance Restricted Stock Units. The CMD Committee may designate Restricted Stock as Performance Restricted Stock and may designate Restricted Stock Units as Performance Restricted Stock Units. If it does so, then the CMD Committee shall establish, at the time of the grant, the Performance Period, Performance Formula, Performance Measures and Performance Goals that would determine the extent to which the restrictions on the Performance Restricted Stock or Performance Restricted Stock Units shall lapse on any specified date. No restrictions shall lapse on any Performance Restricted Stock or Performance Restricted Stock Units until the CMD Committee certifies that the performance requirements have been met. The CMD Committee may adjust an award of Performance Restricted Stock or Performance Restricted Stock Units, in its discretion, to prevent the enlargement or dilution of the award because of extraordinary events or circumstances, as determined by the CMD Committee, provided, however, that no such adjustment shall 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.

Performance Measure means one or more of the following measures selected by the CMD Committee to measure performance for a Performance Period:

- i. total sales;
- ii. comparable store sales;
- iii. gross margin;
- iv. operating or other expenses;
- v. earnings before interest and taxes;
- vi. earnings before interest, taxes, depreciation and amortization;
- vii. net income;
- viii. earnings per share (either basic or diluted);
- ix. cash flow;

Table of Contents

- x. 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, including return on net assets, return on sales, return on equity and return on invested capital);
- xi. stock price appreciation;
- xii. operating income;
- xiii. net cash provided by operations;
- xiv. total shareowner return; and
- xv. customer satisfaction.

Each measure that is a financial measure shall be determined in accordance with generally accepted accounting principles as consistently applied by Federated and, if so determined by the CMD Committee, adjusted to exclude the effects of extraordinary items, unusual or non-recurring events, changes in accounting principles, discontinued operations, acquisitions, divestitures and material restructuring charges, provided, however, that no such adjustment shall 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. Performance Measures may vary from performance period to performance period and from Participant to Participant and may be established on a stand-alone basis, in tandem or in the alternative.

Change in Control. Option awards may provide for accelerated vesting upon a change in control of Federated. SAR awards may provide that an SAR may only be exercised in the event of a change in control of Federated or that, in the event of a change in control, an SAR will be deemed to have been exercised. Awards of Restricted Stock and Restricted Stock Units may provide that the Board may remove restrictions thereon in the event of a change of control.

Adjustments. The CMD Committee may adjust the maximum number of shares available for issuance under the 1995 Equity Plan, the maximum number of awards that may be granted to a participant, the number of shares of common stock covered by any outstanding Option, SAR or Restricted Stock Unit awarded under the 1995 Equity Plan, the prices per share applicable to those outstanding Awards and the kinds of shares covered thereby as the CMD Committee may determine is equitable to prevent dilution or enlargement of the rights of participants in the event of a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, reorganization or similar transaction affecting Federated's common stock.

Taxation of Awards

Options. Options granted under the 1995 Equity Plan may be Options that are intended to qualify as ISOs, or nonqualified stock options that are not intended to so qualify.

Non-qualified Options. Nonqualified stock options generally will not result in any taxable income to the optionee at the time of the grant, but the holder thereof will realize ordinary income at the time of exercise of the Options if the optioned shares are not subject to any substantial risk of forfeiture (as defined in section 83 of the Internal Revenue Code). Under such circumstances, the amount of ordinary income is measured by the excess of the fair market value of the optioned shares at the time of exercise over the Exercise Price. If the Exercise Price of a nonqualified stock option is paid for, in whole or in part, by the delivery of shares of common stock previously owned by the optionee, no gain or loss will be recognized to the extent that the shares of common stock received are equal in fair market value to the shares of common stock surrendered. An optionee's tax basis in shares acquired upon the payment

Table of Contents

of the exercise price of nonqualified stock options in cash is equal to the Exercise Price plus any amount treated as ordinary income.

ISOs. ISOs normally will not result in any taxable income to the optionee at the time of grant. If certain requirements are met, the excess of the fair market value of the optioned shares (the ISO Shares) over the Exercise Price will not be subject to regular income tax upon the exercise of the Option and will be characterized as a capital gain rather than as ordinary income upon the sale of the ISO Shares. However, the excess of the fair market value of ISO Shares over the Exercise Price is a tax preference item that is potentially subject to the alternative minimum tax. To the extent that the aggregate fair market value of common stock with respect to which ISOs are exercisable for the first time by an employee during any calendar year exceeds \$100,000, such excess ISOs will be treated as Options which are not ISOs. No deduction is available to the employer of an optionee upon the optionee's exercise of an ISO nor upon the sale or exchange of ISO Shares if the holding period requirements for ISO Shares and the statutory employment requirement are satisfied by the holder of the ISO Shares.

SARs. In general, the grant of an SAR will not produce taxable income to the recipient. However, upon the exercise of an SAR, the amount of any cash received and the fair market value on the exercise date of any shares of common stock received will be taxable as ordinary income to the recipient.

Restricted Stock. For federal income tax purposes, no taxable income will be recognized by a participant who receives Restricted Stock pursuant to the 1995 Equity Plan in the year such Award is made to the participant. If the participant makes an election under section 83(b) of the Internal Revenue Code to have such stock taxed to him (a Section 83(b) Election), however, he will recognize as ordinary income for such year an amount equal to the excess of the fair market value of the shares of common stock (determined without regard to any lapse restrictions imposed thereon) at the time of transfer over any amount paid by the participant therefor. If a participant makes a Section 83(b) Election, no tax deduction will subsequently be allowed to the participant for any amount previously included in income by reason of such election with respect to any common stock later forfeited under the terms of the 1995 Equity Plan. Absent a Section 83(b) Election, a participant will recognize ordinary income for federal income tax purposes in the year or years in which restrictions terminate, in an amount equal to the excess, if any, of the fair market value of such shares of common stock on the date the restrictions expire or are removed over any amount paid by the participant therefor. Assuming no Section 83(b) Election has been made, any dividends received with respect to common stock subject to restrictions will be treated as additional compensation income and not as dividend income.

Restricted Stock Units. The grant of a Restricted Stock Unit will not produce taxable income to the participant. However, upon payment in consideration of the Restricted Stock Units, the amount of any cash received and the fair market value on the payment date of any shares of common stock received will be taxable as ordinary income to the recipient.

Deductibility by Federated. To the extent that a recipient of an Award recognizes ordinary income in the circumstances described above, Federated would be entitled to a corresponding deduction, provided in general that (a) the amount is an ordinary and necessary business expense and such income meets the test of reasonableness; (b) the deduction is not disallowed pursuant to Section 162(m), as described below; and (c) certain statutory provisions relating to so-called excess parachute payments do not apply. Awards granted under the 1995 Equity Plan are subject to acceleration in the event of a change-in-control of Federated and, therefore, it is possible that these change-in-control features may affect whether amounts

Table of Contents

realized upon the receipt or exercise of Awards will be deductible by Federated under the excess parachute payments provisions of the Internal Revenue Code.

Section 162(m). Section 162(m) generally disallows a tax deduction to public companies for compensation over \$1.0 million accrued with respect to the chief executive officer and the four most highly compensated executive officers in addition to the chief executive officer employed by the company at the end of the applicable year. Qualifying performance-based compensation will not be subject to the deduction limit if certain requirements are met. In the case of Options, Performance Restricted Stock and Performance Restricted Stock Units, one requirement is that the plan under which the Options, Performance Restricted Stock and Performance Restricted Stock Units are granted state a maximum number of shares with respect to which Options, Performance Restricted Stock and Performance Restricted Stock Units may be granted to any one participant during a specified period. Accordingly, the 1995 Equity Plan restricts Awards as described above under Per Person Limitations. The limits, in each case, are subject to adjustment by the CMD Committee in certain circumstances to prevent dilution or enlargement of the participant's rights.

A second requirement is that certain aspects of the 1995 Equity Plan be approved by stockholders. This requirement has been satisfied with respect to the 1995 Equity Plan as presently in effect and will be satisfied with respect to the 1995 Equity Plan as proposed to be amended in this Item 4 if the Federated stockholders approve Item 4.

Section 409A. Section 409A generally became effective January 1, 2005, and primarily covers most programs that defer receipt of compensation to a succeeding year. It provides strict rules for elections to defer (if any) and for timing of payouts. There are significant tax penalties imposed on a participant for failure to comply with Section 409A. Section 409A does not, however, affect the deduction of compensation by Federated. Section 409A generally does not apply to non-qualified options, ISOs and Restricted Stock granted under the 1995 Equity Plan, but may apply to Restricted Stock Units. It is Federated's intention to structure grants of Restricted Stock Units in a manner that would avoid any of the tax penalties that could be imposed under Section 409A.

Miscellaneous

The foregoing discussion of the material provisions of the 1995 Equity Plan, as proposed to be amended, does not purport to be complete and is qualified in its entirety by reference to the full text thereof, which is attached as Appendix C to this proxy statement and incorporated herein by reference. As proposed to be amended, the 1995 Equity Plan would be subject to further amendment from time to time by the Board, except that the Board may not amend the 1995 Equity Plan without the approval of the stockholders to:

increase the maximum number of shares of common stock or shares of Restricted Stock issuable pursuant to the 1995 Equity Plan;

increase the maximum number of shares of common stock that may be subject to Options or SARs granted to any participant in any period of three fiscal years of Federated; or

increase the maximum number of shares of common stock that may be granted as Performance Restricted Stock or with respect to Performance Restricted Stock Units to any participant in any period of three fiscal years of Federated.

Awards under the 1995 Equity Plan are discretionary. Federated cannot currently determine the number or types of Awards that will be granted under the 1995 Equity Plan, as proposed to be amended, in the future.

Table of Contents

The Board recommends that stockholders vote FOR the amendment to the 1995 Equity Plan. Proxies solicited by the Board will be so voted unless stockholders specify in their proxies a contrary choice.

ITEM 5 PROPOSAL TO AMEND THE 1994 STOCK INCENTIVE PLAN

The CMD Committee and the Board recommend that the stockholders approve a proposal to amend the 1994 Stock Incentive Plan to

permit Federated to grant awards under the 1994 Stock Incentive Plan to employees of Federated and its subsidiaries;

conform the provisions of the 1994 Stock Incentive Plan concerning:
administration of the plan,

stock options,

stock appreciation rights,

restricted stock, and

restricted stock units

to the corresponding provisions of the 1995 Equity Plan; and

modify the provisions of the 1994 Stock Incentive Plan to permit Performance Restricted Stock to qualify for an exemption from the limitation on deductibility of certain executive compensation imposed by Section 162(m) of the Internal Revenue Code.

Approval by the Federated stockholders of the proposed amendment to the 1994 Stock Incentive Plan will constitute approval of the entire plan, as amended and restated.

The proposed amendment does not increase the number of shares of common stock that may be issued under the 1994 Stock Incentive Plan.

If the holders of a majority of the shares of common stock present in person or by proxy at the annual meeting vote **FOR** the proposed amendment to the 1994 Stock Incentive Plan, the amendment will immediately become effective. If Federated's stockholders do not approve the proposed amendment at this annual meeting, the proposed amendment to the 1994 Stock Incentive Plan will not become effective, and the 1994 Stock Incentive Plan as it presently exists will continue in effect. The results of the vote will not affect any awards outstanding under the 1994 Stock Incentive Plan at the time of the annual meeting.

Background

Effect of the May Acquisition

The 1994 Stock Incentive Plan was in effect before Federated acquired May and permitted grants to management employees of May and its subsidiaries.

In connection with the acquisition, Federated assumed the 1994 Stock Incentive Plan and all outstanding option awards thereunder. In addition, all outstanding options under the 1994 Stock Incentive Plan accelerated and became immediately exercisable in connection with the acquisition. Each May stock option assumed by Federated continued to have the same terms and conditions as immediately before the effective time of the

Table of Contents

acquisition except that each option (i) was accelerated in accordance with the terms of the 1994 Stock Incentive Plan, and (ii) became exercisable for a number of shares of Federated common stock at an exercise price based on a conversion formula set forth in the merger agreement. The share limitations (in the aggregate and per person) were adjusted based on the conversion formula as well.

Options, SARs, Restricted Stock and Restricted Stock Units.

If the proposed amendment of the 1994 Stock Incentive Plan is approved by the stockholders at the 2006 annual meeting, then:

Participants. The provisions concerning participants will mirror the provisions concerning participants in the 1995 Equity Plan.

Administration. The provisions concerning administration will mirror the provisions concerning administration in the 1995 Equity Plan.

Options. The provisions concerning options will mirror the provisions concerning Options in the 1995 Equity Plan.

SARs. The provisions concerning stock appreciation rights will mirror the provisions concerning SARs in the 1995 Equity Plan.

Restricted Stock and Restricted Stock Units. The provisions concerning restricted stock and restricted stock units will mirror the provisions concerning Restricted Stock and Restricted Stock Units in the 1995 Equity Plan.

Performance Restricted Stock and Performance Restricted Stock Units. The provisions concerning Performance Restricted Stock and Performance Restricted Stock Units will mirror the provisions concerning Performance Restricted Stock and Performance Restricted Stock Units in the 1995 Equity Plan. The provisions concerning the Performance Period, Performance Formula, Performance Measurements and Performance Goals will mirror the comparable provisions of the 1995 Equity Plan.

Change in Control and Adjustments. The provisions concerning a change in control of Federated and adjustments in respect of stock dividends, stock splits, combinations of shares, recapitalizations, mergers, consolidations, reorganizations or similar transactions will mirror the provisions concerning such a change in control and such adjustments, respectively, in the 1995 Equity Plan.

The proposed amendment would not, however, increase the number of shares available for grants under the 1994 Stock Incentive Plan.

Taxation of Awards. See the discussion of taxation in Item 4 Proposal to Amend the 1995 Executive Equity Incentive Plan.

Amendment or Termination. The 1994 Stock Incentive Plan will terminate on March 21, 2013. The Board may amend, extend or terminate the 1994 Stock Incentive Plan at any time prior to that date and make any changes in the 1994 Stock Incentive Plan it deems advisable, except that stockholder approval will be sought when necessary or required by tax, securities, or other laws.

Table of Contents

Miscellaneous

The foregoing discussion of the material provisions of the 1994 Stock Incentive Plan, as proposed to be amended, does not purport to be complete and is qualified in its entirety by reference to the full text thereof, which is attached as Appendix D to this proxy statement and incorporated herein by reference. As proposed to be amended, the 1994 Stock Incentive Plan would be subject to further amendment from time to time by the Board, except that the Board may not amend the 1994 Stock Incentive Plan without the approval of the stockholders to:

increase the maximum number of shares of common stock or shares of Restricted Stock issuable pursuant to the 1994 Stock Incentive Plan;

increase the maximum number of shares of common stock that may be subject to Options or SARs granted to any participant in any period of three fiscal years of Federated; or

increase the maximum number of shares of common stock that may be granted as Performance Restricted Stock or with respect to Performance Restricted Stock Units to any participant in any period of three fiscal years of Federated.

Awards under the 1994 Stock Incentive Plan are discretionary. Federated cannot currently determine the number or types of Awards that will be granted under the 1994 Stock Incentive Plan, as proposed to be amended, in the future.

The Board recommends that stockholders vote FOR the amendment to the 1994 Stock Incentive Plan.

Proxies solicited by the Board will be so voted unless stockholders specify in their proxies a contrary choice.

ITEM 6 STOCKHOLDER PROPOSAL SEEKING A LIMIT ON THE NUMBER OF BOARDS ON WHICH FEDERATED S DIRECTORS MAY CONCURRENTLY SERVE

Communications Workers of America Members Relief Fund, 501 Third Street, N.W., Washington, DC, 20001, the beneficial owner of Federated common stock with a market value in excess of \$2,000, has notified Federated that it intends to submit the following proposal at the annual meeting:

Resolved: Shareholders of Federated Department Stores (the Company) urge the Board of Directors to adopt a policy limiting the number of boards that a director of the Company may concurrently serve on. This policy shall provide that no director may serve on the boards of more than five for-profit corporations, and that no director employed full-time by any entity may serve on more than two other boards of for-profit corporations. Directors who are in violation of this policy shall not be re-nominated by the Board of Directors for election, and this policy shall not affect the unexpired terms of directors previously elected.

Supporting Statement

Shareholders have a right to expect directors to be able to devote sufficient time and attention to the complex business of our Company by not becoming overextended through excessive commitments to other companies. We believe a director's ability to contribute fully to our Board of Directors can be jeopardized by serving on an excessive number of corporate boards.

The Council of Institutional Investors, for example, recommends that directors with full-time jobs should not serve on more than two other boards, and that no person should serve on more than

Table of Contents

five for-profit company boards. We believe that other commitments, such as service on key board committees of other companies, can also cause a director to become overextended.

Meyer Feldberg, one of our directors, serves on boards of directors of at least five corporate entities: Federated Department Stores, Primedia, Revlon, Sappi, and other various mutual fund companies associated with UBS Funds. Mr. Feldberg is also employed as a senior advisor to Morgan Stanley, as Sanford Bernstein professor of Leadership & Ethics at Columbia Business School, and as a member of the board of advisors and paid consultant to investment firm Welsh, Carson, Anderson & Stowe.

In addition, Feldberg serves in the following capacities on the boards of these companies:

Federated Department Stores Nominating & Corporate Governance Committee (member); Compensation Committee (member)

Primedia Corporate Governance Committee (chair); Audit Committee (member); Special Compensation Committee (member)

Revlon Nominating Committee (chair); Audit Committee (member)

Sappi Nomination Committee (member); Human Resources Committee (member)

Another director, Joseph Neubauer, serves as CEO of Aramark, and as a member of the boards of four other companies in addition to Federated (Aramark, CIGNA, Verizon, and Wachovia)

In our view, these directors' obligations to so many other companies are incompatible with the commitment that shareholders should expect from our directors. We believe a reasonable policy restricting the number of boards on which a director may serve will help ensure that directors have the time necessary to devote to the critical functions served by the board of directors in our system of corporate governance.

We urge shareholders to vote FOR this resolution.

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

Federated's Corporate Governance Principles specifically require all of its directors to rigorously prepare for, attend and participate in all meetings of the Board and each Board committee on which they serve and to devote the time necessary to appropriately discharge their responsibilities. Each director is expected to ensure that other commitments, including other directorships, do not materially interfere with his or her service as a director of Federated. Additionally, each director is required to advise the CEO and the chairman of the NCG Committee before accepting a membership on another board or on the audit committee of another board.

When the NCG Committee evaluates a nominee for election or reelection to the Board, it weighs many criteria, including the nominee's:

personal qualities and accomplishments;

business experience;

diversity;

specialized skills; and

Table of Contents

ability and willingness to commit adequate time and attention to effectively serve as a Board member.

Many factors, in addition to service on other corporate boards, affect a nominee's ability and willingness to dedicate adequate time and attention to Board matters, including the nominee's present employment and personal commitments and activities. The NCG Committee selects only those individuals who are willing and able to make the necessary commitment to serve Federated and its stockholders effectively.

The NCG Committee believes that multiple directorships have not impaired the ability of Federated's directors to effectively fulfill their duties and responsibilities to the Board and Federated. To the contrary, Federated and its stockholders have benefited from the diversity of experiences and knowledge gained by a director who holds multiple directorships.

The NCG Committee needs the discretion to nominate individuals who are best qualified overall to serve on the Board and who meet the needs of the Board at that time. In light of the foregoing, the Board does not believe that it is appropriate to adopt a specific limitation on the number of directorships an individual may hold.

The Board recommends that the stockholders vote AGAINST this proposal. Proxies solicited by the Board will be so voted unless stockholders specify in their proxies a contrary choice.

Table of Contents

EXECUTIVE COMPENSATION

Three-Year Compensation Summary

The following table summarizes the compensation of the Chairman and the five other most highly compensated executive officers of Federated as of January 28, 2006 (the Named Executives) for Federated's last three fiscal years for services rendered in all capacities to Federated and its subsidiaries.

SUMMARY COMPENSATION TABLE

Name and	Annual Compensation		Long-Term Compensation			All Other Compen- sation
	Bonus	Other Annual Compen- sation	Awards		Payouts	
			Stock Award(s)	Underlying Options/	LTIP Payouts	