FEDERATED DEPARTMENT STORES INC /DE/
Form 10-Q/A
November 15, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

Amendment to Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal quarter ended August 3, 2002.

FEDERATED DEPARTMENT STORES, INC.

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

and

151 West 34th Street
New York, New York 10001
(212) 494-1602

Delaware	**1-13536**	**13-3324058**
(State of Incorporation) (Commission File No.) (I.R.S. Employer Identification Number)		

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

196,161,685 shares of the Registrant s Common Stock, $.01 par value, were outstanding as of August 31, 2002.

Explanatory Note

This Amendment on Form 10-Q/A to the Company s Form 10-Q for its fiscal quarter ended August 3, 2002 (the Form 10-Q) amends and restates Part I and Item 6 of Part II of the Form 10-Q to provide incremental disclosure and to refile Exhibits 10.3 and 10.4 in html format. The changes to the Company s Consolidated Financial Statements set forth in Part I are limited to (i) the breakout of restructuring charges on the Company s Consolidated Statements of Income into asset impairment charges and restructuring charges, and (ii) the provision of incremental disclosure in the Notes to such Consolidated Financial Statements. Except as otherwise expressly stated or where the context requires otherwise, the information in this Amendment speaks of September 17, 2002, the date on which the Form 10-Q was filed with the Securities and Exchange Commission.

PART I FINANCIAL INFORMATION

FEDERATED DEPARTMENT STORES, INC.

Consolidated Statements of Income
(Unaudited)
(millions, except per share figures)

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2002	August 4, 2001	August 3, 2002	August 4, 2001
Net Sales	$3,486	$3,488	$6,939	$7,044

Cost of sales:

Recurring
2,051 2,128 4,129 4,286
Inventory valuation adjustments related to
Stern s closure
7 26

Total cost of sales
2,051 2,135 4,129 4,312
Selling, general and administrative expenses
1,135 1,113 2,289 2,288
Asset impairment charges
4
Restructuring charges
27 49

Operating income
300 213 521 391
Interest expense
(83) (78) (161) (159)
Interest income

	5	9	3	
Income from continuing operations before income taxes	222	135	369	235
Federal, state and local income tax expense	(89)	(11)	(147)	(53)
Income from continuing operations	133	124	222	182
Discontinued operations:				
Loss from discontinued operations, net of tax effect		(14)		(14)
Income on disposal of discontinued operations, net of tax effect	149		149	
Net Income	$282	$110	$371	$168

(Continued)

FEDERATED DEPARTMENT STORES, INC.

Consolidated Statements of Income (continued)
(Unaudited)
(millions, except per share figures)

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2002	August 4, 2001	August 3, 2002	August 4, 2001
Basic earnings (loss) per share:				
Income from continuing operations	$ .66	$ .63	$1.10	$ .93
Income (loss) from discontinued operations	.74	(.07)	.74	(.08)
Net income	$1.40	$ .56	$1.84	$ .85
Diluted earnings (loss) per share:				
Income from continuing operations	$ .66	$ .62	$1.09	$ .90
Income (loss) from discontinued operations	.73	(.07)	.73	(.07)

Net income	$1.39	$ .55	$1.82	$ .83

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

FEDERATED DEPARTMENT STORES, INC.

Consolidated Balance Sheets
(Unaudited)

(millions)

	August 3, 2002	February 2, 2002	August 4, 2001
ASSETS:			
Current Assets:			
Cash	$1,398	$636	$257
Accounts receivable	2,676	2,379	2,153
Merchandise inventories	3,657	3,376	3,813
Supplies and prepaid expenses	135	124	140
Deferred income tax assets	16	21	26
Assets of discontinued operations	593	1,812	2,452
Total Current Assets	8,475	8,348	8,841
Property and Equipment net	6,389	6,506	6,541
Goodwill	305	305	289
Other Intangible Assets net	378	378	384
Other Assets	544	575	563
Total Assets	$16,091	$16,112	$16,618

LIABILITIES AND SHAREHOLDERS EQUITY:

Current Liabilities:

Short-term debt	$1,919	$1,012	$599
Accounts payable and accrued liabilities	2,731	2,645	2,698
Income taxes	42	57	116
Liabilities of discontinued operations	322	1,068	905
Total Current Liabilities	5,014	4,782	4,318
Long-Term Debt	3,402	3,859	4,713
Deferred Income Taxes	1,299	1,345	1,275
Other Liabilities	551	562	542
Shareholders Equity	5,825	5,564	5,770
Total Liabilities and Shareholders Equity	$16,091	$16,112	$16,618

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

FEDERATED DEPARTMENT STORES, INC.

Consolidated Statements of Cash Flows
(Unaudited)

(millions)

	26 Weeks Ended August 3, 2002	26 Weeks Ended August 4, 2001
Cash flows from continuing operating activities:		
Net income	$371	$168
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
(Income) loss from discontinued operations	(149)	14
Depreciation and amortization	331	321
Amortization of intangible assets		14
Amortization of financing costs	4	3
Amortization of unearned restricted stock	2	2
Asset impairment and restructuring charges		79
Changes in assets and liabilities:		
Decrease in accounts receivable	308	309
Increase in merchandise inventories	(281)	(130)
Increase in supplies and prepaid expenses	(11)	(17)
Increase in other assets not separately identified	(27)	(36)
Increase (decrease) in accounts payable and accrued liabilities not separately identified		

	75	(105)
Decrease in current income taxes	(15)	(128)
Decrease in deferred income taxes	(41)	(72)
Increase (decrease) in other liabilities not separately identified	(11)	1
Net cash provided by continuing operating activities	556	423
Cash flows from continuing investing activities:		
Purchase of property and equipment	(219)	(221)
Capitalized software	(23)	(32)
Increase in note receivable	(39)	
Acquisition of Liberty House, Inc., net of cash acquired		(173)
Disposition of property and equipment		27
Net cash used by continuing investing activities	(281)	(399)
Cash flows from continuing financing activities:		

Debt issued
672
Financing costs
(10)
Debt repaid
(35) (353)
Increase in outstanding checks
13 49
Acquisition of treasury stock
(139) (270)
Issuance of common stock
26 48

Net cash provided (used) by continuing financing activities
(135) 136

(Continued)

FEDERATED DEPARTMENT STORES, INC.

Consolidated Statements of Cash Flows (continued)
(Unaudited)

(millions)

	26 Weeks Ended August 3, 2002	26 Weeks Ended August 4, 2001
Net cash provided by continuing operations	140	160
Net cash provided (used) by discontinued operations	622	(125)
Net increase in cash	762	35
Cash at beginning of period	636	222
Cash at end of period	$1,398	$257
Supplemental cash flow information:		
Interest paid	$175	$174
Interest received	9	3
Income taxes paid (net of refunds received)	55	219
Schedule of non cash investing and financing activities:		

Consolidation of assets and debt of previously unconsolidated subsidiary	479
Debt assumed in acquisition	17

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

FEDERATED DEPARTMENT STORES, INC.

Notes to Consolidated Financial Statements
(Unaudited)

1. Summary of Significant Accounting Policies

A description of the Company s significant accounting policies is included in the Company s Annual Report on Form 10-K for the fiscal year ended February 2, 2002 (the 2001 10-K). The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2001 10-K.

Because of the seasonal nature of the retail business, the results of operations for the 13 and 26 weeks ended August 3, 2002 and August 4, 2001 (which do not include the Christmas season) are not necessarily indicative of such results for the fiscal year.

The Consolidated Financial Statements for the 13 and 26 weeks ended August 3, 2002 and August 4, 2001, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly, in all material respects, the consolidated financial position and results of operations of the Company and its subsidiaries.

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

In April 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This statement rescinds or amends existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. SFAS No. 145 is effective for transactions occurring after May 15, 2002. The adoption of this statement did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), and clarifies the requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. Management does not anticipate that the adoption of this statement will have a material impact on the Company s consolidated financial position, results of operations or cash flows.

2. Discontinued Operations

On January 16, 2002, the Company s Board of Directors approved a plan to dispose of the operations of Fingerhut Companies, Inc. (Fingerhut), including the Arizona Mail Order, Figi s and Popular Club Plan businesses conducted by Fingerhut s subsidiaries, which were acquired by the Company on March 18, 1999. The results of the Fingerhut operations (including the Arizona Mail Order, Figi s and Popular Club Plan businesses

FEDERATED DEPARTMENT STORES, INC.

Notes to Consolidated Financial Statements
(Unaudited)

conducted by Fingerhut s subsidiaries) have been classified as discontinued operations and prior periods have been restated.

A loss on disposal of the Fingerhut operations was recorded in the fourth quarter of fiscal 2001. This loss included significant estimates for the wind-down of the operations of Fingerhut, the wind-down of the Fingerhut accounts receivable portfolio, losses on the sale of inventory and property and equipment, severance and retention costs and losses on the sale of subsidiary catalog businesses. As sales transactions are consummated and estimates are revised, additional income or losses are recorded within the discontinued operations line on the income statement and the amount the Company expects to realize from the net assets of discontinued operations is adjusted accordingly.

During July 2002, the Company completed the sale of Fingerhut s core catalog accounts receivable portfolio, with the buyer assuming $450 million of receivables-backed debt, and in a separate transaction completed the sale of various other Fingerhut assets, including two distribution centers, the corporate headquarters, a data center, existing inventory, the Fingerhut name, customer lists and other miscellaneous property and equipment. Proceeds from these sales and collections on customer accounts receivable prior to the sale, net of operating expenses, exceeded the amount estimated to be received through wind-down of the portfolio and liquidation of the assets, resulting in an adjustment to the loss on disposal of discontinued operations totaling $236 million of income before income taxes, or $149 million after income taxes.

The Company is currently in negotiations with third parties to sell as ongoing businesses Arizona Mail Order, Figi s and Popular Club Plan. However, there can be no assurance that these negotiations will lead to consummated transactions.

Effective February 3, 2002, the Company adopted SFAS No. 144, Accounting for the Impairment and Disposal of Long-Term Assets. Upon adoption, the Company changed the presentation of the net assets of discontinued operations to a gross presentation. All periods have been reclassified to reflect this statement.

The net assets of Fingerhut included within discontinued operations are as follows:

	August 3, 2002	February 2, 2002	August 4, 2001
		(millions)	
Current assets	$ 556	$ 1,715	$ 1,894
Other assets	37	97	558
Current liabilities	(322)	(539)	(252)
Total debt		(529)	(653)
	$271	$744	$1,547

The Company originally estimated operating losses during the phase-out period of $292 million, net of tax effect. Actual operating losses for the 26 weeks ended August 3, 2002 were approximately $27 million, net of tax effect, and are currently anticipated to be approximately $17 million, net of tax effect, for the remainder of fiscal 2002. The difference between the originally estimated operating loss and the

FEDERATED DEPARTMENT STORES, INC.

Notes to Consolidated Financial Statements
(Unaudited)

current estimate, resulted from the earlier than planned disposition of Fingerhut assets and is reflected in the $149 million adjustment to the loss on disposal of discontinued operations discussed above.

Discontinued operations included Fingerhut sales which totaled $244 million for the 13 weeks ended August 4, 2001 and $510 million for the 26 weeks ended August 4, 2001. Estimated interest expense has been allocated to discontinued operations based upon the debt balances attributable to those operations. Interest expense allocated to discontinued operations was $21 million and $41 million for the 13 and 26 weeks ended August 4, 2001, respectively. For the 13 and 26 weeks ended August 4, 2001, the loss from discontinued operations was $23 million before income taxes and the associated tax benefit was $9 million.

3. Acquisition

On July 9, 2001, the Company completed its acquisition of Liberty House, Inc. (Liberty House), a department store retailer operating 11 department stores and seven resort and specialty stores in Hawaii and one department store in Guam. The total purchase price of the Liberty House acquisition was approximately $200 million, consisting of approximately $183 million of cash and the assumption of $17 million of borrowed indebtedness. The acquisition was accounted for under the purchase method of accounting and, accordingly, the results of operations of Liberty House have been included in the Company s results of operations from the date of acquisition and the purchase price has been allocated to Liberty House s assets and liabilities based on their estimated fair values as of that date. The amount of goodwill and other identified intangibles related to the Liberty House acquisition amounted to $95 million.

4. Asset Impairment and Restructuring Charges

The Company recorded $79 million of asset impairment and restructuring charges during 2001, primarily related to the closure of the Stern s department store division, including $26 million of inventory valuation adjustments as a part of cost of sales. These inventory valuation adjustments consist of markdowns on merchandise that was sold at Stern s and that would not continue to be sold following the conversion of the Stern s stores to Macy s and Bloomingdale s stores. The Company recorded $4 million of asset impairment charges during 2001 related to an investment write-down as a result of the Company s determination, based on uncertain financing alternatives and a comparison to market values of similar publicly traded businesses, that this equity investment was impaired on an other than temporary basis. The remaining $49 million of restructuring charges includes $15 million of costs associated with converting the Stern s stores to Macy s stores (including advertising, credit card issuance and promotion and other name change expenses), $10 million of costs to close and sell certain Stern s stores (including lease obligations and other store closing expenses), $9 million of duplicate central office costs and $15 million of severance costs related to the Stern s closure.

FEDERATED DEPARTMENT STORES, INC.

Notes to Consolidated Financial Statements
(Unaudited)

In general, the Company recorded restructuring charges as expenses when they were incurred. The only costs that were accrued at the time management committed to the store closure and conversion plans were severance costs and lease obligations related to the Stern s closure, pursuant to Emerging Issues Task Force Abstract Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).

The following tables show the activity associated with the Stern s restructuring accruals:

	February 2, 2002	Restructuring Charges	Payments	August 3, 2002
		(millions)		
Long-term lease obligations	$ 18	$	$ (3)	$ 15
Severance	$2	$	$(2)	$

The $15 million reserve that the Company still expects to pay out relates to liabilities associated with the disposition of Stern s properties.

	February 3, 2001	Restructuring Charges	Payments	August 4, 2001
		(millions)		
Long-term lease obligations	$ 6	$3	$	$ 9
Severance	$	$15	$(14)	$1

The $9 million reserve that the Company expected to pay out related to liabilities associated with the disposition of Stern s properties. The 2001 restructuring charge for severance covered approximately 2,250 people and the remaining accrual at August 4, 2001 related to approximately 5 people.

FEDERATED DEPARTMENT STORES, INC.

Notes to Consolidated Financial Statements
(Unaudited)

5. Taxes

In connection with the Stern s restructuring, income tax expense for the 13 and 26 weeks ended August 4, 2001 reflects a $44 million benefit related to the recognition of the effect of the difference between the financial reporting and tax bases of the Company s investment in Stern s Department Stores, Inc. upon disposition.

6. Financing

During July 2002, in connection with the extension of the financing arrangement related to the Company s non-proprietary credit card receivables, the Company took certain actions which resulted in the consolidation of the Prime Credit Card Master Trust II (the Trust) for financial reporting purposes. In particular, the documentation governing the arrangement was amended to provide the Company s special purpose entity the ability to unilaterally remove specific transferred assets from the trust. Under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, this amendment disqualified the arrangement for sale treatment and requires secured borrowing treatment for all sales of the Company s non-proprietary credit card receivables pursuant to this arrangement. The Company chose to take this action because it determined that off-balance sheet financing of its non-proprietary credit card receivables was no longer necessary to facilitate comparisons with its principal competitors and as a result of negative public sentiment toward off-balance sheet arrangements generally. The principal assets and liabilities of the Trust consist of non-proprietary credit card receivables transferred by the Company to the Trust in transactions previously accounted for as sales under SFAS 140 and the related debt issued by the Trust. As a result of the Company s actions, the transfer of receivables and debt are being treated as secured borrowings as of and subsequent to July 5, 2002. These actions increased the Company s consolidated assets and debt by $479 million at July 5, 2002 and $457 million at August 3, 2002.

7. Goodwill and Other Intangible Assets

Effective February 3, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. Upon adoption, the Company discontinued the practice of amortizing goodwill and indefinite lived intangible assets and determined that an impairment loss was not present. Impairment will be examined on an annual basis and more frequently if certain indicators are encountered. Intangible assets with determinable useful lives will continue to be amortized over their estimated useful lives.

FEDERATED DEPARTMENT STORES, INC.

Notes to Consolidated Financial Statements
(Unaudited)

The following summarizes the Company s goodwill and other intangible assets and amortization expense:

	August 3, 2002	February 2, 2002	August 4, 2001
		(millions)	
Amortizing intangible assets			
Customer lists	$2	$2	$2
Less accumulated amortization			
	$2	$2	$2
Non-amortizing intangible assets			
Goodwill	$305	$305	$289
Tradenames	376	376	382
	$681	$681	$671

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2002	August 4, 2001	August 3, 2002	August 4, 2001
	(millions)			
Amortization expense				

Continuing operations
$ $7 $ $14
Discontinued operations
6 11

$ $13 $ $25

The customer lists are being amortized over their estimated useful life of 7 years.

FEDERATED DEPARTMENT STORES, INC.

Notes to Consolidated Financial Statements
(Unaudited)

The following is an illustration of the impact on income from continuing operations and net income, including discontinued operations, as if SFAS No. 142 was effective beginning February 4, 2001:

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2002	August 4, 2001	August 3, 2002	August 4, 2001
	(millions, except per share figures)			
Income from continuing operations				
Reported income from continuing operations	$133	$124	$222	$182
Intangible asset and goodwill amortization		6		12
Adjusted income from continuing operations	$133	$130	$222	$194
Basic earnings per share:				
Reported income from continuing operations	$ .66	$.63	$1.10	$.93
Intangible asset and goodwill amortization		.03		.06

Adjusted income from continuing operations
$ .66 $.66 $1.10 $.99

Diluted earnings per share:

Reported income from continuing operations
$ .66 $.62 $1.09 $.90
Intangible asset and goodwill amortization
.03 .06

Adjusted income from continuing operations
$ .66 $.65 $1.09 $.96

Net income

Reported net income

$282 $110 $371 $168
Intangible asset and goodwill amortization
9 18

Adjusted net income
$282 $119 $371 $186

Basic earnings per share:

Reported net income
$1.40 $.56 $1.84 $.85
Intangible asset and goodwill amortization
.05 .10

Adjusted net income
$1.40 $.61 $1.84 $.95

Diluted earnings per share:

Reported net income	$1.39	$.55	$1.82	$.83
Intangible asset and goodwill amortization		.04		.09
Adjusted net income	$1.39	$.59	$1.82	$.92

FEDERATED DEPARTMENT STORES, INC.

Notes to Consolidated Financial Statements
(Unaudited)

8. Earnings Per Share

The following tables set forth the computation of basic and diluted earnings per share from continuing operations:

	13 Weeks Ended			
	August 3, 2002		August 4, 2001	
(millions, except per share figures)	Income	Shares	Income	Shares
Income from continuing operations and average number of shares outstanding	$133	200.9	$124	194.0
Shares to be issued under deferred compensation plans		.6		.6
	$133	201.5	$124	194.6
Basic earnings per share	$.66		$.63	
Effect of dilutive securities:				
Warrants				2.5
Stock options		2.0		2.5

	$133	203.5	$124	199.6
Diluted earnings per share	$.66		$.62	

	26 Weeks Ended			
	August 3, 2002		August 4, 2001	
(millions, except per share figures)	Income	Shares	Income	Shares
Income from continuing operations and average number of shares outstanding operations and average number	$222	201.0	$182	195.7
Shares to be issued under deferred compensation plans		.6		.6
	$222	201.6	$182	196.3
Basic earnings per share	$1.10		$.93	
Effect of dilutive securities:				
Warrants				2.7
Stock options		2.1		2.8

$222	203.7	$182	201.8

Diluted earnings per share

$1.09	$.90

FEDERATED DEPARTMENT STORES, INC.

Notes to Consolidated Financial Statements
(Unaudited)

In addition to the warrants and stock options reflected in the foregoing table, stock options to purchase 13.8 million and 10.1 million shares of common stock at prices ranging from $40.44 to $79.44 per share were outstanding at August 3, 2002 and August 4, 2001, respectively, but were not included in the computation of diluted earnings per share because the exercise price thereof exceeded the average market price and their inclusion would have been antidilutive.

FEDERATED DEPARTMENT STORES, INC.

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

For purposes of the following discussion, all references to second quarter of 2002 and second quarter of 2001 are to the Company s 13-week fiscal periods ended August 3, 2002 and August 4, 2001, respectively, and all references to 2002 and 2001 are to the Company s 26-week fiscal periods ended August 3, 2002 and August 4, 2001, respectively.

On January 16, 2002, the Company s Board of Directors approved a plan to dispose of the operations of Fingerhut Companies, Inc. (Fingerhut), including the Arizona Mail Order, Figi s and Popular Club Plan businesses conducted by Fingerhut s subsidiaries, which were acquired by the Company on March 18, 1999. The decision to dispose of Fingerhut was based on management s determination that there was no longer any strategic value to Federated in retaining the Fingerhut operations and there was no expectation, based on Fingerhut s historical earnings and future prospects, that this business would contribute meaningfully to the Company s future financial performance. The plan of disposition approved by the Company s board of directors contemplated a disposal by liquidation of the Fingerhut core catalog operations and a disposal by sale of Fingerhut s three catalog subsidiaries, Arizona Mail Order, Figi s and Popular Club Plan.

The Company s Consolidated Financial Statements for all periods account for Fingerhut as a discontinued operation, as a result of the Company s decision to dispose of the Fingerhut operations. Unless otherwise indicated, the following discussion relates to the Company s continuing operations.

On February 2, 2001, the Company decided to close its Stern s department store division, and to convert most of its Stern s stores to Macy s and Bloomingdale s stores, in order to expand and strengthen Macy s and Bloomingdale s.

On July 9, 2001, the Company completed its acquisition of Liberty House, a department store retailer operating 11 department stores and seven resort and specialty stores in Hawaii and one department store in Guam. The total purchase price of the Liberty House acquisition was approximately $200 million, consisting of approximately $183 million of cash and the assumption of approximately $17 million of indebtedness. The acquisition was accounted for under the purchase method of accounting and, accordingly, the results of operations of Liberty House have been included in the Company s results of operations from the date of acquisition and the purchase price has been allocated to Liberty House s assets and liabilities based on their estimated fair values as of that date. All Liberty House stores were converted to Macy s stores in 2001.

Results of Operations

Comparison of the 13 Weeks Ended August 3, 2002 and August 4, 2001

Net income for the second quarter of 2002 totaled $282 million compared to $110 million for the second quarter of 2001.

Net sales for the second quarter of 2002 totaled $3,486 million, relatively flat compared to net sales of $3,488 million for the second quarter of 2001. The overall sales trend in the second quarter of 2002 was disappointing and negatively impacted by weaker economic conditions and below normal levels

FEDERATED DEPARTMENT STORES, INC.

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

of clearance merchandise in the stores. Sales were relatively strong in private brands, furniture, jewelry and young men s. On a comparable store basis (sales from stores in operation throughout 2001 and 2002), net sales for the second quarter of 2002 decreased 2.8% compared to the second quarter of 2001.

Cost of sales was 58.8% of net sales for the second quarter of 2002, compared to 61.2% for the second quarter of 2001. Cost of sales for the second quarter of 2001, excluding the $7 million Sterns inventory valuation adjustments, was 61.0%. In the second quarter of 2002, the cost of sales rate and corresponding gross margin rate benefited from lower markdowns and lower shortage resulting from the lower inventory levels throughout the quarter. The valuation of merchandise inventories on the last-in, first-out basis did not impact cost of sales in either period.

Selling, general and administrative (SG&A) expenses were 32.6% of net sales for the second quarter of 2002 compared to 31.9% for the second quarter of 2001. SG&A expenses increased 2.0% in actual dollars compared to the second quarter of 2001, reflecting the impact of higher occupancy related expenses, such as depreciation, rent, taxes and insurance. SG&A expenses in the second quarter of 2002 benefited from lower goodwill and intangible amortization as a result of the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. Effective February 3, 2002, the Company ceased amortizing goodwill and indefinite lived intangible assets. SG&A expenses in the second quarter of 2001 included amortization expense of $7 million, 0.2% of net sales, related to goodwill and indefinite lived intangible assets.

The Company recorded $34 million of restructuring costs during the second quarter of 2001 primarily related to the closure of the Stern s department store division, including $7 million of inventory valuation adjustments as a part of cost of sales. These inventory valuation adjustments consist of markdowns on merchandise that was sold at Stern s and that would not continue to be sold following the conversion of the Stern s stores to Macy s and Bloomingdale s stores. The remaining $27 million of restructuring charges includes $9 million of costs associated with converting the Stern s stores to Macy s stores (including advertising, credit card issuance and promotion and other name change expenses), $10 million of costs to close and sell certain Stern s stores (including lease obligations and other store closing expenses), $1 million of duplicate central office costs and $7 million of severance related to the Stern s closure.

Net interest expense was $78 million for the second quarter of 2002 and for the second quarter of 2001.

The Company s effective income tax rate of 39.6% for the second quarter of 2002 differs from the federal income tax statutory rate of 35.0% principally because of the effect of state and local income taxes. The Company s effective income tax rate of 8.0% for the second quarter of 2001 differs from the federal income tax statutory rate of 35.0% principally because of the effect of the disposition of its Stern s subsidiary, state and local income taxes and permanent differences arising from the amortization of intangible assets. Income tax expense for the second quarter of 2001 reflects a $44 million benefit related to the recognition of the effect of the difference between the financial reporting and tax bases of the Company s investment in Stern s Department Stores, Inc. upon disposition.

FEDERATED DEPARTMENT STORES, INC.

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

During July 2002, the Company completed the sale of Fingerhut s core catalog accounts receivable portfolio, with the buyer assuming $450 million of receivables-backed debt, and in a separate transaction completed the sale of various other Fingerhut assets, including two distribution centers, the corporate headquarters, a data center, existing inventory, the Fingerhut name, customer lists and other miscellaneous property and equipment. Proceeds from these sales and collections on customer accounts receivable prior to the sale, net of operating expenses, exceeded the amount estimated to be received through wind-down of the portfolio and liquidation of the assets, resulting in an adjustment to the loss on disposal of discontinued operations totaling $236 million of income before income taxes, or $149 million after income taxes.

Comparison of the 26 Weeks Ended August 3, 2002 and August 4, 2001

Net income for 2002 totaled $371 million compared to $168 million for 2001.

Net sales for 2002 totaled $6,939 million, compared to net sales of $7,044 million for 2001, a decrease of 1.5%. The overall sales trend in 2002 was disappointing and negatively impacted by weaker economic conditions, however, sales were relatively strong in private brands, furniture, jewelry and young men s. On a comparable store basis (sales from stores in operation throughout 2001 and 2002), net sales decreased 2.9% compared to 2001.

Cost of sales was 59.5% of net sales for 2002, compared to 61.2% for 2001. Cost of sales as a percent of net sales for department stores, excluding $26 million Stern s restructuring charges, was 60.8% in 2001. The cost of sales rate in 2002 benefited from lower markdowns resulting from the lower inventory levels throughout 2002. The valuation of department store merchandise inventories on the last-in, first-out basis did not impact cost of sales in either period.

SG&A expenses were 33.0% of net sales for 2002 compared to 32.5% for 2001. SG&A expenses in actual dollars for 2002 were relatively flat compared to 2001; however, due to the lower sales level, SG&A expenses increased 0.5 percentage points as a percent of net sales. SG&A expenses in 2002 benefited from lower goodwill and intangible amortization as a result of the adoption of SFAS No. 142, Goodwill and Other Intangible Assets. Effective February 3, 2002, the Company ceased amortizing goodwill and indefinite lived intangible assets. SG&A expenses in 2001 included amortization expense of $14 million, 0.2% of net sales, related to goodwill and indefinite lived intangible assets. The effect of the non-amortization provisions of SFAS No. 142 were offset by the impact of higher occupancy related expenses, such as depreciation, rent, taxes and insurance.

The Company recorded $79 million of asset impairment and restructuring charges during 2001, primarily related to the closure of the Stern s department store division, including $26 million of inventory valuation adjustments as part of cost of sales. These inventory valuation adjustments consist of markdowns on merchandise that was sold at Stern s and that would not continue to be sold following the conversion of the Stern s stores to Macy s and Bloomingdale s stores. The Company recorded $4 million of asset impairment charges during 2001 related to an investment write-down as a result of the Company s determination, based on uncertain financing alternatives and a comparison to market values of similar publicly traded businesses, that this equity investment was impaired on an other than temporary basis. The remaining $49 million of restructuring charges includes $15

FEDERATED DEPARTMENT STORES, INC.

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

million of costs associated with converting Stern s stores to Macy s stores (including advertising, credit card issuance and promotion and other name change expenses), $10 million of costs to close and sell certain Stern s stores (including lease obligations and other store closing expenses), $9 million of duplicate central office costs and $15 million of severance costs related to the Stern s closure.

Net interest expense was $152 million for 2002, compared to $156 million for 2001, primarily due to lower levels of borrowings.

The Company s effective income tax rate of 39.7% for 2002 differs from the federal income tax statutory rate of 35.0% principally because of the effect of state and local income taxes. The Company s effective income tax rate of 22.4% for 2001 differs from the federal income tax statutory rate of 35.0% principally because of the effect of the disposition of its Stern s subsidiary, state and local income taxes and permanent differences arising from the amortization of intangible assets. Income tax expense for 2001 reflects a $44 million benefit related to the recognition of the effect of the difference between the financial reporting and tax bases of the Company s investment in Stern s Department Stores, Inc. upon disposition.

During July 2002, the Company completed the sale of Fingerhut s core catalog accounts receivable portfolio, with the buyer assuming $450 million of receivables-backed debt, and in a separate transaction completed the sale of various other Fingerhut assets, including two distribution centers, the corporate headquarters, a data center, existing inventory, the Fingerhut name, customer lists and other miscellaneous property and equipment. Proceeds from these sales and collections on customer accounts receivable prior to the sale, net of operating expenses, exceeded the amount estimated to be received through wind-down of the portfolio and liquidation of the assets, resulting in an adjustment to the loss on disposal of discontinued operations totaling $236 million of income before income taxes, or $149 million after income taxes.

Liquidity and Capital Resources

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

Net cash provided by continuing operating activities in 2002 was $556 million, compared to the $423 million provided in 2001, reflecting higher income from continuing operations, a smaller decrease in income tax liabilities, a greater increase in merchandise inventories and an increase in accounts payable and other accrued liabilities in 2002 versus a decrease in 2001.

Net cash used by continuing investing activities was $281 million for 2002. Investing activities for 2002 included purchases of property and equipment totaling $219 million, capitalized software of $23 million and the acceptance of a $39 million note receivable related to the sale of certain Fingerhut assets. Investing activities for 2001 included the acquisition of Liberty House, purchases of property and equipment totaling $221 million and capitalized software of $32 million. The Company opened seven new department stores and a furniture gallery during 2002 and plans to open six additional department stores and two home stores during the remainder of 2002.

FEDERATED DEPARTMENT STORES, INC.

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

Net cash used by the Company for all continuing financing activities was $135 million for 2002. The Company purchased 3.8 million shares of its Common Stock under its stock repurchase program during 2002 at an approximate cost of $139 million. As of August 3, 2002, the Company had approximately $460 million of the $1,500 million authorized for its stock repurchase program remaining. The Company may continue or, from time to time, suspend repurchases of shares under its stock repurchase program, depending on prevailing market conditions, alternate uses of capital and other factors.

Net cash provided to the Company by discontinued operations was $622 million for 2002, primarily due to the sale of Fingerhut s core catalog accounts receivable portfolio and the sale of various other Fingerhut assets.

During July 2002, in connection with the extension of the financing arrangement related to the Company s non-proprietary credit card receivables, the Company took certain actions which resulted in the consolidation of the Prime Credit Card Master Trust II (the Trust) for financial reporting purposes. In particular, the documentation governing the arrangement was amended to provide the Company s special purpose entity the ability to unilaterally remove specific transferred assets from the Trust. Under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, this amendment disqualified the arrangement for sale treatment and requires secured borrowing treatment for all sales of the Company s non-proprietary credit card receivables pursuant to this arrangement. The Company chose to take this action because it determined that off-balance sheet financing of its non-proprietary credit card receivables was no longer necessary to facilitate comparisons with its principal competitors and as a result of negative public sentiment toward off-balance sheet arrangements generally. The principal assets and liabilities of the Trust consist of non-proprietary credit card receivables transferred by the Company to the Trust in transactions previously accounted for as sales under SFAS No. 140 and the related debt issued by the Trust. As a result of the Company s actions, the transfer of receivables and debt are being treated as secured borrowings as of and subsequent to July 5, 2002. These actions increased the Company s consolidated assets and debt by $479 million at July 5, 2002 and $457 million at August 3, 2002.

Management believes that, with respect to the Company s current operations, cash on hand and funds from operations, together with its credit facilities and other capital resources, will be sufficient to cover its reasonably foreseeable working capital, capital expenditure and debt service requirements in both the near term and over the longer term. The Company s ability to generate funds from operations may be affected by numerous factors, including general economic conditions and levels of consumer confidence and demand; however, the Company expects to be able to manage its working capital levels and capital expenditure amounts so as to maintain its liquidity levels. Depending upon conditions in the capital markets and other factors, the Company may from time to time consider the issuance of debt or other securities, or other possible capital markets transactions, the proceeds of which could be used to refinance existing indebtedness or for other corporate purposes.

FEDERATED DEPARTMENT STORES, INC.

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

Management believes the department store business and other retail businesses will continue to consolidate. Accordingly, the Company intends from time to time to consider additional acquisitions of, and investments in, department stores and other complementary assets and companies. Acquisition transactions, if any, are expected to be financed through a combination of cash on hand and from operations and the possible issuance from time to time of long-term debt or other securities.

Outlook

The Company expects to achieve earnings per share from continuing operations of $.35 to $.45 a share in the third quarter and $2.05 to $2.20 for the fourth quarter, which is consistent with the Company s prior guidance. The Company now expects a comparable store sales increase of 1 to 3 percent for the third and fourth quarters of 2002, given the current weakness in the economy and the Company s recent lower-than-anticipated sales trend. This compares to prior guidance of 3 to 3.5 percent for the same periods. In estimating comparable store sales and earnings per share, the Company assumed that general economic conditions and consumer confidence and demand would be such that sales would increase by the forecasted amounts. Additionally, the Company is assuming improvements in the gross margin rates for the third and fourth quarters, benefiting from lower inventory levels throughout the third and fourth quarters, with the year-end comparable store inventory levels expected to be relatively flat compared to the prior year. SG&A expenses are expected to increase by 1 to 3 percent in each quarter; however, the SG&A rate as a percent to net sales is expected to improve compared to last year in both the third and fourth quarters. The accuracy of these assumptions and of the resulting forecasts is subject to uncertainties and circumstances beyond the Company s control. Consequently, actual results could differ materially from the forecasted results. See Forward-Looking Statements for a discussion of matters that could cause actual results to vary from the Company s expectations.

PART II OTHER INFORMATION

FEDERATED DEPARTMENT STORES, INC.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Amended and Restated 364-Day Credit Agreement, dated as of June 28, 2002, by and among the Company, as Borrower, the Initial Lenders Named Herein, as Initial Lenders, Citibank, N.A., as Administrative Agent and as Paying Agent, JPMorgan Chase Bank, as Administrative Agent, Fleet National Bank, as Syndication Agent, Bank of America, N.A., Credit Suisse First Boston and U.S. Bank National Association, as Documentation Agents, and Salomon Smith Barney, Inc. and J.P. Morgan Securities, Inc., as lead arrangers and bookrunners.

PART II OTHER INFORMATION

FEDERATED DEPARTMENT STORES, INC.

10.2	First Amendment to Pooling and Servicing Agreement, dated as of July 5, 2002, by and among Prime II Receivables Corporation, as Transferor, FDS Bank, as Servicer, and JPMorgan Chase Bank, as Trustee.

10.3 Third Amendment to Class A Certificate Purchase Agreement, dated as of July 30, 2002, by and among Prime II Receivables Corporation, as Transferor, FDS Bank, as Servicer, Market Street Funding Corporation, as Class A Purchaser, and PNC Bank, National Association, as Agent.10.4 Third Amendment to Class B Certificate Purchase Agreement, dated as of July 30, 2002, by and among Prime II Receivables Corporation, as Transferor, FDS Bank, as Servicer, Market Street Funding Corporation, as Class B Purchaser, and PNC Bank, National Association, as Agent.10.5 Second

Amendment to Series 1997-1 Variable Funding Supplement, dated as of July 5, 2002, by and among Prime II Receivables Corporation, as Transferor, FDS Bank, as Servicer, and JPMorgan Chase Bank, as Trustee.10.6 Second Amendment to Series 1999-1 Variable Funding Supplement, dated as of July 5, 2002, by and among Prime II Receivables Corporation, as Transferor, FDS Bank, as Servicer, and JPMorgan Chase Bank, as Trustee.

(b) Reports on Form 8-K

No reports were filed on Form 8-K during the quarter ended August 3, 2002.

FEDERATED DEPARTMENT STORES, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

FEDERATED DEPARTMENT STORES, INC.

Dated: November 15, 2002

By: /S/ DENNIS J. BRODERICK
Name: Dennis J. Broderick
Title: Senior Vice President, General Counsel and Secretary

By: /S/ JOEL A. BELSKY
Name: Joel A. Belsky
Title: Vice President and Controller (Principal Accounting Officer)

CERTIFICATIONS

I, James M. Zimmerman, Chief Executive Officer of Federated Department Stores, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Federated Department Stores, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

November 15, 2002 /S/ JAMES M. ZIMMERMAN

James M. Zimmerman

I, Karen M. Hoguet, Chief Financial Officer of Federated Department Stores, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Federated Department Stores, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

November 15, 2002	/S/ KAREN M. HOGUET
	Karen M. Hoguet

26