

FEDERATED DEPARTMENT STORES INC /DE/

Form 10-Q/A

November 15, 2002

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 2054

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 May 4, 2002.

FEDERATED DEPARTMENT STORES, INC.

7 West Seventh St.
Cincinnati, Ohio 45202
(513) 579-7000
and
151 West 34th Street
New York, New York 10001
(212) 494-1602

Delaware
(State of Incorporation)

1-13536
(Commission File No.)

13-3324058
(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.

201,495,594 shares of the Registrant's Common Stock, \$.01 par value, were outstanding as of June 1, 2002.

Explanatory Note

This Amendment on Form 10-Q/A to the Company's Form 10-Q for its fiscal quarter ended May 4, 2002 (the "Form 10-Q") amends and restates Part I and Item 1 of Part II Legal Proceedings of the Form 10-Q to provide incremental disclosure. 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 June 18, 2002, the date on which the Form 10-Q was filed with the Securities and Exchange Commission.

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(Unaudited)****(millions, except per share figures)**

	13 Weeks Ended May 4, 2002	13 Weeks Ended May 5, 2001
Net Sales	\$ 3,453	\$ 3,556
Cost of sales:		
Recurring		
2,078 2,158		
Inventory valuation		
adjustments related to		
Stern's closure		
19		
<hr/>		
<hr/>		
Total cost of sales		
2,078 2,177		
Selling, general and		
administrative expenses		
1,154 1,175		
Asset impairment charges		
4		
Restructuring charges		
22		
<hr/>		
<hr/>		
Operating Income		
221 178		
Interest expense		
(78) (81)		
Interest income		
4 3		
<hr/>		

Income from continuing
operations before income
taxes

147 100

Federal, state and local
income tax expense

(58) (42)

Income from continuing
operations

89 58

Discontinued operations

Net Income

\$89 \$58

(Continued)

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PART I FINANCIAL INFORMATION

FEDERATED DEPARTMENT STORES, INC.

**Consolidated Statements of Income (continued)
(Unaudited)**

(millions, except per share figures)

	13 Weeks Ended May 4, 2002	13 Weeks Ended May 5, 2001
	<hr/>	<hr/>
Basic earnings per share:		
Income from continuing operations	\$.44	\$.30
Income from discontinued operations		
	<hr/>	<hr/>
Net income	\$.44	\$.30
	<hr/>	<hr/>
Diluted earnings per share:		
Income from continuing operations	\$.43	\$.29
Income from discontinued operations		
	<hr/>	<hr/>
Net income	\$.43	\$.29



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

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FEDERATED DEPARTMENT STORES, INC.

**Consolidated Balance Sheets
(Unaudited)**

(millions)

	<u>May 4, 2002</u>	<u>February 2, 2002</u>	<u>May 5, 2001</u>
ASSETS:			
Current Assets:			
Cash	\$1,009	\$636	\$448
Accounts receivable	2,156	2,379	2,248
Merchandise inventories	3,640	3,376	3,882
Supplies and prepaid expenses	139	124	126
Deferred income tax assets	19	21	2
Assets of discontinued operations	1,389	1,812	2,574
<hr/>			
<hr/>			
<hr/>			
Total Current Assets	8,352	8,348	9,280
Property and Equipment net	6,416	6,506	6,513
Goodwill net	305	305	224
Other Intangible Assets net	378	378	385
Other Assets	613	575	521
<hr/>			
<hr/>			
<hr/>			
Total Assets	\$16,064	\$16,112	\$16,923

LIABILITIES AND
SHAREHOLDERS EQUITY:

Current Liabilities:

Short-term debt

\$1,006 \$1,012 \$1,129

Accounts payable and accrued
liabilities

2,712 2,645 2,742

Income taxes

9 57 104

Liabilities of discontinued operations

894 1,068 971

Total Current Liabilities

4,621 4,782 4,946

Long-Term Debt

3,859 3,859 4,342

Deferred Income Taxes

1,349 1,345 1,329

Other Liabilities

567 562 541

Shareholders Equity

5,668 5,564 5,765

Total Liabilities and Shareholders

Equity

\$16,064 \$16,112 \$16,923

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

Table of Contents**FEDERATED DEPARTMENT STORES, INC.****Consolidated Statements of Cash Flows
(Unaudited)**

(millions)

	13 Weeks Ended May 4, 2002	13 Weeks Ended May 5, 2001
Cash flows from continuing operating activities:		
Net income		
\$89	\$58	
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Income from discontinued operations		
Depreciation and amortization		
164	161	
Amortization of intangible assets		
7		
Amortization of financing costs		
2	1	
Amortization of unearned restricted stock		
1	1	
Asset impairment and restructuring charges		
45		
Changes in assets and liabilities:		
Decrease in accounts receivable		
223	190	
Increase in merchandise inventories		
(264)	(256)	
Increase in supplies and prepaid expenses		
(15)	(4)	
Increase in other assets not separately identified		
(21)	(15)	
Increase (decrease) in accounts payable and accrued liabilities not separately		

identified
27 (15)
Decrease in current income
taxes
(48) (140)
Increase (decrease) in
deferred income taxes
6 (31)
Increase in other liabilities
not separately identified
5 1

Net cash provided by
continuing operating
activities
169 3

Cash flows from continuing
investing activities:

Purchase of property and
equipment
(81) (53)
Capitalized software
(11) (18)

Net cash used by continuing
investing activities
(92) (71)

Cash flows from continuing
financing activities:

Debt issued
624
Financing costs
(7)
Debt repaid
(8) (113)

Increase in outstanding
checks

41 73

Acquisition of treasury stock

(1) (147)

Issuance of common stock

15 31

Net cash provided by
continuing financing
activities

47 461

(Continued)

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FEDERATED DEPARTMENT STORES, INC.

**Consolidated Statements of Cash Flows (continued)
(Unaudited)**

(millions)

	13 Weeks Ended May 4, 2002	13 Weeks Ended May 5, 2001
Net cash provided by continuing operations	124	393
Net cash provided (used) by discontinued operations		
249 (167)		
<hr/>		
<hr/>		
Net increase in cash		
373 226		
Cash at beginning of period		
636 222		
<hr/>		
<hr/>		
Cash at end of period		
\$1,009 \$448		
<hr/>		
<hr/>		
Supplemental cash flow information:		
Interest paid		
\$104 \$95		
Interest received		
4 2		
Income taxes paid (net of refunds received)		
56 205		

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

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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 weeks ended May 4, 2002 and May 5, 2001 (which do not include the Christmas season) are not indicative of such results for the fiscal year.

The Consolidated Financial Statements for the 13 weeks ended May 4, 2002 and May 5, 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. 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 conducted by Fingerhut's subsidiaries) have been classified as discontinued operations and prior periods have been restated.

The Company is in negotiations with third parties to sell selected assets of Fingerhut. The Company is also in negotiations 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.

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The Company recorded \$45 million of asset impairment and restructuring charges during the first quarter of 2001 primarily related to the closure of the Stern's department store division and subsequent integration into its Macy's and Bloomingdale's operations, including \$19 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 the first quarter of 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 \$22 million of restructuring charges included \$8 million of duplicate central office costs, \$8 million of severance costs and \$6 million of costs associated with converting the Stern's stores into Macy's (primarily advertising).

Table of Contents**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	May 4, 2002
	(millions)			
Long-term lease obligations	\$ 18	\$	\$ (1)	\$ 17
Severance				
\$2	\$	\$(1)		\$1

The \$17 million reserve that the Company still expects to pay out relates to liabilities associated with the disposition of Stern's properties. The remaining severance accrual at May 4, 2002 relates to approximately 50 people.

	February 3, 2001	Restructuring Charges	Payments	May 5, 2001
	(millions)			
Long-term lease obligations	\$ 6	\$	\$	\$ 6
Severance				
\$ 8	\$	\$(5)		\$3

The \$6 million reserve that the Company expected to pay out related to liabilities associated with the disposition of Stern's properties. The restructuring charge for severance in the first quarter of 2001 covered approximately 300 people and the remaining accrual at May 5, 2001 related to approximately 35 people.

4. 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 a determinable useful life will continue to be amortized over that period.

	13 Weeks Ended May 4, 2002	13 Weeks Ended May 5, 2001
	(millions)	
Amortization expense		
Continuing operations	\$	\$ 7
Discontinued operations		
5		

\$ \$12		

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

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**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 the new accounting standard was effective beginning February 4, 2001:

	13 Weeks Ended May 4, 2002	13 Weeks Ended May 5, 2001
	(millions)	
Income from continuing operations		
<hr/>		
Reported income from continuing operations	\$89	\$ 58
Intangible asset and goodwill amortization 6		
<hr/>		
<hr/>		
Adjusted income from continuing operations	\$89	\$64
<hr/>		
<hr/>		
Basic earnings per share:		
Reported income from continuing operations	\$.44	\$.30
Intangible asset and goodwill amortization	.03	
<hr/>		
<hr/>		
Adjusted income from continuing operations	\$.44	\$.33

Diluted earnings per share:

Reported income from continuing operations
\$.43 \$.29
Intangible asset and goodwill amortization
.03

Adjusted income from continuing operations
\$.43 \$.32

Net income

Reported net income
\$89 \$58
Intangible asset and goodwill amortization
9

Adjusted net income
\$89 \$67

Basic earnings per share:

Reported net income
\$.44 \$.30
Intangible asset and goodwill amortization
.04

Adjusted net income
\$.44 \$.34

Diluted earnings per
share:

Reported net income
\$.43 \$.29
Intangible asset and
goodwill amortization
.04

Adjusted net income
\$.43 \$.33

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FEDERATED DEPARTMENT STORES, INC.

**Notes to Consolidated Financial Statements
(Unaudited)**

5. Earnings Per Share

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

	<u>13 Weeks Ended</u>			
	<u>May 4, 2002</u>		<u>May 5, 2001</u>	
	<u>Income</u>	<u>Shares</u>	<u>Income</u>	<u>Shares</u>
(millions, except per share data)				
Income from continuing operations and average number of shares outstanding	\$89	201.0	\$58	197.5
Shares to be issued under deferred compensation plans				
	.6	.5		
<hr/>				
<hr/>				
<hr/>				
<hr/>				
	\$89	201.6	\$58	198.0
Basic earnings per share	\$.44	\$.30		
<hr/>				
<hr/>				
Effect of dilutive securities:				
Warrants		2.9		
Stock options	2.4	3.2		
<hr/>				
<hr/>				

\$89	204.0	\$58	204.1
Diluted earnings per share			
\$.43		\$.29	

In addition to the warrants and stock options reflected in the foregoing table, stock options to purchase 14.1 million and 4.6 million shares of common stock at prices ranging from \$41.88 to \$79.44 per share were outstanding at May 4, 2002 and May 5, 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.

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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 first quarter of 2002 and first quarter of 2001 are to the Company's 13-week fiscal periods ended May 4, 2002 and May 5, 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 May 4, 2002 and May 5, 2001

Net income for the first quarter 2002 totaled \$89 million compared to \$58 million for the first quarter of 2001.

Net sales for the first quarter of 2002 totaled \$3,453 million, compared to net sales of \$3,556 million for the first quarter of 2001, a decrease of 2.9%. The overall sales trend in the first quarter of 2002 was negatively impacted by weakness in career women's apparel and dresses and men's sportswear. However, sales were relatively strong in private brands, young men's, kids, jewelry and furniture. On a comparable store basis (sales from stores in operation throughout the first quarter of 2001 and the first quarter of 2002), net sales for the first quarter of 2002 decreased 2.9% compared to the first quarter of 2001.

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FEDERATED DEPARTMENT STORES, INC.

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

Cost of sales was 60.2% of net sales for the first quarter of 2002, compared to 61.2% for the first quarter of 2001. Cost of sales for the first quarter of 2001, excluding the \$19 million Sterns inventory valuation adjustments, was 60.7%. The cost of sales rate in the first quarter of 2002 benefited from lower markdowns 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 33.4% of net sales for the first quarter of 2002 compared to 33.0% for the first quarter of 2001. SG&A expenses decreased 1.8% in actual dollars compared to the first quarter of 2001, however, due to the lower sales level, SG&A expenses increased 0.4 percentage points as a percent of net sales. SG&A expenses in the first quarter of 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 the first quarter of 2001 included amortization expense of \$7 million, 0.2% of net sales, related to goodwill and indefinite lived intangible assets. Although the Company was able to reduce certain expenses in the first quarter of 2002, such as advertising, the impact of higher occupancy related expenses, such as depreciation, rent, taxes and insurance, on the lower sales base, contributed to the higher SG&A rate.

The Company recorded \$45 million of asset impairment and restructuring charges during the first quarter of 2001 primarily related to the closure of the Stern's department store division and subsequent integration into its Macy's and Bloomingdale's operations, including \$19 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 the first quarter of 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 \$22 million of restructuring charges included \$8 million of duplicate central office costs, \$8 million of severance costs and \$6 million of costs associated with converting the Stern's stores into Macy's (primarily advertising).

Net interest expense was \$74 million for the first quarter of 2002, compared to \$78 million for the first quarter of 2001.

The Company's effective income tax rate of 39.7% for the first 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.

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 operating activities in the first quarter of 2002 was \$169 million, compared to the \$3 million provided in the first quarter of 2001, reflecting higher income from continuing operations, a smaller decrease in income tax liabilities and a greater decrease in accounts receivable.

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FEDERATED DEPARTMENT STORES, INC.

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

Net cash used by investing activities was \$92 million for the first quarter of 2002. Investing activities for the first quarter of 2002 included purchases of property and equipment totaling \$81 million and capitalized software of \$11 million. Investing activities for the first quarter of 2001 included purchases of property and equipment totaling \$53 million and capitalized software of \$18 million. The Company opened four new department stores during the first quarter of 2002 and plans to open seven additional department stores, a home store and a furniture gallery during the remainder of 2002.

Net cash provided to the Company by all financing activities was \$47 million for the first quarter of 2002. As of May 4, 2002, the Company had approximately \$600 million of the \$1,500 million 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 \$249 million for the first quarter of 2002, primarily due to customer payments on accounts receivable.

In order to facilitate comparisons with major competitors, the Company structured and finances its non-proprietary credit card receivables using an off-balance sheet arrangement which currently is set to expire in 2002. However, the Company is in the process of extending the arrangement related to the financing of its non-proprietary credit card receivables. Under this arrangement, FDS Bank, a subsidiary of the Company, sells its non-proprietary credit card receivables to a wholly-owned special purpose entity which in turn transfers the purchased receivables to a bankruptcy-remote, qualified special purpose entity (the trust). The special purpose entity has sold interests in the trust to two unrelated bank commercial paper conduit programs. Proceeds from this sale plus excess cash flow from the trust are used to buy the receivables from FDS Bank. The two commercial paper conduit programs have agreed to buy interests in the trust of up to \$600 million in the aggregate. These interests are variable and fluctuate with the level of receivables. As of May 4, 2002, the gross amount of receivables in the trust was \$615 million, and the bank conduit programs held \$469 million of interests. The trust has issued three classes of certificates: Class A, Class B and Class C certificates. The bank conduit programs hold the Class A and Class B certificates and the Company holds the Class C certificates. The Company also holds a required 2% seller's interest and the residual interest in the trust. The Company's interest is valued at \$127 million and is included in other assets on the Company's Consolidated Balance Sheet as of May 4, 2002. The bank conduit programs held \$417 million in Class A certificates and \$52 million in Class B certificates as of May 4, 2002. The Company held the Class C certificate in the amount of \$52 million, which certificate is subordinate to the Class A and Class B certificates. Beyond the value of the receivables in the trust, the bank conduit programs have no recourse back to the Company. All income from the sale of the receivables to the trust is accounted for in SG&A expenses.

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.

Management believes that, with respect to its 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

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FEDERATED DEPARTMENT STORES, INC.

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

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.

Outlook

The Company expects to achieve earnings per share from continuing operations in 2002 of \$3.40 to \$3.65: 50 to 60 cents a share in the second quarter and \$2.45 to \$2.65 a share in the second half of the fiscal year, which ends February 1, 2003. Additionally, a comparable store sales increase of 1 to 1.5 percent is forecasted for 2002: flattish in the second quarter and up 3 to 3.5 percent in the second half of 2002. 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 and the rate of growth in operating income would be 0.5 to 1.0 percentage points, with most of the improvement coming from the gross margin rate, since in light of the sales forecasts, it will be difficult to significantly reduce SG&A expenses as a percent of net sales. 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.

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**PART II OTHER INFORMATION
FEDERATED DEPARTMENT STORES, INC.**

Item 1. Legal Proceedings

The Company and certain members of its senior management have been named defendants in five substantially identical purported class action complaints filed on behalf of persons who purchased shares of the Company between February 23, 2000 and July 20, 2000. Originally filed in August, September and October 2000, in the United States District Court for the Southern District of New York, the actions have been consolidated into a single case (*In Re Federated Department Stores, Inc. Securities Litigation*, Case No. 00-CV-6362 (RCC)) and a consolidated amended complaint (the Complaint) has been filed. The Complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 thereunder, on the basis that the Company, among other things, made false and misleading statements regarding its financial condition and results of operations and failed to disclose material information relating to the credit delinquency problem at Fingerhut. The plaintiffs are seeking unspecified amounts of compensatory damages and costs, including legal fees. Management intends to defend vigorously against those allegations. A motion to dismiss the Complaint is pending. Discovery has not commenced.

On February 14 and February 26, 2002, two essentially identical shareholder derivative lawsuits were filed in a Minnesota state court, purportedly on behalf of the Company, naming as defendants the Company's directors, its Fingerhut subsidiary and certain officers of Fingerhut. The defendants have removed these lawsuits to the United States District Court for the District of Minnesota (*Wesenberg vs. Zimmerman, et al*, Case No. 02-CV-527; *Alaska Ironworkers Pension Trust vs. Zimmerman, et al*; Case No. 02-CV-528). The complaints allege that the defendants have breached their fiduciary duties to the Company in connection with the disposition of Fingerhut and seek an injunction to prevent the liquidation of Fingerhut or a sale of Fingerhut's assets other than as a going concern. The defendants and the Company have filed motions to dismiss the complaints. On April 5, 2002, the federal court denied a motion for a temporary restraining order to prevent Fingerhut from laying off approximately 3,300 employees. One of these lawsuits (Case No. 02-CV-528) was voluntarily dismissed without prejudice in May 2002.

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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 thereunder duly authorized.

FEDERATED DEPARTMENT STORES, INC.

Date November 15, 2002 /s/ DENNIS J. BRODERICK

Dennis J. Broderick
Senior Vice President, General Counsel and Secretary /s/ JOEL A.
BELSKY

Joel A. Belsky
Vice President and Controller (Principal Accounting Officer)

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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; and
3. 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; and
3. 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