FEDERATED DEPARTMENT STORES, INC.
7 WEST SEVENTH STREET
CINCINNATI, OHIO 45202

April 23, 1987

To the Shareholders:

You are cordially invited to attend the 1987 annual meeting of Federated shareholders, to be held Thursday, May 28, at 11 o'clock in the morning, at Federated's home office 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 shareholder is important and your cooperation in completing, signing and returning your proxy promptly will be appreciated.

Sincerely,

HOWARD GOLDFEDER
Chairman of the Board

WHETHER OR NOT YOU PLAN TO ATTEND, PLEASE COMPLETE, SIGN AND RETURN YOUR PROXY CARD PROMPTLY IN THE ENCLOSED ENVELOPE WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

A

FEDERATED DEPARTMENT STORES, INC.

7 West Seventh Street, Cincinnati, Ohio 45202

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders:

Notice is hereby given that the Annual Meeting of the shareholders of Federated Department Stores, Inc. will be held at 11 o'clock in the morning, Eastern Daylight Saving Time, on Thursday, May 28, 1987, at the corporation's offices, 7 West Seventh Street, Cincinnati, Ohio 45202, for the following purposes, all as more fully described in the attached proxy statement:

1. To elect six Class III members of the Board of Directors.

2. To ratify the selection of auditors for the fiscal year ending January 30, 1988.

3. To act upon a proposal to amend the Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 200,000,000 to 400,000,000.

4. To act upon a proposal to amend the Restated Certificate of Incorporation with respect to limiting the liability of directors.

5. To ratify the entering into of Indemnification Agreements with directors.

6. To act upon a shareholder proposal relating to cumulative voting.

7. To act upon a shareholder proposal relating to the election of the members of the Board of Directors.

8. To act upon a shareholder proposal relating to the Company's Stockholder Rights Plan.

9. To transact such other business as may properly come before the meeting or any adjournments thereof.

Shareholders of record at the close of business on April 7, 1987, are entitled to vote at said Annual Meeting, or any adjournment or adjournments thereof.

BORIS AUERBACH
Secretary

April 23, 1987

TO ASSURE YOUR REPRESENTATION AT THE MEETING PLEASE COMPLETE THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ACCOMPANYING ENVELOPE.

b

FEDERATED DEPARTMENT STORES, INC.

7 West Seventh Street, Cincinnati, Ohio 45202

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation, by and on behalf of the Board of Directors of Federated Department Stores, Inc. (referred to hereafter as the "Company" or the "corporation"), for proxies for use at the annual meeting of the shareholders of the Company to be held on Thursday, May 28, 1987, and is being mailed to shareholders on April 23, 1987.

The holders of record of common stock at the close of business on April 7, 1987, may vote at the meeting. On April 7, 1987, there were outstanding 46,742,644 shares of common stock of the Company, excluding shares in the treasury of the Company. On March 26, 1987, the Board of Directors of the Company declared a two for one split of the common stock in the form of a 100% stock dividend. The record date for such split is April 13, 1987. Accordingly shares to be voted will be on the pre-split basis as of April 7, 1987, and all share data are on a pre-split basis, except as otherwise stated in this proxy statement. Each share of common stock, exclusive of treasury shares, is entitled to one vote on each of the matters listed in the Notice of Meeting. The holders of a majority of outstanding shares constitute a quorum for the transaction of business at the meeting. An affirmative vote of the holders of a majority of the shares of common stock of the Company present in person or by proxy and entitled to vote is required for approval of each of the items listed on the proxy card and described below, except as to the proposed amendments to the Restated Certificate of Incorporation for which the affirmative vote of the holders of a majority of the shares of the Company's common stock outstanding is required.

Any shareholders giving a proxy in the accompanying form retain the power to revoke it at any time prior to the exercise of the power conferred thereby.

The Company knows of no person who is the beneficial owner of more than 5% of the Company's outstanding common stock except as follows:

Name and Address	Number of Shares	Percent of Class
Retirement Income and Thrift Incentive Plan of Federated Department Stores, Inc. .... 7 West Seventh Street Cincinnati, Ohio 45202	3,652,025(*)	7.83%

(*) Held as of December 31, 1986, by the Boston Safe Deposit and Trust Company as trustee of the Plan.

The officers and directors of the Company as a group (32 individuals) owned beneficially, as of April 7, 1987, 73,386 shares or approximately .2% of the Company's outstanding common stock. For further information concerning such ownership see "1 — Election of Directors" and the notes thereon.

1 — ELECTION OF DIRECTORS

The Restated Certificate of Incorporation provides that the Board of Directors is divided into three classes with one class of directors being elected each year. The Board of Directors has sole authority to increase or decrease its size and to fill all vacancies (provided that the Board shall have not less than three nor more than twenty members). Directors may not be removed without cause. The Board has the right to establish the rights, powers, duties, rules and procedures governing the Board of Directors and the power to manage the business and affairs of the Company. Such matters include the vote required for any action by the Board relating to notice for and quorum at meetings of the Board. To the extent the Board exercises its right to establish and regulate such matters its right to do so is exclusive, and the shareholders are precluded from adopting any by-law which would impair or impede any such action taken by the Board of Directors. Shareholder action may be taken at an annual or special meeting of shareholders but not by written consent.

In accordance with the recommendation of its Nominating Committee, the Board of Directors has nominated Philip Caldwell, Howard Goldfeder, G. William Miller, Peter G. Peterson, Marvin S. Traub and Kathryn D. Wriston for election as Class III directors for a three-year term to expire at the Annual Meeting in 1990, or until their successors are duly elected and qualified. All of the Class III directors, except Mr. Caldwell, were previously elected directors by the shareholders at the Annual Meeting in 1984.

Unless authority is withheld as to a particular nominee or as to all such nominees for Class III directors, all proxies duly executed and received will be voted for the six nominees listed below.

If any nominee should subsequently become unavailable for election, the persons voting the accompanying proxy may in their discretion vote for a substitute nominee designated by the Board of Directors or the Board of Directors or shareholders may reduce the number of directors to be elected.

The following statements set forth the name, age, principal occupation, business experience, year first elected a director, beneficial ownership of common stock of the Company as of April 7, 1987,[1] and other information with respect to each nominee for election as a Class III director and for the eleven directors whose terms will continue after the Annual Meeting.

NOMINEES FOR ELECTION AS CLASS III DIRECTORS FOR THREE-YEAR TERMS EXPIRING IN 1990

PHILIP CALDWELL, 67, Senior Managing Director of Shearson Lehman Brothers Inc. and Former Chairman of the Board and Chief Executive Officer of Ford Motor Company.

Mr. Caldwell is Senior Managing Director of Shearson Lehman Brothers Inc.,[2] which he joined shortly after retiring in February 1985, as Chairman of the Board and Chief Executive Officer of Ford Motor Company after a 32 year career there. He is a director of Ford Motor Company, Digital Equipment Corporation, Kellogg Company, Shearson Lehman Brothers Holdings Inc., Russell Reynolds Associates, Inc. and American Guarantee and Liability Insurance Co.

Member:	First became a director: 1984
Audit Committee	Shares owned: 200
Executives Deferred Compensation Plan and Retirement Plans Committee	

HOWARD GOLDFEDER, 60, Chairman of the Board and Chief Executive Officer of the Company.

Mr. Goldfeder first joined the Company at the Bloomingdale's division in 1947. From 1967 to 1971, he was with the May Department Stores Company. In 1971, he rejoined the Company as President of the Bullock's division and in 1973, he became its Chairman. He was elected a Vice President of the Company in 1976, Vice Chairman in 1977, and President in 1980. He became Chief Executive Officer of the Company in 1981, and was elected Chairman of the Board of the Company in 1982. He is a director of Connecticut Mutual Life Insurance Company, J. P. Morgan & Co. Incorporated and Morgan Guaranty Trust Company of New York[2].

Member:	First became a director: 1976
Executive Committee	Shares owned: 7,036

G. WILLIAM MILLER, 62, Chairman of the Board, G. William Miller & Co., Inc.

G. William Miller & Co., Inc. (merchant banking) was formed, and Mr. Miller became its Chairman in 1982. Mr. Miller was Secretary of the Treasury of the United States from August 1979, to January 1981, and Chairman of the Federal Reserve Board from March 1978, to August 1979. Prior to that he was Chairman of the Board of Textron Inc., a diversified manufacturing company. Mr. Miller was a director of the Company from December 1976, until March 1978, when he became Chairman of the Federal Reserve Board. He rejoined the board in February 1981. He is also Chairman and a director of Private Satellite Network, Inc., and is a director of Repligen Corporation, Georgetown Industries, Inc., and International Power Machines Corporation.

Member:	First became a director: 1976; 1981
Stock Option and Management Compensation Review Committee	Shares owned: 500
Executives Deferred Compensation Plan and Retirement Plans Committee	

PETER G. PETERSON, 60, Chairman, The Blackstone Group.

Mr. Peterson became the Chairman of The Blackstone Group, a private investment banking firm, in 1985. Prior to that he had been Chairman of the Board of Lehman Brothers and its successor firm, Lehman Brothers Kuhn Loeb Incorporated, a position he held since 1973, after having served first on the White House staff as Assistant to the President for Economic Affairs and later as Secretary of Commerce. Prior to that he was Chairman and Chief Executive Officer of Bell & Howell Co. He is a director of Minnesota Mining & Manufacturing Company and Rockefeller Center Properties, Inc.

Member:
- Stock Option and Management Compensation Review Committee
- Nominating Committee

First became a director: 1973
Shares owned: 200

MARVIN S. TRAUB, 62, Chairman and Chief Executive Officer, Bloomingdale's division of the Company.

Mr. Traub began his career with the Company in 1950, when he joined the Bloomingdale's division. He became Executive Vice President of the Bloomingdale's division in 1962, President in 1969, and Chairman in 1978. He was elected a Vice President of the Company in 1978.

First became a director: 1979
Shares owned: 14,551

KATHRYN D. WRISTON, 48, Director of various corporations.

Mrs. Wriston is a member of the Bar of the State of New York and practiced law with the New York firm of Shearman & Sterling from 1963 to 1968. She is a director of Santa Fe Southern Pacific Corporation and a trustee of Northwestern Mutual Life Insurance Company.

Member:
- Executive Committee
- Executives Deferred Compensation Plan and Retirement Plans Committee
- Audit Committee

First became a director: 1975
Shares owned: 500

CLASS I DIRECTORS WHOSE TERMS EXPIRE AT THE 1988 ANNUAL MEETING

CHARLOTTE BEERS, 51, Chairman and Chief Executive Officer, Tatham-Laird & Kudner.

Mrs. Beers joined Tatham-Laird & Kudner (advertising) in 1979, and was named Chief Operating Officer in 1980, Chief Executive Officer in 1982, and Chairman in 1986. Prior to that, she was with J. Walter Thompson where she began her career as an account representative in 1969. In 1970, she became a Vice President and in 1973, a Senior Vice President of J. Walter Thompson.

Member:
- Nominating Committee
- Executives Deferred Compensation Plan and Retirement Plans Committee

First became a director: 1980
Shares owned: 100

JOHN W. BURDEN III, 50, Vice Chairman of the Board of the Company.

Mr. Burden joined the Company in 1971, as Division Merchandise Manager of the Burdines division. He became Vice President and General Merchandise Manager in 1973, Executive Vice President in 1976, and President in 1978. He became Chairman and Chief Executive Officer of the Abraham and Straus division in 1981[3]. In 1985, he was elected a Vice Chairman and director of the Company. Prior to joining the Company, Mr. Burden spent twelve years at Bamberger's.

First became a director: 1985
Shares owned: 4,677

JAMES L. FERGUSON, 61, Chairman of the Executive Committee of General Foods Corporation.

After joining General Foods in 1963, Mr. Ferguson held several marketing posts and was named General Manager of the Birds Eye division in 1967. He was elected a Vice President of General Foods in 1968; Group Vice President in 1970; and Executive Vice President in April 1972. He became President, Chief Operating Officer, and a director of General Foods in 1972; Chief Executive Officer in 1973; and Chairman in 1974. He became Vice Chairman and director of Philip Morris Companies Inc. in 1985. In April 1987, he relinquished his position as Vice Chairman of Philip Morris Companies Inc. He is also a director of The Chase Manhattan Corporation and The Chase Manhattan Bank, N.A.[2].

Member:
- Audit Committee
- Stock Option and Management Compensation Review Committee

First became a director: 1979
Shares owned: 400

REGINALD H. JONES, 69, Retired Chairman of the Board, General Electric Company.

Mr. Jones joined General Electric in 1939. He was elected a Vice President of the General Electric Company in 1961. In 1968, he was elected Vice President-Finance, in 1970, a Senior Vice President, and in 1972, he was successively elected Vice Chairman, President, and Chairman and Chief Executive Officer. He retired from General Electric in 1981. He is a director of ASA Ltd., General Re Corporation, General Signal Corporation, Bethlehem Steel Corporation and Merck & Co., Inc.

Member:	First became a director: 1980
Audit Committee	Shares owned: 200
Stock Option and Management Compensation Review Committee	

WILL M. STOREY, 55, Vice Chairman of the Board of the Company.

Mr. Storey joined the Company as a Vice Chairman and director in 1982. Prior to joining the Company, Mr. Storey was an Executive Vice President and Chief Financial Officer of Boise Cascade Corporation, a position he held since 1977. He joined Boise Cascade in 1963, and was named President of Boise Southern Company, a joint venture, in 1968. Three years later he became Director of Realty Financing for Boise Cascade Corporation and in 1972, a Vice President and its Controller.

Member:	First became a director: 1982
Executive Committee	Shares owned: 1,321

CLIFTON R. WHARTON, JR., 60, Chairman and Chief Executive Officer of Teachers Insurance and Annuity Association — College Retirement Equities Fund.

Dr. Wharton became the Chancellor of the State University of New York System in 1978, after serving as the President of Michigan State University from 1970 through 1978. Dr. Wharton assumed his present position with Teachers Insurance and Annuity Association — College Retirement Equities Fund in February 1987. He is a director of the Ford Motor Company, Time Incorporated and is the former Chairman of the Rockefeller Foundation.

Member:	First became a director: 1985
Nominating Committee	Shares owned: 200
Executives Deferred Compensation Plan and Retirement Plans Committee	

CLASS II DIRECTORS WHOSE TERMS EXPIRE AT THE 1989 ANNUAL MEETING

ROBERT A. CHARPIE, 61, Chairman and a Director of Cabot Corporation.

Mr. Charpie was President of Cabot Corporation, a producer of chemicals, metals, oil and gas, from 1969 to 1986. As of September 1, 1986, he was elected Chairman of the Corporation. He is a director of Champion International Corporation, Northwest Airlines, Inc. and Schlumberger Limited.

Member:	First became a director: 1984
Audit Committee	Shares owned: 1,000
Nominating Committee	

HOWARD W. JOHNSON, 64, Honorary Chairman of The Corporation of the Massachusetts Institute of Technology.

Mr. Johnson became President of M.I.T. in 1966, Chairman in 1971, and Honorary Chairman in 1983. He is a director of E.I. duPont de Nemours and Company, John Hancock Mutual Life Insurance Company, J.P. Morgan & Co. Incorporated, Morgan Guaranty Trust Company of New York(2) and Champion International Corporation.

Member:	First became a director: 1966
Nominating Committee	Shares owned: 795
Stock Option and Management Compensation Review Committee	

DANIEL W. LeBLOND, 60, Chairman of the Board, LeBlond Makino Machine Tool Company.

Mr. LeBlond became Chairman of the Board of Directors of the LeBlond Makino Machine Tool Company (manufacturer of machine tools and flexible manufacturing systems), formerly LeBlond Incorporated, in 1984. Mr. LeBlond began his career with LeBlond Incorporated in 1949, and was elected to its Board of Directors in 1956. He became Vice President and General Manager in 1962, and President in 1965. Mr. LeBlond is a director of Eagle-Picher Industries, Inc. and The Ohio National Life Insurance Company.

Member:	First became a director: 1975
Executive Committee	Shares owned: 400
Audit Committee	
Executives Deferred Compensation Plan and Retirement Plans Committee	

NORMAN S. MATTHEWS, 54, President and Chief Operating Officer of the Company.

Mr. Matthews joined the Company in 1978, as President of Gold Circle. He became Chairman of Gold Circle in 1980, was elected an Executive Vice President of the Company in 1982, Vice Chairman of the Board in 1984, and President and Chief Operating Officer effective March 1987. Prior to joining the Company, Mr. Matthews was for five years a Senior Vice President and General Merchandise Manager of Korvettes Department Stores in New York. He is a director of Progressive Corporation.

Member:	First became a director: 1984
Executive Committee	Shares owned: 2,328

DONALD J. STONE, 58, Vice Chairman of the Board of the Company.

Mr. Stone began his career with the Company in 1949, when he joined the Foley's division. In 1974, he moved to the then Sanger Harris division (which merged with the Foley's division in January 1987) as Chairman. He was elected a Vice President of the Company in 1975, and Vice Chairman in 1980. He is a director of MCorp., a bank holding company(2).

Member:	First became a director: 1980
Executive Committee	Shares owned: 10,272

---

(1) Included in some instances are shares held in the names of spouses or children sharing the same home as the nominee or shares held of record by the nominee as trustee of trusts for the benefit of children, as to which beneficial ownership is in each such case disclaimed by the nominee. Also included are the estimated number of shares in the following amounts credited to the accounts of officers and directors under the Company's Retirement Income and Thrift Incentive Plan which are deemed to be vested pursuant to that Plan as of December 31, 1986: Howard Goldfeder, 3,586; Norman S. Matthews, 852; John W. Burden, 2,459; Donald J. Stone, 6,105; Will M. Storey, 1; Marvin S. Traub, 10,375; and all officers and directors as a group (including the above persons), 38,237. Not included are shares which such persons have the right to acquire through the exercise of stock options granted by the Company. For further information concerning outstanding stock options see the table on page 31. None of the above nominees owns beneficially more than .05% of the Company's outstanding common stock.

(2) The Company and certain subsidiaries in the ordinary course of business have banking transactions with The Chase Manhattan Bank, N.A., of which Mr. Ferguson is a director; MCorp., of which Mr. Stone is a director; and Morgan Guaranty Trust Company of New York, of which Mr. Goldfeder and Mr. Johnson are directors. Shearson Lehman Brothers Inc., of which Mr. Caldwell is Senior Managing Director, performs investment banking services for the Company on an on-going basis in the ordinary course of business.

(3) Mr. Burden is indebted to the Company in the amount of $425,000, the proceeds of an unsecured interest-free loan made to him by the Company in 1981, in connection with his relocation from Miami, Florida to New York.

FURTHER INFORMATION CONCERNING THE BOARD OF DIRECTORS

The Board of Directors held twelve meetings during the fiscal year ended January 31, 1987. The Board has established a number of standing committees including the Executive Committee, the Audit Committee, the Nominating Committee, the Stock Option and Management Compensation Review Committee and the Executives Deferred Compensation Plan and Retirement Plans Committee. The latter four committees are composed solely of directors who are not employees of the Company.

The functions of the Audit Committee are to recommend to the Board of Directors the independent auditors to be employed by the Company and to confer with the independent auditors concerning the scope of their examination of the books and records of the Company and its subsidiaries, directing the special attention of the auditors to specific matters or areas deemed by the Committee or the auditors to be of special significance, and authorizing the auditors to perform such supplemental reviews or audits as the Committee may deem desirable. The Committee also reviews with the independent auditors on completion of the audit, their experience, any restrictions on their work, cooperation received, their findings and their recommendations; and obtains from the auditors their recommendations regarding internal controls and other matters relating to the accounting procedures and the books and records of the Company and its subsidiaries. The Committee also meets from time to time with members of the Company's internal audit staff. The responsibilities of the Committee are limited to the foregoing and do not include any management functions including, but not limited to, the accounting and auditing responsibilities of the management of the Company. The Audit Committee met three times during the fiscal year ended January 31, 1987.

The function of the Nominating Committee is to make recommendations to the Board of Directors regarding the composition of the Board, its overall size and the number of employee and non-employee directors, review suggestions by stockholders and others as to candidates for the Board, and recommend periodically to the Board prospective director candidates in light of resignations, retirements, or other changes; periodically or when directed by the Board, review attendance, potential conflicts of interest, and other matters which may relate to qualification of directors, and report its findings to the Board; and propose to the Board at its February meeting each year a slate of directors for submission to shareholders at the Annual Meeting. The Nominating Committee met one time during the year.

The Nominating Committee will consider shareholder recommendations of nominees for the Board of Directors. Shareholders wishing to make recommendations should write to the Nominating Committee c/o Boris Auerbach, 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.

The Stock Option and Management Compensation Review Committee determines and recommends to the Board of Directors the remuneration arrangements with the Chairman of the Board and the President of the Company; reviews and approves the remuneration arrangements for other senior management; reviews and recommends for adoption and modification by the Board compensation plans for senior executives; grants options, rights and other benefits under the Company's stock option and restricted stock plans; reviews the quality and depth of the management organization of the Company and makes recommendations to the Board on successor management. The Committee met five times during the fiscal year.

The Executives Deferred Compensation Plan and Retirement Plans Committee oversees generally the administration of, adequacy of and performance of the Company's Executives Deferred Compensation Plan and its various retirement plans. The Committee also reviews and makes recommendations to the Board on proposed changes in such plans. The Committee held two meetings during the fiscal year ended January 31, 1987.

All directors attended 75% or more of the aggregate of the total number of meetings of the Board of Directors and of the committees of the Board on which he or she served.

2 — APPOINTMENT OF INDEPENDENT AUDITORS

The Board of Directors, upon the recommendation of the Audit Committee, has selected the firm of Touche Ross & Co., independent public accountants, to audit the books, records and accounts of the Company and its subsidiaries for the fiscal year ending January 30, 1988, subject to ratification of such employment by the Company's shareholders. The firm and its predecessors have served as auditors for the Company since its formation in 1929, and are considered well qualified. Representatives of Touche Ross & Co. are expected to be present at the Company's annual meeting of shareholders 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.

Touche Ross & Co. leases approximately 12,000 square feet of office space for a branch office in the Company's office building at 7 West Seventh Street, Cincinnati, Ohio. The lease is at rates and terms generally prevailing in the Cincinnati area for similar office space, and, in the opinion of the Audit Committee, does not and will not impair the independence of the auditors.

YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THIS PROPOSAL. UNLESS CONTRARY INSTRUCTIONS ARE GIVEN THEREON, IT IS INTENDED TO SO VOTE ALL PROXIES.

3 — PROPOSAL TO AMEND THE ARTICLES OF INCORPORATION WITH RESPECT TO THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

General. On March 26, 1987, the Board of Directors declared a two-for-one split of the common stock of the Company in the form of a 100% stock dividend with the additional shares to be distributed May 11, 1987, to shareholders of record as of April 13, 1987. To allow the Company the same ability to respond to business opportunities and needs as existed before such split, the Board of Directors recommends the adoption of an amendment to Article VI of the Restated Certificate of Incorporation which would increase the number of authorized common shares having a par value of $1.25 from 200 million to 400 million having the same par value. The proposed amendment will not effect any other changes in the Restated Certificate of Incorporation and will leave unchanged 5,000,000 shares of authorized but unissued preferred stock with respect to which the Board of Directors has the power to determine the rights, preferences and privileges of any series thereof, including voting rights.

As of April 13, 1987, the number of common shares outstanding taking into account such split was 93,492,378 which does not include 1,610,864 shares held in the treasury of the Company. None of the authorized five million preferred shares were outstanding. As of April 13, 1987, there were 1,000,000 shares of preferred stock designated as Series A Junior Participating Preferred Stock reserved for issuance upon exercise of preferred stock purchase rights (the "Rights") upon the terms and subject to the conditions set forth in the Rights Agreement dated as of January 23, 1986, between the Company and Manufacturers Hanover Trust Company as Rights Agent. To reflect the stock split, the Right associated with each share of common stock was automatically proportionately adjusted so that each share of common stock as of April 13, 1987, is accompanied by one-half of a Right instead of a full Right. In the event that the proposal is approved and any of the newly authorized common shares are issued, the shares would also have preferred stock purchase rights as described herein, provided they have not expired.

Shareholders have no preemptive right to purchase additional shares when issued.

The following resolution will be presented for a vote of the shareholders at the Annual Meeting and the Board of Directors recommends that it be approved:

> "RESOLVED, that Article VI of the Restated Certificate of Incorporation of the Company be amended by changing the figure 205,000,000 to 405,000,000 and by changing the figure 200,000,000 to 400,000,000."

Purpose and Effect of the Amendment. The additional authorized common shares recommended by the Board would be available in the same proportion as existed prior to the split for issuance from time to time, as determined by the Board of Directors, for future stock dividends, acquisitions, sale for cash, employee benefit plans, and other general corporate purposes. The Company has no agreements, commitments, or plans at this time for the sale or use of the additional shares. No further action or authorization by the shareholders would be necessary prior to the issuance of additional shares unless required for a particular transaction by applicable law or regulatory agencies or by the rules of any stock exchange on which the Company's securities may then be listed.

Shares of authorized but unissued common stock could be issued in one or more transactions which could make a takeover of the Company more difficult and, therefore, less likely. Any such additional issuance of common stock could have the effect of diluting earnings and book value per share of outstanding shares of common stock and issuance of additional shares could be used to dilute the stock ownership of any person or persons seeking to obtain control of the Company. The Board does not currently intend to authorize the issuance of any additional shares of common stock which are the subject of this amendment proposal.

In 1984, the stockholders of the Company approved amendments to the Company's Restated Certificate of Incorporation with respect to the election of the Board of Directors which may affect any possible takeover attempt by making a change of control of the Company more difficult. See first paragraph of Election of Directors page 2.

The Company has entered into severance compensation agreements with certain executives which are designed to retain the services of such executives and to provide for the continuity of management in the event of actual or threatened change in control of the Company. These agreements are described at page 25. The Company's Executives Deferred Compensation Plan and

Stock Option Plans have been amended to provide for certain changes in the event of a change of control. See Executives Deferred Compensation Plan page 26 and Stock Options and Stock Appreciation Rights page 30. These agreements and provisions may discourage or make it more difficult to take over the Company.

Vote Required. The affirmative vote of the holders of at least a majority of the outstanding common shares entitled to vote at the Annual Meeting is required for adoption of the proposed amendment.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THIS PROPOSAL. UNLESS CONTRARY INSTRUCTIONS ARE GIVEN THEREON, IT IS INTENDED TO SO VOTE ALL PROXIES.

4 — PROPOSAL TO AMEND THE RESTATED CERTIFICATE OF INCORPORATION TO ELIMINATE PERSONAL LIABILITY OF DIRECTORS UNDER CERTAIN CIRCUMSTANCES

The Board of Directors recommends that the stockholders approve an amendment to the Company's Restated Certificate of Incorporation (the "Proposed Amendment") which would eliminate, to the fullest extent permitted by Delaware law, the personal liability of directors to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director.

The text of the Proposed Amendment, which would add a new Article XV to the Restated Certificate of Incorporation, is set forth in Appendix A to this Proxy Statement.

Background and Reasons for the Proposed Amendment. Delaware law provides that a corporation's board of directors has the ultimate responsibility for managing the business and affairs of the corporation. In discharging this function, the law holds directors to certain fiduciary duties to the corporation and its stockholders. These duties include a duty of loyalty and a duty of care. The duty of loyalty requires that, in making a business decision, directors act in good faith and in the honest belief that the action being taken is in the best interests of the corporation and its stockholders. The duty of care requires that directors exercise an informed business judgment. As interpreted by the courts, this means that directors must inform themselves of all material information reasonably available to them and must then act with requisite care in the discharge of their duties. If a director breaches either of these duties, he or she can be held personally liable to the corporation or its stockholders for monetary damages resulting from such breach, although the Delaware Supreme Court has held that directors ordinarily cannot be held liable for breach of the duty of care unless they are found by a court to have been grossly negligent.

The State of Delaware has long recognized the need to provide meaningful protection to directors against potential personal liability for actions taken or omitted by them as directors, as well as against expenses they may incur in defending lawsuits related to their conduct. The Delaware General Corporation Law (the "Delaware Statute") specifically permits corporations to provide indemnification for directors and officers in certain situations. The Delaware Statute also permits corporations to obtain insurance to protect directors and officers, including coverage for certain liabilities against which the corporation cannot provide indemnification under the Delaware Statute.

Recently, however, the market for directors' and officers' insurance has changed dramatically. Insurance carriers have in certain cases declined to renew policies or have increased premiums to such an extent that the cost of obtaining such insurance has become prohibitive. Moreover, current policies often exclude coverage for certain matters. For example, many policies do not cover liabilities or expenses arising from actions of directors taken in response to attempts to take over a corporation. Consequently, even when directors' and officers' liability insurance is available for affordable premiums, such exclusions from coverage, along with high deductibles and low limits of liability, have undermined the protection afforded.

In response to these changes in the market for director's and officers' liability insurance, in June of last year, the Delaware legislature enacted amendments to the Delaware Statute (the "New Law") to permit Delaware corporations to provide substantially broader protection to directors from the risks of personal liability. In the official synopsis of the New Law, the Delaware legislature stated that it considered the unavailability of traditional directors' and officers' liability insurance as a threat to the quality and stability of the governance of Delaware corporations because "directors have become unwilling, in many instances, to serve without the protection which such insurance provides and, in other instances, may be deterred from making entrepreneurial decisions." Accordingly, the New Law permits a Delaware corporation to eliminate or limit the personal liability of directors to the corporation or its stockholders for monetary damages for certain breaches of fiduciary duty by means of an amendment to the certificate of incorporation approved by stockholders.

Although the Company has not directly experienced a problem in recruiting and retaining directors, the purpose of the Proposed Amendment and the reason it is being recommended to stockholders is to enhance the Company's ability to continue to attract and retain individuals of the highest quality and ability to serve as its directors.

The Company has to date been able to obtain insurance coverage for its directors and officers on a basis which it believes acceptable. The Company has, however, experienced the increase in premiums and limitation in scope of coverage which is symptomatic of the problems in the liability insurance industry as a whole. To the extent that the Company should act as a self-insurer, the assets and equity of the Company would be subjected to risk in the event of large indemnification claims. The Proposed Amendment is intended to assure that the Company's directors do not lose protection from personal liability similar to the protection they have had in the past if insurance coverage continues to decrease or coverage becomes unavailable.

In addition, the Board believes that the adoption of provisions such as the Proposed Amendment by the Company and other corporations may have a favorable impact, over the long term, on the availability, cost, amount and scope of directors' and officers' liability insurance because exposure to liability would be decreased.

By precluding personal liability for certain breaches of fiduciary duty, the Proposed Amendment would supplement indemnification rights afforded under Article X of the Company's Restated Certificate of Incorporation which currently provides, in substance, that the Company shall indemnify its directors to the fullest extent permitted by Delaware law. For this reason, the Board of Directors believes that adoption of the Proposed Amendment would enhance the Company's ability to attract and retain qualified directors even if insurance coverage continues to decrease or coverage becomes unavailable.

Description and Effects of the Proposed Amendment. The Proposed Amendment is intended to give the Company's directors the full protection against personal liability that is permitted under the Delaware Statute. If adopted, the Proposed Amendment would eliminate personal liability of directors to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except: (i) for any breach of the duty of loyalty to the Company or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violations of law; (iii) for liability under Section 174 of the Delaware Statute relating to certain unlawful dividends and stock repurchases; or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware law is expanded, such change could take effect without shareholder approval, and in that event, such change may further limit shareholder action against directors for breach of fiduciary duty. The Proposed Amendment further provides that any repeal or modification of the limitations on liability set forth in the Proposed Amendment would not apply to acts or omissions of directors that occurred before such repeal or modification.

The effect of the Proposed Amendment would be to eliminate personal liability of directors for violations of their fiduciary duty of care. If adopted, the Proposed Amendment would absolve directors from liability to the Company or its stockholders for negligence in the performance of their duties, including gross negligence. The Proposed Amendment would not, however, insulate directors of the Company from liability to the Company or its stockholders for breach of the duty of loyalty and for other types of "bad faith" conduct.

While the Proposed Amendment would protect directors from awards of monetary damages for breaches of the duty of care, it would not eliminate or change the duty of care. Accordingly, the Proposed Amendment would not limit the availability of equitable remedies such as an injunction or rescission based on a director's breach of the duty of care. It is, of course, possible that shareholders may not become aware of certain transactions in a timely fashion so as to be able to exercise all such equitable remedies. The Proposed Amendment would eliminate the liability of directors only for future conduct and would not apply to acts or omissions of directors that occurred before its adoption. The Proposed Amendment also would not apply to claims against a director arising out of actions taken in his or her capacity as an officer, if he or she is also an officer, or limit or affect the stockholders' ability to seek and obtain relief under any other law, including the federal securities laws.

Because the New Law has only recently been enacted, there has not yet been any judicial interpretation of its precise scope. Since the validity of the new law has not been tested, the effect of the Proposed Amendment must to some extent be considered uncertain. Courts could rule, under various legal theories, that certain liabilities which the New Law purports to eliminate remain notwithstanding the adoption of an amendment to the certificate of incorporation pursuant to the New Law. The Proposed Amendment's coverage will extend only so far as is legally permitted.

Adoption of the Proposed Amendment would limit the remedies available to a stockholder seeking to challenge a Board decision protected by the Proposed Amendment, including, for example, decisions relating to acquisition proposals or similar transactions. The Proposed Amendment may, therefore, reduce the likelihood of derivative litigation against directors and may discourage or deter stockholders or management from bringing a lawsuit against directors for breach of their duty, even though such an action, if successful, might otherwise have benefited the Company and its stockholders.

The Company is not aware of any pending or threatened claim alleging breach of fiduciary duty against any of the Company's directors and there has been no recent litigation of the type that would be affected by the Proposed Amendment.

The Board of Directors believes that the Proposed Amendment strikes the proper balance between the need to attract and retain the best possible directors and the need to hold directors accountable to the Company and its stockholders for actions that are not in the Company's best interest. Thus, the Proposed Amendment would enable directors to serve without unwarranted concern that their personal assets will be subjected to liabilities disproportionate to their remuneration for serving as director, while still preserving disincentives for actions taken in bad faith. The Board also believes that the diligence exercised by directors stems primarily from their desire to act in the best interests of the Company, not from a fear of monetary damage awards. Consequently, the Board believes that the level of scrutiny and care exercised by directors will not be lessened by the adoption of the Proposed Amendment. Stockholders should note, however, that because the Company's directors may benefit from the added protection the Proposed Amendment provides, the directors have a personal interest in its adoption.

The affirmative vote of the holders of a majority of the outstanding shares of common stock is required to approve the Proposed Amendment. If approved by the stockholders, the Proposed Amendment would become effective upon the filing of the requisite Certificate of Amendment with the Secretary of State of Delaware.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR APPROVAL OF THE PROPOSED AMENDMENT. (One director, Dr. Clifton R. Wharton, Jr., was not present at the voting on this recommendation.)

5 — PROPOSAL FOR RATIFICATION OF INDEMNIFICATION AGREEMENTS FOR DIRECTORS

The Board of Directors has approved, and authorized the Company to enter into, indemnification contracts (the "Indemnification Agreements") between the Company and its directors in substantially the form attached hereto as Appendix B. Such agreements were then entered into with all directors but one. The Board of Directors has also directed that a proposal to authorize the Company to enter into the Indemnification Agreements be submitted to the stockholders for their approval and ratification. If the stockholders do not approve the proposal, the Board of Directors will consider whether the Indemnification Agreements should be revised or rescinded and then take such action as the Board deems appropriate.

As noted above under "Proposal to Amend the Restated Certificate of Incorporation to Eliminate Personal Liability of Directors under Certain Circumstances", the Delaware Statute provides for indemnification of directors in certain situations. Section 145 of the Delaware Statute requires indemnification in cases where a director has been successful in defending any claim or proceeding and permits indemnification, even if a director has not been successful, in cases where the director acted in good faith and in a manner that he or she reasonably believed was in, or not opposed to, the best interest of the corporation. To be indemnified with respect to criminal proceedings, the director must also have had no reasonable cause to believe that his or her conduct was unlawful. In the case of a claim by a third party (*i.e.*, a party other than the Company), the

Delaware Statute permits indemnification for judgments, fines and amounts paid in settlement, as well as expenses. In the case of a claim by or in the right of the Company (including stockholder derivative suits), indemnification under the Delaware Statute is limited to expenses, but does not cover judgments or amounts paid in settlements, and no indemnification of expenses is permitted if the director is adjudged liable to the Company, unless a court determines that, despite such adjudication but in view of all the circumstances, such indemnification is nonetheless proper.

The Delaware Statute also permits the advancement of expenses to directors upon receipt of an undertaking to repay all amounts so advanced if it is ultimately determined that the director has not met the applicable standard of conduct and is, therefore, not entitled to be indemnified.

Article X of the Company's Restated Certificate of Incorporation currently provides, in substance, that the Company shall indemnify its directors to the fullest extent permitted by Delaware law. Both the Delaware Statute and the Company's Restated Certificate of Incorporation specifically state that their indemnification provisions shall not be deemed exclusive of any other indemnity rights a director may have, including rights under an indemnification contract with the Company. As more fully explained below, the Indemnification Agreements are intended to assure the Company's directors that they will be indemnified to the fullest extent permitted by Delaware law.

The following is a summary of the principal terms of the Indemnification Agreements. This summary is not intended to be complete and is qualified in its entirety by reference to the form of Indemnification Agreement attached hereto as Appendix B.

The Indemnification Agreements provide for indemnification of directors to the fullest extent permitted by law. To the extent permitted by Delaware law, the Indemnification Agreements will indemnify actions and omissions on the part of directors that could constitute negligence or gross negligence. They cover any and all expenses (including attorney's fees and all other costs and obligations), judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection therewith) incurred in connection with investigating, defending, being a witness or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any threatened, pending or completed action, suit or proceeding, or any inquiry or investigation, whether civil, criminal, administrative or otherwise (a "proceeding"), related to the fact that such director is or was a director, officer, employee, agent or fiduciary of the Company or is or was serving at the request of the Company as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, or by reason of anything done or not done by such director in any such capacity. Indemnification would not, however, be available under the Indemnification Agreements if a person or body appointed by the Company's Board of Directors who is not a party to the proceeding for which indemnification is sought and who may be or consist of one or more members of the Board (or, under certain circumstances discussed below, independent legal counsel) determines that such indemnification is not permitted under applicable law and such determination is not successfully challenged before a court. A director would also not be entitled to indemnification under the Indemnification Agreements in connection with a proceeding initiated by such director prior to a change of control as defined in the Indemnification Agreements unless such proceeding was authorized or consented to by the Board of Directors.

The Indemnification Agreements also provide for the prompt advancement of all expenses incurred in connection with any proceeding and obligate the director to reimburse the Company for all amounts so advanced if it is subsequently determined, as provided in the Indemnification Agreements, that the director is not entitled to indemnification.

In the event that the person or body appointed by the Company's Board of Directors determines that the director would not be permitted to be indemnified under applicable law (and, therefore, is not entitled to indemnification under the Indemnification Agreements), the Indemnification Agreements provide that the director may seek a judicial determination of his or her right to indemnification. The Indemnification Agreements further provide that the director is entitled to indemnification for, and advancement of, all expenses (including attorney's fees) incurred in any proceeding seeking to collect from the Company an indemnity claim or advancement of expenses under the Indemnification Agreements, the Company's Restated Certificate of Incorporation or otherwise, or in seeking to recover under a directors' and officers' liability insurance policy, whether or not the director is successful.

After a Change in Control (as defined in the Indemnification Agreements) of the Company (which Change of Control is not approved by the Company's Board of Directors), all determinations to be made by or on behalf of the Company regarding a director's right to indemnification and to the advancement of expenses are required to be made by independent legal counsel to be selected by the director and approved by the Board (which approval cannot be unreasonably withheld). In the event of a Potential Change in Control (as defined in the Indemnification Agreements) of the Company, the director may request the Board of Directors to authorize the establishment of a trust for such director's benefit and to fund such trust in an amount sufficient to cover expenses, judgments, fines, penalties, settlement amounts and other similar costs in connection with any threatened or pending claims.

The Indemnification Agreements impose upon the Company the burden of proving that the director is not entitled to indemnification in any particular case, and the Indemnification Agreements negate certain presumptions which might otherwise be drawn against a director in certain circumstances. The Indemnification Agreements also provide that all legal actions brought against the director by or in the right of the Company must be brought within a period of two years from the date of the accrual of such actions (or any shorter period that would otherwise be applicable), after which period any such cause of action will be extinguished. The legality of the provision such as that referred to above has not been decided under Delaware law. No opinion of counsel can be obtained with respect to the enforceability of such provision because there is doubt as to whether a Delaware court of equity, or a court in another jurisdiction, would enforce such a provision, and because enforceability of the provision may depend upon, among other factors, the extent to which its application in a particular case would be inequitable or contrary to public policy. A stockholder objecting to the applicability of this provision would nevertheless be required to challenge its enforceability in an appropriate proceeding. Further, the Indemnification Agreements provide that if the Company pays a director pursuant to an Indemnification Agreement, the Company will be subrogated to such director's rights to recover from third parties.

Like the Delaware Statute and the Company's Restated Certificate of Incorporation, the Indemnification Agreements provide that a director's rights under such contracts are not exclusive of any other indemnity rights he or she may have; however, the Indemnification Agreements do prevent double payment. While not requiring the maintenance of directors' liability insurance, if the

Company has such a policy, the Indemnification Agreements require that the director be provided with the maximum coverage afforded any other director or officer of the Company.

The Board of Directors believes that the Indemnification Agreements are in the best interests of the Company and its stockholders. The Board believes that the Indemnification Agreements, in conjunction with the limitation of personal liability of directors provided for by the Proposed Amendment, will enhance the Company's ability to continue to attract and retain individuals of the highest quality and ability to serve as its directors. Among other things, the Indemnification Agreements would provide the Company's directors with a specific contractual assurance that they will be indemnified to the fullest extent permitted by Delaware law, regardless of any amendment to or repeal of the indemnification provisions in the Company's Restated Certificate of Incorporation or any change in the composition of the Board of Directors as might occur following an acquisition or change in control of the Company. Unlike the indemnification provisions in the Restated Certificate of Incorporation, the Indemnification Agreements would not be subject to unilateral revision or repeal by the Company's Board of Directors or stockholders.

The Indemnification Agreements ensure, in the event of a change of control of the Company, that a determination of whether a director is entitled to indemnification and advancement of expenses will not be made by a potentially hostile board and, by authorizing the establishment of a trust in the event of a potential change in control, provide added assurance to a director that funds will be available to satisfy the Company's indemnity obligations. If court assistance to obtain such indemnity is required, the director can receive indemnification for costs incurred in pursuing his or her rights to indemnification, regardless of whether such claim to indemnification is successful. In addition, the Indemnification Agreements would afford directors the benefit of any subsequent changes in Delaware law relating to indemnification. To the extent Delaware law expands the scope of the indemnification permissible, such expansion would become operative without further shareholder consideration and approval and could subject the Company's assets and equity to risk in cases of large damage awards.

All rights to indemnification under the Indemnification Agreements would exist only to the extent permitted by applicable law. While the Indemnification Agreements do not on their face distinguish between indemnification of directors for stockholder derivative claims and third party claims, it is uncertain whether Delaware's public policy (as codified in the Delaware Statute) continues to bar indemnification of directors for judgments and amounts paid in settlement of derivative claims under contracts, like the Indemnification Agreements, premised on the nonexclusivity provision of the Delaware Statute. Because of this uncertainty, no opinion of counsel can be obtained on this issue. To the extent that shareholder derivative actions are found to be covered by the Indemnification Agreements, monies recoverable from directors would be offset by the Company's obligation to pay indemnification under the Indemnification Agreements. In addition, the enforceability of certain of the provisions of the Indemnification Agreements has not been tested in court and remains subject to considerations of state law and public policy.

The Company is not aware of any pending or threatened claim against any of the Company's directors for which indemnification may be sought, nor has there been any recent litigation which would have been affected by the Indemnification Agreements had they been in effect at that time.

The Indemnification Agreements would be applicable with respect to any claims asserted after their effective dates whether arising from acts or omissions occurring before or after their effective dates.

Stockholder approval of the Indemnification Agreements is not required by law. Nevertheless, because the Company's directors are parties to, and beneficiaries of the rights conferred by, the Indemnification Agreements, the Board of Directors believes it is appropriate to submit the proposal for ratification to the stockholders for their approval. In addition, the Company believes that stockholder approval of the Indemnification Agreements may pose a significant obstacle to any subsequent stockholder attempt to invalidate the Indemnification Agreements.

The affirmative vote of the holders of a majority of the shares of common stock represented in person or by proxy and entitled to vote at the Annual Meeting is required to approve the proposal to authorize the Company to enter into the Indemnification Agreements with its directors.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR APPROVAL OF THE PROPOSAL TO RATIFY THE ENTERING INTO THE INDEMNIFICATION AGREEMENTS. (One director, Dr. Clifton R. Wharton, Jr., was not present at the voting on this recommendation.)

6 — SHAREHOLDER PROPOSAL CONCERNING CUMULATIVE VOTING

Messrs. Lewis D. Gilbert and John J. Gilbert, 1165 Park Avenue, New York, New York, 10128, holders of record of 176 shares of the Company's common stock as co-trustees under the will of Minnie D. Gilbert, have informed the Company that they intend to introduce the following proposal for action at the meeting:

"RESOLVED: That the stockholders of Federated Department Stores, Inc., assembled in annual meeting in person and by proxy, hereby request the Board of Directors to take the steps necessary to provide for cumulative voting in the election of directors, which means each stockholder shall be entitled to as many votes as shall equal the number of shares he or she owns multiplied by the number of directors to be elected, and he or she may cast all of such votes for a single candidate, or any two or more of them as he or she may see fit."

These shareholders have submitted the following statement in support of the proposal:

"Continued strong support along the lines we suggest was shown at the last annual meeting when 11% of the votes cast on this issue were cast in favor of this proposal by 1295 owners of 3,938,666 shares. The votes against included 805 unmarked proxies.

"Mr. Asher Edelman, Vice Chairman of the Board of United Stockyards Corporation, has expressed his belief in cumulative voting most eloquently in a public statement where he wrote:

> 'I believe that cumulative voting is in the best interest of all . . . stockholders because it permits proportional representation on the Board of Directors, thereby avoiding one-man domination of a company.'

"In a day of takeover bids cumulative voting is the more important, in our opinion, to protect the interest of all stockholders, as well as management. It can insure continuity no matter who is elected in a contest.

"If you agree, please mark your proxy for this resolution; otherwise it is automatically cast against it, unless you have marked to abstain."

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THE PROPOSED RESOLUTION RELATING TO CUMULATIVE VOTING.

A similar resolution was rejected by the shareholders in 1986, by a vote of 31,097,558 constituting 88.7% of the shares voted on the proposal and substantially similar resolutions submitted by these shareholders at seven previous annual meetings were defeated.

Under the present system of voting, the vote of the holders of a majority of the shares of your Company elects a Board of Directors whose members represent and serve all the shareholders. The proposed change in the method of voting could result in the election of one or more directors representing and acting for the benefit of a special interest, or special group, as distinguished from the welfare of the shareholders as a whole. Every director should be elected by all the holders of the Company's common stock and should act for the benefit of all such holders.

It is again the opinion of your Board of Directors that no useful purpose would be served by changing the present method of voting, and it would unnecessarily complicate the method by which the shareholders elect directors. It is therefore recommended that the shareholders vote **AGAINST** the proposal. Unless contrary instructions are noted thereon, it is intended to so vote all proxies.

7 — SHAREHOLDER PROPOSAL CONCERNING THE ANNUAL ELECTION OF DIRECTORS

Mrs. Evelyn Y. Davis, Watergate Office Building, 2600 Virginia Avenue, N.W., Suite 215, Washington, D.C. 20037, holder of record of 50 shares of the Company's common stock, has informed the Company that she intends to introduce the following proposal for action at the meeting:

"RESOLVED: That the shareholders of Federated Department Stores, Inc. recommend that the Board of Directors take the necessary steps to reinstate the election of directors ANNUALLY, instead of the stagger system which was recently adopted."

This shareholder has submitted the following statement in support of the proposal:

"Until recently, the directors of Federated were elected annually by all shareholders.

"The great majority of New York Stock Exchange listed corporations elect all their directors each year.

"This insures that ALL directors will be more accountable to ALL shareholders each year and to a certain extent prevents the self-perpetuation of the Board.

"If you AGREE, please mark your proxy FOR this resolution."

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THE PROPOSED RESOLUTION RELATING TO THE ANNUAL ELECTION OF THE ENTIRE BOARD OF DIRECTORS.

At the Annual Meeting of shareholders in 1984, the shareholders adopted a proposed resolution amending the Company's Restated Certificate of Incorporation to provide for a staggered Board. The amendment provided that the Board be divided into three classes of Directors serving staggered three-year terms, with a minimum of three Directors and a maximum of twenty Directors constituting the entire Board of Directors.

The same reasons presented to the Shareholders by the Board of Directors in 1984, in favor of the adopted amendment remain true today. The Board believes that Directors serving three-year rather than one-year terms will enhance the likelihood of continuity and stability in the composition of the Company's Board of Directors and in the policies formulated by the Board. The Board believes that this, in turn, will permit it more effectively to represent the interests of all shareholders, including responding to circumstances created by demands or actions by a minority shareholder or group by allowing actions to be taken in a more responsible and in a less harried atmosphere designed to further the long term interests of the Company and its shareholders.

8 — SHAREHOLDER PROPOSAL RELATING TO THE COMPANY'S STOCKHOLDER RIGHTS PLAN

Teachers Insurance and Annuity Association-College Retirement Equities Fund, 730 Third Avenue, New York, New York 10017, holder of approximately 576,000 shares of the Company's common stock as of December 31, 1986, has informed the Company that it intends to introduce the following proposal for action at the meeting:

"WHEREAS, on January 23, 1986, the Company's Board of Directors adopted a Stockholder Rights Plan (of a type generally known as a 'poison pill') which would allow the Board to disapprove acquisition offers or substantial stock accumulations however beneficial they might be to shareholders;

"WHEREAS, in our opinion, the poison pill works a major shift in corporate governance, depriving shareholders of their basic right as owners of the Company to decide for themselves whether to sell their shares in a tender offer;

"WHEREAS, the poison pill was adopted without shareholder consent;

"RESOLVED: That the shareholders request that the Board of Directors

(a) afford shareholders the right to vote for or against the poison pill at a meeting held as soon as practicable;

(b) rescind the poison pill (by redeeming the 'Rights'), unless approved by the affirmative vote of a majority of shares of the Company entitled to vote at such meeting of shareholders; and

(c) refrain from adopting any similar plan without first obtaining shareholder consent."

This shareholder has submitted the following statement in support of its proposal:

"This shareholder proposal is submitted by a $25 billion pension fund with long-term investment objectives, and holdings in more than 1500 U.S. companies.

"I. By adopting the poison pill without shareholder approval, the Board deprived shareholders of the right to evaluate and make decisions on offers for their shares.

"Under basic principles of corporate governance, decisions affecting a corporation's existence should be made by shareholders. These decisions include shareholders' rights to decide when and on what terms to sell their shares. As the SEC has stated, shareholder rights plans which require that any tender offer obtain the approval of a target's board 'frustrate the shareholder choice that Congress and the Commission have viewed as being in the shareholders' interest.' By adopting the poison pill, the Board has effectively taken from shareholders the power to pass on all bids for the Company's shares, and has thus improperly taken from the shareholders, without their consent, a fundamental right of share ownership.

"II. In our opinion the poison pill acts effectively to deter unfriendly offers for the Company's shares, however beneficial to shareholders, thereby reducing the value of the Company's stock.

"Although the Board suggests the poison pill is to be used only to deter certain bids for the Company's shares, in our opinion the poison pill indiscriminately deters unfriendly bids, however advantageous to shareholders. A company whose management reserves a unilateral right effectively to deter hostile bids for a company's shares has diminished appeal to prospective bidders and investors alike, creating the likelihood of a depressed market price for the shares.

"Since the poison pill may have a significant negative effect on the value of the Company's stock, shareholders should have the opportunity to decide for themselves if they want management to 'protect' them from third party tender offers. If management declines to submit the poison pill to a vote, shareholders may justifiably conclude that management and the Board are not acting in the interests of shareholders on this important matter."

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THE SHAREHOLDER PROPOSAL RELATING TO THE COMPANY'S STOCKHOLDER RIGHTS PLAN. (One director, Dr. Clifton R. Wharton, Jr., was not present at the voting on this recommendation.)

Description of the Rights Plan

Under the Company's Rights Plan, stockholders received a dividend distribution of one Right per share. Each Right entitles its holder to purchase a unit of a new issue of preferred stock of the Company at a price of $250 per unit. Upon the occurrence of certain events, each Right would then entitle its holder to purchase stock of the Company, or stock of the entity attempting to acquire the Company, having a value of twice the exercise price, or $500. Subject to certain limitations, the Board of Directors may redeem the Rights, at its discretion, at a price of $.05 per right. To reflect the stock split, effective April 13, 1987, the Right associated with each share of common stock was automatically proportionately adjusted so that each share of common stock as of that date is accompanied by one-half of a Right instead of a full Right. A detailed summary of the Rights Plan was sent to each stockholder of the Company along with a letter from the Chairman dated January 30, 1986. A copy of that summary is reproduced in Appendix C to this proxy statement.

Purpose of the Rights Plan

The shareholder seeking rescission of Federated Department Stores' Rights Plan has submitted the exact same proposal to a number of other companies, apparently without regard to the specific facts behind those companies' individual decisions to adopt their respective rights plans.

The Federated Rights Plan was put in place for a very specific reason. Over the past four years, your management and Board have been engaged in a strategic planning effort to formulate the long term business plans that will move Federated forward into the 1990's, while restructuring our asset base to obtain maximum productivity. Because of these activities, and the huge managerial and financial resources committed to this effort, Federated is today more effectively positioned than ever, with enhanced potential for future growth. The Federated Rights Plan was put in place to assure the Board's ability to protect that commitment and to make certain that all Federated shareholders are the beneficiaries of the values which have been created as a result of this effort.

We are sure that you have heard or read about the significant abuses which have been taking place in the securities markets. Takeover attempts have been frequently structured in ways which the Board believes are not in the best interests of all shareholders. Although takeover attempts may be made at prices above then current market prices, such offers are sometimes made for less than all of the outstanding shares of the target company and may not be at a price that the Board believes reflects the values inherent in the company. As a result, stockholders may be presented with the equally unattractive alternatives of either partially liquidating their investment at a time which may be disadvantageous, or retaining their investment but as minority stockholders.

Similarly, a takeover attempt may take the form of a two-tier offer in which cash is offered for a portion of the target company's outstanding shares, and thereafter securities having less value than the cash portion are offered for the remaining shares. Furthermore, hostile takeover attempts are sometimes timed and designed to foreclose or minimize the possibility of more favorable competing bids, which frequently may result in stockholders losing the opportunity to receive and consider alternative and possibly more attractive proposals.

It is the Board, a majority of whom are independent directors, and not management, as the proponents appear to indicate, which has the responsibility to determine whether the Rights shall be redeemed or triggered. This determination will be made by the Board based upon the best interests of all our shareholders.

The Federated Rights Plan is designed to encourage would-be acquirors to negotiate directly with your Board of Directors to ensure that all shareholders are treated equally and fairly in the Board's view, and that a price representing the intrinsic, long term value of the Company is offered.

While the Rights Plan does not preclude a future acquisition of Federated by another company, it is designed to help ensure that, should any offer be made, it would be at what the Board considers to be a full and fair price for all of our shareholders. Indeed, many companies which have adopted rights plans have been subsequently acquired, and with the help of such plans their boards were able to negotiate for shareholders a higher price than that originally offered. "Rescinding" the plan at this time as the shareholder has requested we do would deprive your Board of a valuable bargaining chip and hamper its ability in negotiating with potential acquirors, to the detriment of all other stockholders. The Board believes that the Rights should be redeemed only in the context of a *specific* acquisition proposal if deemed appropriate by the Board.

There is no evidence to suggest that the mere adoption of Federated's Rights Plan should have, as suggested by the shareholder, any long-term negative effect on the Company's stock price. In fact, since the Rights Plan was adopted the Company's stock price has risen 54.7% from its closing price of $64.50 on January 23, 1986, to $99.75 on April 7, 1987.

In determining whether to redeem the Rights in the context of a specific proposal, your Board is mindful of its fiduciary duty to act in the best interests of all stockholders and to exercise its business judgment to enhance stockholder value. Your Board has great confidence in the Company's ability to continue to grow and capitalize on the opportunities ahead. The Rights Plan plays a vital role in securing the Company's future growth plans. You, as a stockholder, can ensure that this progress continues by voting AGAINST the resolution.

EXECUTIVE COMPENSATION

The following table sets forth the cash compensation for the fiscal year ended January 31, 1987, of the six most highly compensated executive officers of the Company and of all executive officers as a group. Information is furnished only for those portions of the year during which such persons were executive officers.

Name of Individual or Group	Capacities in which served during the period	Cash Compensation(1)
Howard Goldfeder	Chairman of the Board of the Company	$ 817,000
Norman S. Matthews ..	Vice Chairman of the Board of the Company	533,142
Donald J. Stone	Vice Chairman of the Board of the Company	572,162
John W. Burden III	Vice Chairman of the Board of the Company	516,400
Will M. Storey	Vice Chairman of the Board of the Company	512,958
Marvin S. Traub	Vice President of the Company and Chairman of Bloomingdale's	534,833
Executive Officers as a Group (21)		$6,190,742

(1) Includes amounts deferred during the fiscal year pursuant to the Company's Executives Deferred Compensation Plan and under the Thrift Incentive portion of the Company's Retirement Income and Thrift Incentive program qualified under Section 401(k) of the Internal Revenue Code, installments paid during the year with respect to deferred cash awards previously made, and for certain officers certain amounts paid under the Company's moving and relocation policy.

Employment Contracts and Arrangements. All of the executive officers of the Company named in the table hold employment contracts with the Company. The terms of all such contracts, unless renewed, end no later than April 30, 1990. Under employment contracts in effect on April 1, 1987, unless renewed, and assuming that all said contracts were in effect in the same year and for the entire year, the Company would make salary payments, including amounts deferred, to the executive officers named in the table as follows: Howard Goldfeder, $850,000; Norman S. Matthews, $625,000; John W. Burden III, $525,000; Donald J. Stone, $575,000; Will M. Storey, $550,000; Marvin S. Traub, $500,000 and to present executive officers, as a group, during their active employment of $6,606,800 annually in the aggregate.

The employment contracts also provide for the payment of annual benefits upon retirement of the contract holders. In the case of Messrs. Howard Goldfeder, and Donald J. Stone, the annual retirement benefits are payable for life; in all other cases the allowance will be payable for a maximum of 10 years. The payment of retirement allowances is made upon termination of active employment or if the executive becomes incapacitated, subject to the terms and conditions set forth in the executive's contract. Each contract provides that in the event of the death of the executive while actively employed, or within a maximum period of 10 years after termination of active employment, the retirement allowance may continue to be paid to or for the benefit of his beneficiaries for a maximum period of 10 years in case of death during active employment and for the balance of a maximum period of 10 years after retirement in case of death after retirement subject to the terms and conditions set forth in the contract. The retirement allowances for the persons named in the table are as follows: Howard Goldfeder, $100,000; Norman S. Matthews, $50,000; John W. Burden III, $65,000; Donald J. Stone, $90,000; Will M. Storey, $75,000; and Marvin S. Traub, $65,000. Under contracts in effect as of April 7, 1987, and assuming that all retirement payments thereunder were made at the same time, the Company will make payments to or for the benefit of present executive officers, as a group, of retirement allowances amounting to $685,000 annually in the aggregate. Generally, the amounts of these retirement allowances are, however, subject to reduction based upon the amounts of retirement benefits the executive will receive pursuant to other Company retirement plans. In many cases dependent upon the executive's length of service, his retirement allowance will be completely eliminated. In the case of Mr. Storey, if his retirement occurs after April 30, 1988, he would receive as his retirement allowance under his employment contract an amount equal to the amount calculated under the Pension Plan and the Supplementary Executive Retirement Plan (which are described below) as if he had two years of credited service for each year of actual service minus the amounts he would have received under such Plans.

In December 1985, the Company, with the authorization of the Board, entered into severance compensation agreements with Messrs. Goldfeder, Matthews, Stone, Storey and Burden. Two additional executive officers not named in the table entered into severance compensation agreements with the Company. The severance agreements, which are designed to retain the services of such executives and to provide for continuity of management in the event of actual or threatened change in control of the Company (as defined in the severance agreements), provide that in the event of a change of control of the Company each such executive would have specific rights and receive certain benefits if after such change in control either the executive's employment were terminated by the Company without "cause" (defined in the agreement) or the executive were to terminate his employment for "good reason" as defined in the agreement. In such circumstances, the benefits would consist of a lump sum cash payment equal to the executive's then current salary (plus 20% to account for incentive compensation) for a period of three years less the period during which he remains employed after the change in control. The executive would not be entitled to receive payments under his employment agreement upon termination unless and to the extent that the period remaining under the employment agreement were greater than the period for which payments are being made under the severance agreement. Protection under insurance and welfare plans would continue for this period (or until similar benefits become available from a new employer) and any executive then age 55 or more would have continued coverage under the Company's Senior Medical Plan as if he had then retired. The Company would make an additional payment sufficient on an after-tax basis to satisfy any tax liability incurred by the executive under the "parachute" tax rules of the Internal Revenue Code.

Deferred Cash Awards. The Stock Option and Management Compensation Review Committee of the Board of Directors from time to time makes awards of deferred cash bonuses to key executives. These awards are generally payable in five equal installments beginning on the first or third anniversary of the date of grant of the award. In the event that an executive grantee voluntarily terminates employment with the Company (other than at normal retirement age), all installments of such award not yet due to be paid are forfeited. For the period from February 2, 1986, through March 6, 1987, awards were made to Mr. Traub of $50,000, to executive officers as a group of $172,700 and to all employees of $1,596,200.

Directors' Fees. Directors of the Company who are not also employees of the Company presently receive an annual directors' fee of $20,000, $500 for each meeting of the Board they attend, $600 for each actual meeting of a committee of the Board and $250 for each non-participatory committee meeting. Pursuant to their contracts with the Company, such directors may defer a portion or all of their fees under terms and conditions substantially similar to those of the Company's Executives Deferred Compensation Plan described below. Eight directors currently have such arrangements.

Loans to Executives. In 1984, the Company made loans in the amount of $638,000 to Mr. Allen Questrom, who was elected Executive Vice President effective March 1987. The loans were made in connection with Mr. Questrom's relocation from Atlanta, Georgia, to Los Angeles, California. A loan in the amount of $600,000 bears interest at six percent (6%) per annum and requires a payment to the Company of forty percent (40%) of the net appreciation value, if any, that Mr. Questrom will realize on the sale of his California home. The loan is secured by an interest in his home. The amounts outstanding as of April 1, 1987, were $638,000. For information on the loan to Mr. John Burden III, see page 8.

Executives Deferred Compensation Plan. Officers and directors who are employees of the Company may defer a portion of their annual compensation pursuant to the Company's Executives Deferred Compensation Plan. This plan, as revised and approved by the shareholders of the Company at their 1969 and 1975 annual meetings and as amended from time to time by the Board of Directors, permits executives of divisions, subsidiaries and the central office of the Company to elect, prior to the beginning of each calendar year, to defer a portion of their compensation instead of receiving it all currently in cash. The amount deferred may be as much as 35%, but always in multiples of 5% of their total compensation. The amounts so deferred are, at the executive's election, credited to him in stock credits or a combination of stock and cash credits. Distributions from the plan are made upon a participant's termination of service with the Company in a stated number of annual installments. In the event of a change in control of the Company, provisions have been made in the plan to provide for conversion of all stock credits into cash credits and to provide for immediate payment. The cumulative number of shares of the Company's common stock credited under the plan as of December 31, 1986, to executive officers of the Company named in the table is as follows: Howard Goldfeder, 24,415; Norman S. Matthews, 5,601; Donald J. Stone, 26,142; Will M. Storey, 3,977; and Marvin S. Traub, 13,163. Messrs. Goldfeder, Burden, Stone and Traub also have cumulative cash credits in the amounts of $1,235,093, $392,244, $602,602 and $1,013,639, respectively. The aggregate number of shares accumulated from the inception of the plan through December 31, 1986, and credited as of that date to executive officers as a group is 131,033, and to all employees is 1,241,827. On April 7, 1987, the closing price of the Company's common stock on the

New York Stock Exchange was $99.75. The aggregate cash credits accumulated by officers and directors as a group from the inception of the plan through December 31, 1986, is $4,474,576, and as to all employees $101,422,063.

Senior Executive Medical Plan. The Company maintains a Senior Executive Medical Plan which provides for the reimbursement of substantially all of the medical expenses of eligible senior executives including the executive officers named in the table. During the fiscal year 76 senior executives participated in the plan and the cost of maintaining the plan per participant was $7,212.

Executive Merchandise Purchase Discount Program. Many of the Company's divisions offer their employees a discount on the purchase of merchandise sold by the division. In addition, certain executives receive an additional discount based on total purchases made during the year. As a result of these discounts being considered imputed income under the Internal Revenue Code and the rules and regulations thereunder, the Company has begun making annual cash payments to eligible executives equaling all or a portion of the income tax liability arising as a result of the recognition of such imputed income. The first of these payments was made in 1986. The total additional executive discounts and income tax liability payments made to executives with respect to the officers named in the table were as follows: Howard Goldfeder, $13,708; Norman S. Matthews, $18,612; Donald J. Stone, $6,917; John W. Burden III, $10,318; Will M. Storey, $10,523; and Marvin S. Traub, $50,736; and with respect to officers and directors as a group were $184,753.

Retirement Income and Thrift Incentive Program. The Company's Retirement Program is the Company's primary program for providing retirement benefits to employees. The principal components of this program include a defined benefit Pension Plan, a profit sharing savings plan and an employee stock ownership plan. These components are described below.

The Pension Plan (formerly called the Retirement Income Plan) is a defined benefit pension plan which was approved by the shareholders of the Company at their annual meeting on May 31, 1984, to be retroactively effective as of January 1, 1984.

Prior to adoption of this plan, the Company's primary means of providing retirement benefits to employees was through the Retirement Income and Thrift Incentive Plan ("RITI"), a defined contribution profit sharing plan. With the new Pension Plan in place, the Company continues to make contributions to the Thrift Incentive portion of RITI as described below. An employee's accumulated retirement profit sharing interests ("Retirement Profit Sharing Credits") in the Retirement Income portion of RITI which accrued prior to January 1, 1984, continue to be maintained and invested until retirement when they are distributed.

Every employee of each of the Company's divisions (except Ralphs) who completes 1,000 hours of service during a twelve-month period may participate in the Plan. As of January 1, 1987, approximately 80,000 employees participate in the Plan.

Participant's interests in the Pension Plan are contingent and vest upon completing ten (10) years of service or age 65.

A participant retiring at normal retirement age is eligible to receive monthly benefits payments calculated using a Plan formula which is based on the participant's years of service and final average compensation, and takes into consideration the participant's Retirement Profit Sharing Credits. A vested participant who is within 10 years of his Normal Retirement Date may also elect to retire prior to normal retirement age and receive benefit payments commencing in the year of early retirement. Benefits in such case will be reduced pursuant to another formula set forth in the Plan.

The Employee Retirement Income Security Act of 1974 ("ERISA") imposes certain maximums on the amount of retirement benefits that can be provided through a qualified plan such as the Pension Plan. In addition, under Internal Revenue Service requirements, compensation deferred pursuant to the Company's Executives Deferred Compensation Plan cannot be included in calculating a participant's benefits under the Pension Plan. To allow the Company's Retirement Program to provide benefits based on a participant's total compensation and total years of service, the Company adopted the Supplementary Executive Retirement Plan ("SERP") when it adopted the Pension Plan. This non-qualified unfunded plan which replaced the Company's prior Supplementary Retirement Plan, a similar plan which was in effect prior to adoption of the Pension Plan, in part, provides to eligible executives, retirement plan benefits on compensation deferred under EDCP and benefits in excess of ERISA maximums, in each case based on the same formula contained in the Pension Plan. As of January 1, 1987, the approximate number of employees eligible under the terms of SERP is 1,062.

Assuming: (i) that a retiring participant elects a single life annuity distribution of his Retirement Profit Sharing Credits(1) and the annual payments under such distribution would not exceed the level set forth below and (ii) that the participant would not qualify to receive any additional benefits under the SRP transitional provisions(2), then the following table shows the estimated annual benefits payable(3) under the Pension Plan and SERP to persons retiring at their normal retirement age on January 1, 1987, in specified compensation and years of service classifications.

Final Average Annual Compensation for Highest 5 Consecutive of Final 10 Years of Employment	**Years of Credited Employment**				
	10	**15**	**20**	**25**	**30**
$ 25,000	$ 2,308	$ 3,463	$ 4,617	$ 5,771	$ 6,925
50,000	6,058	9,088	12,117	15,146	18,175
100,000	13,558	20,338	27,117	33,896	40,675
200,000	28,558	42,838	57,117	71,396	85,675
300,000	43,558	65,338	87,117	108,896	130,675
400,000	58,558	87,838	117,117	146,396	175,675
500,000	73,558	110,338	147,117	183,896	220,675
600,000	88,558	132,838	177,117	221,396	265,675
700,000	103,558	155,338	207,117	258,896	310,675
800,000	118,558	177,838	237,117	296,396	355,675
900,000	133,558	200,338	267,117	333,896	400,675

(1) Upon termination, the cash and investments represented by the participant's Retirement Profit Sharing Credits are paid to the participant, in accordance with one of the following methods of distribution as the participant may elect: (i) an annuity contract, (ii) cash or cash and the

Company's common stock in a single lump-sum distribution or (iii) a beneficial equivalent of one of the foregoing.

(2) SRP, the Company's Supplementary Retirement Plan was superseded by SERP. Qualifying executives who retire on or before December 31, 1990, will receive the greater of the supplementary benefits supplied by SERP or that which would have been supplied by SRP.

(3) Payment of benefits would come from the Retirement Profit Sharing Credits of RITI, the Pension Plan and if the participant qualifies, the Supplementary Executive Retirement Plan.

Messrs. Goldfeder, Matthews, Burden, Stone, Storey and Traub have completed 35, 8, 14, 33, 4 and 35 years of credited service, respectively, and under the assumptions described above, their estimated annual retirement benefits at age 65 assuming their present salaries and the 1987 Social Security bendpoint remained unchanged would be $370,193, $174,934, $223,505, $253,712, $113,149 and $211,097, respectively.

The Thrift Incentive portion of RITI provides for voluntary contributions by participating employees and for Company contributions matching a portion of the participants' contributions.

All of the Company's employees who are eligible to participate in the Pension Plan, together with certain employees of the Ralphs division, may participate in the Thrift Incentive Plan. As of January 1, 1987, approximately 80,000 employees were participants.

Participants may elect to contribute to the thrift incentive portion of RITI by contributing an amount equal to from 1% to 10% of the participant's annual compensation. These contributions may be made on a tax-deferred basis (the "Tax Deferred Thrift Option") pursuant to Section 401(k) of the Internal Revenue Code (the "Code"); provided, that the tax deferred contribution by any participant cannot exceed $7,000 in any year. Any contributions made on a tax-deferred basis will not be included in a participant's income for federal income tax purposes until such contributions are withdrawn. In accordance with Code requirements, a participant is not permitted to withdraw tax-deferred contributions prior to age 59½ or retirement except for reasons of "hardship" (in accordance with Internal Revenue Service regulations).

The Company's annual aggregate contribution to the Plan is an amount equal to not less than 2% of the Company's pre-tax income from participating divisions or the amount necessary to match 20% of participant's eligible savings. Participant interests in Company matching contributions vest immediately.

Except for contributions under the Tax-Deferred Thrift portion, participants are permitted to make withdrawals of their prior years' contributions to RITI but not their current year's contributions or the earnings on any of their contributions.

For 1986, it is estimated that there will be allocated by the Company to the Thrift Incentive accounts of executives named in the table the following amounts: Howard Goldfeder, $8,123; Norman S. Matthews, $6,327; John W. Burden III, $6,014; Donald J. Stone, $7,134; Will M. Storey, $7,453; and Marvin S. Traub, $7,756; and to executive officers as a group, $70,663; and to all participants, $10,123,300.

It is impractical to estimate the accrued benefits upon retirement of any participant or group of participants in the Thrift Incentive portion of RITI because the amount, if any, that will be contributed by the Company and credited to a participant in any year is determined by such variable factors, among others, as the amount of the Company's income, the number of participants in the Plan, their annual contributions to the Plan, the amount of the Company's matching contributions and the earnings on participants' accounts.

The Employee Stock Ownership portion of RITI is an employee stock ownership plan under Section 409 of the Internal Revenue Code. All employees that participate in the Pension Plan participate. The Company's contribution to the plan is based on a percentage of the aggregate compensation of participants and is allocated equally among the participants. For 1986, the approximate amount for each individual was $93.86.

Restricted Stock Grant Plan. This Plan, which is administered by the Stock Option and Management Compensation Review Committee of the Board, provides for the granting of restricted shares to key executive employees of the Company and its subsidiaries in order to provide them with a proprietary interest in the Company as incentive to promote the success of and to continue in the employ of the Company. Such shares are restricted in that for an initial period of one year, or such longer period as the Committee may designate, after the date of grant, the grantee is not permitted to pledge, encumber, sell or otherwise dispose of such shares, and they will be forfeited if the grantee terminates employment while the restrictions are in effect. Thereafter, generally the restrictions lapse as to 20% of the shares annually commencing with the first anniversary of the date of grant or such later anniversary date as designated by the Committee. In other circumstances the restrictions lapse 40% in three years and the remaining 60% in the following year. The restrictions also lapse upon death, permanent disability or retirement. Subject to these restrictions, the grantee has all the rights of a shareholder including the right to receive dividends and to vote the shares. During the year ended January 31, 1987, grants of shares to the individuals and group set forth in the table were made as follows: to Mr. Traub, 625 and to the executive officers as a group, 3,295. Aggregate grants during the period to all employees including officers were 33,860 shares.

Stock Options and Stock Appreciation Rights. Currently there are nonqualified stock options outstanding under stock option plans approved by the shareholders in 1971, 1973, 1976, 1980, and 1984. The Plans provide for such options to be granted at 100% of the fair market value of the Company's common stock (as defined in the Plans) at date of grant and with an expiration no later than 10 years from the date of grant. Stock appreciation rights (SARs) may be granted only in connection with stock option rights, whether such stock options rights were previously granted or may be granted simultaneously with the grant of the SARs. SARs permit the optionee, in lieu of exercising the stock option, to receive the amount by which the fair market value of the stock subject to option exceeds the option exercise price on the date of exercise of the SARs. This amount may be paid in cash, the Company's common stock, or a combination of both, as the Committee of the Board administering the stock option plans determines. The Plans contain a provision whereby options outstanding for more than one year will become exercisable in the event of a change in control.

The following table shows, as to certain executive officers of the Company and as to executive officers as a group for the period from February 1, 1986, to April 2, 1987, (excluding the period when not an officer), the following information with respect to stock options and SARs in tandem therewith (if any): (i) the title and aggregate amount of securities subject to options granted during the specified period, (ii) the average per share option exercise price thereof, (iii) the number of tandem rights granted during the specified period with respect to previously granted stock options, (iv) the net value of shares (market value less any exercise price) or cash realized during the specified period upon the exercise or realization of such options or rights granted during the specified period or prior thereof, and (v) the title and aggregate amount of securities subject to all such options or rights outstanding as of the end of the specified period. The title and aggregate amount of securities subject to tandem options granted during the specified period and outstanding at the end thereof are separately shown.

Common Stock	Howard Goldfeder	Norman Matthews	John Burden III	Donald Stone	Will M. Storey	Marvin Traub	All Executive Officers
Granted 2/1/86 to 4/2/87							
Number of options without tandem rights (SARs)	—0—	—0—	—0—	—0—	—0—	—0—	—0—
Number of options with tandem rights (SARs)	30,000	20,000	14,000	16,000	16,000	—0—	112,250
Average per share option price	$ 88.188	$ 89.875	$ 89.393	$ 88.188	$ 88.188	—0—	$ 88.620
Number of tandem rights (SARs) for prior options	—0—	—0—	—0—	—0—	—0—	—0—	14,625
Exercised 2/1/86 to 4/2/87							
Net value realized in shares (market value less any exercise price) or cash	$327,375	—0—	$ 124,938	$ 83,500	$327,750	$499,375	$1,832,240
Outstanding at 4/2/87:							
Number of options without tandem rights (SARs)	—0—	—0—	—0—	—0—	—0—	—0—	—0—
Number of options with tandem rights (SARs)	54,000	30,000	21,500	28,000	24,000	25,000	258,374

In addition, during the period employees (not including directors and officers) were granted options with respect to 217,950 shares at an average option price per share of $80.058.

Future Awards. In recent years, the Company has made deferred cash awards and awards under the Restricted Stock Grant Plan to key executives. Commencing in 1987, in place of the foregoing, awards will be made utilizing a combination of immediate cash awards, deferred cash awards, the amounts of which may increase or decrease based on divisional performance, and stock options.

Other Compensation. Other compensation with respect to any person named in the table does not exceed $25,000 or 10% of the compensation reported in the table. With respect to the group, it does not exceed $25,000 times the number of executive officers in the group or 10% of the compensation reported in the table for the group.

1988 ANNUAL MEETING — SHAREHOLDER PROPOSALS

The Company's 1988 Annual Meeting will be held on Thursday, May 26, 1988. Proposals of shareholders, to be considered by the Company for inclusion in the proxy material for the 1988 Annual Meeting, must be received by the Company no later than December 22, 1987. Proposals may be mailed to the Company c/o Boris Auerbach, Secretary, Federated Department Stores, Inc., 7 West Seventh Street, Cincinnati, Ohio 45202.

OTHER MATTERS

The Board of Directors knows of no business which will be presented for consideration at the meeting other than that shown above. However, if any business shall come before the meeting, the persons named in the enclosed form of proxy or their substitutes will vote said proxy in respect of any such business in accordance with their best judgment pursuant to the discretionary authority conferred thereby.

The cost of preparing, assembling and mailing the proxy material will be borne by the Company. The Annual Report of the Company for its fiscal year ended January 31, 1987, which is being mailed to the shareholders together herewith, is not to be regarded as proxy soliciting material. The Company may solicit proxies otherwise than by the use of the mails, in that certain officers and regular employees of the Company without additional expense may use their personal efforts, by telephone or otherwise, to obtain proxies. The Company will also request persons, firms and corporations holding shares in their names, or in the name of their nominees, which are beneficially owned by others, to send proxy material to and obtain proxies from such beneficial owners and will reimburse such holders for their reasonable expenses in so doing. In addition, the Company has engaged the firm of Georgeson & Co., Inc., of New York, New York, to assist in the solicitation of proxies on behalf of the Board of Directors. Georgeson & Co., Inc. will solicit proxies with respect to common stock of the Company held by brokers, bank nominees, other institutional holders and certain individuals, and will perform related services. It is anticipated that the cost of the solicitation service to the Company will not substantially exceed $15,000.

BORIS AUERBACH
Secretary

April 23, 1987

PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED FORM OF PROXY AND RETURN IT IN THE ENCLOSED ADDRESSED ENVELOPE, WHICH REQUIRES NO POSTAGE.