

FEDERATED DEPARTMENT STORES INC /DE/

Form 10-K/A

November 15, 2002

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment to

**Annual Report Pursuant to Section 13
of the Securities Exchange Act of 1934**

**For the Fiscal Year Ended
February 2, 2002**

**Commission File Number
1-13536**

Federated Department Stores, Inc.

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

and

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

Incorporated in Delaware

I.R.S. No. 13-3324058

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|--|--|
| Common Stock, par value \$.01 per share | New York Stock Exchange |
| Rights to Purchase Series A Junior Participating Preferred Stock | New York Stock Exchange |
| 8.125% Senior Notes due 2002 | New York Stock Exchange |
| 8.5% Senior Notes due 2003 | New York Stock Exchange |
| 7.45% Senior Debentures due 2017 | New York Stock Exchange |
| 6.79% Senior Debentures due 2027 | New York Stock Exchange |
| 7% Senior Debentures due 2028 | New York Stock Exchange |

Securities Registered Pursuant to Section 12(g) of the Act:

None

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

Disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

There were 201,126,374 shares of the Company's Common Stock outstanding as of April 5, 2002, excluding shares held in the treasury of the Company or by subsidiaries of the Company. The aggregate market value of the shares of such Common Stock, excluding shares held in the treasury of the Company or by subsidiaries of the Company, based upon the last sale price as reported on the New York Stock Exchange Composite Tape on April 5, 2002, was approximately \$7,954,500,000.

Documents Incorporated by Reference

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Portions of the definitive proxy statement (the Proxy Statement) relating to the Company s Annual Meeting of Stockholders to be held on May 17, 2002 (the Annual Meeting), are incorporated by reference in Part III hereof.

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Unless the context requires otherwise references to 2001, 2000, 1999, 1998 and 1997 are references to the Company's fiscal years ended February 2, 2002, February 3, 2001, January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

EXPLANATORY NOTE

This Amendment on Form 10-K/A to the Company's Form 10-K for its fiscal year ended February 2, 2002 (the Form 10-K) amends and restates Items 1, 2, 3, 7 and 8 of the Form 10-K to provide incremental disclosure. In particular, the changes to the Company's Consolidated Financial Statements incorporated by reference in Item 8 are limited to (i) the breakout of asset impairment and restructuring charges on the Company's Consolidated Statements of Operations into asset impairment charges and restructuring charges, and the breakout of the components of shareholders' equity on the Company's Consolidated Balance Sheets and (ii) the provision of incremental disclosure in the Notes to such Consolidated Financial Statements. Except as otherwise expressly stated or where the context requires otherwise, the information in this Amendment speaks of April 17, 2002, the date on which the Form 10-K was filed with the Securities and Exchange Commission.

Item 1. Business.

General. As of February 2, 2002, the Company, through its subsidiaries, operated 397 department stores and 62 furniture galleries and other specialty stores under the names Bloomingdale's, The Bon Marché, Burdines, Goldsmith's, Lazarus, Macy's and Rich's. The stores are located in 34 states, Puerto Rico and Guam, with 141 stores being located on the west coast, 109 stores in the southeast, 94 stores in the northeast, 53 stores in the midwest and the remaining 62 stores spread in other areas of the United States and its territories. The department stores sell a wide range of merchandise, including men's, women's and children's apparel and accessories, cosmetics, home furnishings and other consumer goods, and are diversified by size of store, merchandising character and character of community served. Most stores are located at urban or suburban sites, principally in densely populated areas across the United States. The Company operates in one segment as an operator of department stores.

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During 2001, the Company closed its Stern's department store division, converting most of its 24 store locations to Macy's and Bloomingdale's stores.

The Company conducts direct-to-customer mail catalog and electronic commerce businesses under the names Bloomingdale's By Mail and macys.com. Prior to February 1, 2002, the Company conducted e-commerce business also under the name bloomingdales.com. On February 1, 2002, bloomingdales.com became a marketing site for the Bloomingdale's division and an electronic order site for the purchasing of merchandise from the Bloomingdale's By Mail catalog. Additionally, the Company offers on-line bridal registry and gift purchase facilities to customers.

Through Fingerhut Companies, Inc. (Fingerhut), the Company also sells a broad range of products and services through catalogs, direct marketing and the Internet, including (i) Figi's, a food and gift catalog business; (ii) Arizona Mail Order and Bedford Fair, both apparel catalog businesses; and (iii) Popular Club, a membership-based general merchandise catalog business. Fingerhut also provides services to third parties.

On January 16, 2002, the Company's Board of Directors approved a plan to dispose of the operations of Fingerhut, including the Arizona Mail Order, Figi's and Popular Club Plan businesses conducted by Fingerhut's subsidiaries, which were acquired by the Company on March 18, 1999. The decision to dispose of these operations was based on management's determination that there was no longer any strategic value to Federated in retaining them and there was no expectation, based on historical earnings and future prospects, that they would contribute meaningfully to the Company's future financial performance. If the Company's efforts to find a buyer for the Fingerhut core catalog operation are not successful, the Company will close the Fingerhut core catalog operation and wind down and collect out the related receivables portfolio. However, the Company expects to sell the operations of Arizona Mail Order, Figi's and Popular Club Plan as ongoing businesses. Because the Fingerhut core catalog operation, the related receivables portfolio and the Arizona Mail Order, Figi's and Popular Club Plan operations constitute a single business segment, the Company is treating the proposed disposition as a liquidation of the segment which contemplates separate sales of product lines included in the segment. The Company has entered into a non-binding letter of intent with a third party for the sale of Fingerhut as a going concern, and is currently engaged in negotiations with this party. However, there can be no assurance that this transaction will be consummated.

Effective February 2, 2002, the Company began reporting Fingerhut as discontinued operations in the Company's consolidated financial statements. The historical percentage of the Company's consolidated net sales attributable to Fingerhut was 7% for the 52 weeks ended February 2, 2002, 10% for the 53 weeks ended February 3, 2001 and 10% for the 52 weeks ended January 29, 2000.

The Company provides various support functions to its retail operating divisions (except Fingerhut) on an integrated, company-wide basis.

The Company's financial and credit services subsidiary, FACS Group, Inc. (FACS), provides credit processing, collections, customer service and credit marketing services for the proprietary credit programs of the Company's retail operating divisions in respect of all proprietary credit card accounts owned by the Company and credit processing, customer service and credit marketing for those accounts owned by GE Capital Consumer Card Co., (GE Bank). GE Bank owns all of the Macy's credit card accounts originated prior to December 19, 1994, when R.H. Macy & Co., Inc. was acquired pursuant to a merger and an allocated portion of the Macy's credit card accounts originated subsequent to such merger. In addition, FACS provides payroll and benefits services to the Company's retail operating and service divisions.

The Company's data processing subsidiary, Federated Systems Group, Inc. (FSG), provides (directly and pursuant to outsourcing arrangements with third parties) operational electronic data processing and management information services to each of the Company's retail operating and service divisions.

Federated Merchandising Group (FMG), a division of the Company, helps the Company to centrally develop and execute consistent merchandise strategies while retaining the ability to tailor merchandise assortments and strategies to the particular character and customer base of the Company's various department store franchises. FMG is also responsible for all of the private label development of the Company's retail operating divisions.

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However, Bloomingdale's sources some of its private label merchandise through Associated Merchandising Corporation.

Federated Logistics and Operations, a division of a subsidiary of the Company, provides warehousing and merchandise distribution services, store design and construction services and certain supply purchasing services for the Company's retail operating divisions.

A specialized staff maintained in the Company's corporate offices provides services for all divisions of the Company in such areas as accounting, real estate and insurance, as well as various other corporate office functions.

FACS, FSG, FMG and certain departments in the Company's corporate offices also offer their services to unrelated third parties.

Fingerhut conducts its retail business through its principal subsidiaries Fingerhut Corporation, Fingerhut Inc., Arizona Mail Order Company, Inc., Bedford Fair Apparel, Inc., Popular Club Plan, Inc. and Axsys National Bank, which provides credit for customers' purchases in the form of revolving credit card loans. Other subsidiaries of Fingerhut support its retail operations by providing data processing, credit processing services, customer service, telemarketing and fulfillment services, as well as other corporate office functions. Fingerhut also receives from FACS call center and collections support.

The Company and its predecessors have been operating department stores since 1820. Federated Department Stores, Inc., the Company's predecessor prior to the acquisition of R.H. Macy & Co., Inc. pursuant to a merger, was organized as a Delaware corporation in 1920. The Company is the surviving entity following such merger. On October 11, 1995, the Company acquired Broadway Stores, Inc. (Broadway) pursuant to a subsidiary merger. On March 18, 1999, the Company acquired Fingerhut pursuant to a subsidiary merger. On July 9, 2001, the Company acquired Liberty House, Inc. pursuant to a stock purchase agreement and subsequently converted all of its 19 stores to Macy's stores.

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

Employees. As of February 2, 2002, the Company had approximately 115,000 regular full-time and part-time employees. Because of the seasonal nature of the retail business, the number of employees peaks in the Christmas season. Approximately 10% of the Company's employees as of February 2, 2002 were represented by unions. Management considers its relations with employees to be satisfactory.

Seasonality. The retail business is seasonal in nature with a high proportion of sales and operating income generated in the months of November and December. Working capital requirements fluctuate during the year, increasing somewhat in mid-summer in anticipation of the fall merchandising season and increasing substantially prior to the Christmas season when the Company must carry significantly higher inventory levels.

Purchasing. The Company purchases merchandise from many suppliers, no one of which accounted for more than 5% of the Company's net purchases during 2001. The Company has no long-term purchase commitments or arrangements with any of its suppliers, and believes that it is not dependent on any one supplier. The Company considers its relations with its suppliers to be satisfactory.

Competition. The retailing industry, in general, and the department store and direct-to-customer businesses, in particular, are intensely competitive. Generally, the Company's stores and direct-to-customer business operations compete with other department stores in the geographic areas in which they operate, as well as numerous other types of retail outlets, including specialty stores, general merchandise stores, off-price and discount stores, new and established forms of home shopping (including the Internet, mail order catalogs and television) and manufacturers outlets. The operators of department stores with which the Company competes to a substantial degree include Dillard's, J.C. Penney, Kohl's, May, Nordstrom, and Sears. The Company seeks to attract customers by offering superior selections, value pricing, and strong private label merchandise in stores that are located in premier locations, and by providing an exciting shopping environment and superior service. Other retailers may compete for

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customers on some or all of these bases, or on other bases, and may be perceived by some potential customers as being better aligned with their particular preferences.

Item 2. Properties.

The properties of the Company consist primarily of stores and related facilities, including warehouses and distribution and fulfillment centers. The Company also owns or leases other properties, including corporate office space in Cincinnati and New York and other facilities at which centralized operational support functions are conducted. As of February 2, 2002, the Company operated 459 stores in 34 states, Puerto Rico and Guam, comprising a total of approximately 84,000,000 square feet. Of such stores, 198 were owned, 172 were leased and 89 stores were operated under arrangements where the Company owned the building and leased the land. All owned properties are held free and clear of mortgages, except for one warehouse. Pursuant to various shopping center agreements, the Company is obligated to operate certain stores for periods of up to 20 years. Some of these agreements require that the stores be operated under a particular name. Most leases require the Company to pay real estate taxes, maintenance and other costs; some also require additional payments based on percentages of sales and some contain purchase options. Certain of the Company's real estate leases have terms that extend for significant numbers of years and provide for rental rates that increase over time.

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Item 3. Legal Proceedings.

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

On February 14 and February 26, 2002, two essentially identical shareholder derivative lawsuits were filed in a Minnesota state court, purportedly on behalf of the Company, naming as defendants the Company's directors, its Fingerhut subsidiary and certain officers of Fingerhut. The defendants have removed these lawsuits to the United States District Court for the District of Minnesota (*Wesenberg vs. Zimmerman, et al*, Case No. 02-CV-527; *Alaska Ironworkers Pension Trust vs. Zimmerman, et al*; Case No. 02-CV-528). The complaints allege that the defendants have breached their fiduciary duties to the Company in connection with the disposition of Fingerhut and seek an injunction to prevent the liquidation of Fingerhut or a sale of Fingerhut's assets other than as a going concern. The defendants and the Company have filed motions to dismiss the complaints. On April 5, 2002, the federal court denied a motion for a temporary restraining order to prevent Fingerhut from laying off approximately 3,300 employees.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

On January 16, 2002, the Company announced its intention to dispose of the operations of Fingerhut, including the Arizona Mail Order, Figi's and Popular Club Plan businesses conducted by its subsidiaries. The decision to dispose of these operations was based on management's determination that there was no longer any strategic value to Federated in retaining them and there was no expectation, based on historical earnings and future prospects, that they would contribute meaningfully to the Company's future financial performance. The plan of disposition approved by the Company's board of directors contemplated a disposal by liquidation of the Fingerhut core catalog operations and a disposal by sale of Fingerhut's three catalog subsidiaries, Arizona Mail Order, Figi's and Popular Club Plan. The Company was open to a sale of the Fingerhut core catalogue operations but such outcome was deemed to be unlikely in light of the recent performance of, and prospects for, these operations and because the Company had tentatively explored a sale of these operations in the past without success.

After the Company's announcement, a few parties indicated an interest in possibly acquiring Fingerhut as a going concern. Although the Company has entered into a non-binding letter of intent with one of these parties, there can be no assurance a sale will be consummated. The Company intends to remain committed to carrying out its original plan to dispose of Fingerhut's core catalog operations through liquidation, if no sale can be consummated, and to dispose of the three subsidiaries by sale as going concerns.

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

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

On February 2, 2001, the Company decided to close its Stern's department store division, and to convert most of its Stern's stores to Macy's and Bloomingdale's stores, in order to expand and strengthen Macy's and Bloomingdale's. Also, on November 29, 2001, the Company announced the reorganization of its department store-related catalog and e-commerce operations to conduct its continuing Internet and catalog business exclusively through *macys.com* and Bloomingdale's By Mail. In the near term, these actions are expected to have a negative impact on net sales and operating income, but in the longer term all of these actions are expected to positively affect operating income and cash flows from operations.

The following discussion should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. The following discussion contains forward-looking statements that reflect the Company's plans, estimates and beliefs. The Company's actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in Forward-Looking Statements.

Results of Operations

Comparison of the 52 weeks ended February 2, 2002 and the 53 weeks ended February 3, 2001. The net loss for 2001 was \$276 million compared to a net loss of \$184 million for 2000.

Net sales for 2001 totaled \$15,651 million, compared to net sales of \$16,638 million for 2000, a decrease of 5.9%. The sales decrease reflects a weak economy, the events of September 11th and the closing of Stern's. The overall sales trend was disappointing, particularly in such categories as men's, tabletop (china, silver, glass) and luggage. However, sales were relatively

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strong in private brands, juniors and young men's. On a comparable store basis (sales from stores in operation throughout 2000 and 2001, including Stern's stores in operation throughout the first quarter of 2000 and 2001, and adjusting for the impact of the 53rd week in 2000), net sales for 2001 decreased 5.3% compared to 2000.

Cost of sales was 61.2% of net sales for 2001, compared to 59.8% for 2000. Cost of sales as a percent of net sales, excluding the \$53 million of inventory valuation adjustments, was 60.9% in 2001, reflecting higher markdowns taken in 2001 which were needed, given the large decline in sales, to reduce inventories to more appropriate levels, particularly in fashion apparel categories. The Company ended 2001 with inventories down 7%, compared to 2000, which should position the Company well for future gross margin improvement. The valuation of merchandise inventories on the last-in, first-out basis did not impact cost of sales in either period.

Selling, general and administrative (SG&A) expenses were 30.7% of net sales for 2001, compared to 29.5% for 2000. SG&A expenses decreased 2.2% in actual dollars compared to 2000, however, due to the lower sales level, SG&A expenses increased 1.2 percentage points as a percent of net sales. The Company was able to reduce total selling expenses, although not enough to compensate for the sales decrease. Additionally, an increase in relatively fixed costs, such as depreciation and amortization, utilities, etc., contributed greatly to the higher SG&A expense rate. Finance charge income was \$361 million for 2001, up from \$349 million in 2000, primarily due to the growth in average accounts receivable balances. Amounts charged to expense for doubtful accounts receivable were \$128 million for 2001, compared to \$106 million in 2000, also due to the growth in average accounts receivable balances.

During 2001, the Company incurred asset impairment and restructuring charges related to its department store business. These costs related primarily to the closing of its Stern's department store division and subsequent integration into its Macy's and Bloomingdale's operations, the acquisition of Liberty House and subsequent integration into Macy's and the reorganization of its department-store-related catalog and e-commerce operations. The Company recorded \$215 million of asset impairment and restructuring charges during 2001, including \$53 million of inventory valuation adjustments as a part of cost of sales. The \$53 million of inventory valuation adjustments includes \$33 million related to the Stern's conversion, \$17 million related to the Liberty House integration and \$3 million related to the catalog and e-commerce reorganization. These inventory valuation adjustments consist of markdowns on merchandise that was sold at Stern's, Liberty House or through the Company's catalog and e-commerce channels and that would not continue to be sold following the conversion of the Stern's and Liberty House stores and the reorganization of the catalog and e-commerce business. The remaining \$162 million of restructuring charges includes \$38 million of costs associated with converting the Stern's stores into Macy's (including store remodeling costs, advertising, credit card issuance and promotion and other name change expenses), \$35 million of costs to close and sell certain Stern's stores, \$18 million of severance costs related to the Stern's closure, \$9 million of Stern's duplicate central office costs, \$10 million of costs associated with converting the Liberty House stores into Macy's (including advertising, credit card issuance and promotion and other name change expenses), \$4 million of Liberty House duplicate central office costs, \$40 million of fixed asset and capitalized software write-downs related to the catalog and e-commerce reorganization and \$4 million of other exit costs associated with the catalog and e-commerce reorganization.

Net interest expense was \$324 million for 2001 compared to \$321 million for 2000.

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

The net loss from discontinued operations includes only the results of the operating segment of Fingerhut (including its three catalog subsidiaries, Arizona Mail Order, Figi's, and Popular Club Plan). The net loss from discontinued operations for 2001 was \$14 million, compared to a loss of \$1,005 million for 2000. The loss in 2000 included \$882 million of pre-tax charges related to intangible, investment and fixed asset write-downs and other costs and expenses associated with the downsizing of the Fingerhut core catalog operations. In 2001, the Company also recorded a \$770 million loss related to the disposal of Fingerhut, including \$292 million of estimated operating losses expected during the wind-down period. A number of factors could result in actual amounts differing from the estimates used in computing the loss on disposal of Fingerhut, including actual collection rates on customer accounts receivable differing from expectations, the real estate environment differing from

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current market indicators, and acceleration or deceleration in the time frames used to dispose of various assets as well as Fingerhut's three subsidiaries, Arizona Mail Order, Figi's, and Popular Club Plan. As a result of these uncertainties, the amount of loss actually experienced by the Company may differ materially from the estimated loss.

Comparison of the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000. The net loss for 2000 was \$184 million compared to net income of \$795 million in 1999, primarily reflecting the impact of the asset impairment and restructuring charges related to Fingerhut and the announced closure of the Company's Stern's department store division, as discussed below.

Net sales for 2000 totaled \$16,638 million, compared to net sales of \$16,029 million for 1999, an increase of 3.8%. On a comparable store basis (sales from stores in operation throughout 1999 and 2000 and adjusting for the impact of the 53rd week in 2000), net sales for 2000 increased 2.0% compared to 1999.

Cost of sales was 59.8% of net sales for 2000, compared to 59.7% for 1999. The valuation of merchandise inventories on the last-in, first-out basis did not impact cost of sales in either year.

SG&A expenses were 29.5% of net sales for 2000, compared to 29.7% for 1999. SG&A expenses improved 0.2 percentage points as a percent of net sales, principally due to the impact of lower depreciation and amortization expense. Finance charge income was \$349 million for 2000, up from \$327 million in 1999, primarily due to the growth in average accounts receivable balances. Amounts charged to expense for doubtful accounts receivable were \$106 million for 2000, compared to \$83 million in 1999, also due to the growth in average accounts receivable balances.

During 2000, the Company recorded asset impairment and restructuring charges related to the closing of the Company's Stern's department store division, primarily consisting of the asset write-downs associated with the planned disposition of certain of its properties totaling \$54 million. During the same period, the Company recorded a write-down of \$26 million for investments in two companies engaged in complementary businesses as a result of the Company's determination, based on the fact that these companies were experiencing difficulty in obtaining additional financing needed to fund operating expenses and comparisons of their market value to market values of similar publicly traded businesses, that these equity investments were impaired on an other than temporary basis.

Net interest expense was \$321 million for 2000 compared to \$307 million for 1999. The higher interest expense for 2000 is due primarily to the higher level of outstanding borrowings.

Income tax expense was \$549 million for 2000. This amount differs from the amount computed by applying the federal income tax statutory rate of 35.0% to income before income taxes because of permanent differences arising from the amortization of intangible assets and the effect of state and local income taxes.

The net loss from discontinued operations includes only the results of the operating segment of Fingerhut (including its three catalog subsidiaries, Arizona Mail Order, Figi's, and Popular Club Plan). The net loss from discontinued operations for 2000 was \$1,005 million, compared to a loss of \$30 million for 1999. The loss in 2000 included \$882 million of pre-tax charges related to intangible, investment and fixed asset write-downs and other costs and expenses associated with the downsizing of the Fingerhut core catalog operations.

Liquidity and Capital Resources

The Company's principal sources of liquidity are cash from operations, cash on hand and the credit facilities, described below.

Net cash provided by operating activities in 2001 was \$1,372 million, compared to \$1,332 million for 2000. Cash provided by operating activities in 2001 reflects the lower income from continuing operations, a decrease in inventories in 2001 as compared to an increase in 2000, a greater decrease in accounts payable, a decrease in income taxes in 2001 as compared to an increase in 2000 and a decrease in accounts receivable in 2001 as compared to an increase in 2000.

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Net cash used by investing activities was \$771 million for 2001, including the purchase of Liberty House. Investing activities for 2001 also included purchases of property and equipment totaling \$615 million and capitalized software of \$36 million. Investing activities for 2000 included purchases of property and equipment totaling \$720 million and capitalized software of \$66 million. The Company opened nine full line department stores, three furniture galleries and two bedding stores during 2001.

The Company intends to open 11 new department stores, two new home stores and a new furniture gallery in 2002 all before the next Christmas season. The Company's budgeted capital expenditures are approximately \$700 million for 2002, \$750 million for 2003 and \$750 million for 2004. Management presently anticipates funding such expenditures with cash from operations.

Net cash used by the Company for all financing activities was \$95 million in 2001. During 2001, the Company issued \$500 million of 6.625% Senior Notes due 2011 and \$500 million of 6.625% Senior Notes due 2008. The Company repaid \$1,140 million of borrowings during 2001, consisting principally of \$649 million of net short-term borrowings, the \$350 million 6.125% Term Enhanced ReMarketable Securities and \$110 million of 10% Senior Notes. The Company purchased 7.4 million shares of its Common Stock under its stock repurchase program during 2001 at an approximate cost of \$300 million. On May 18, 2001, the Board of Directors approved a \$500 million increase to the current stock repurchase program increasing the authorization to \$1,500 million. As of February 2, 2002, the Company had approximately \$600 million of the \$1,500 million stock repurchase program remaining. The Company may continue or, from time to time, suspend repurchases of shares under its stock repurchase program, depending on prevailing market conditions, alternate uses of capital and other factors. Also during 2001, the Company issued 9.0 million shares of its Common Stock and received \$267 million in proceeds from the exercise of the Company's Series B Warrants, which expired on December 19, 2001.

The Company finances its proprietary credit card receivables, which arise solely from sales originated in the conduct of the Company's retail operations, using on-balance sheet financing arrangements. At February 2, 2002, these on-balance sheet arrangements included a \$375 million on-balance sheet asset-backed commercial paper program. Under the \$375 million on-balance sheet commercial paper program, a special purpose subsidiary of the Company issues commercial paper backed by a Class A Variable Funding Certificate issued out of the trust which holds the proprietary receivables. If the subsidiary is unable to issue commercial paper to fund maturities of outstanding commercial paper, it has a liquidity facility with a number of banks which will fund loans in order to repay the commercial paper. The commercial paper investors have no recourse back to the Company. As of February 2, 2002, there was no such commercial paper outstanding.

The Company finances its non-proprietary credit card receivables, which can arise from transactions originated by any merchant that accepts third-party credit cards issued by the Company's FDS Bank subsidiary, using off-balance sheet sale arrangements. This facility is currently set to expire in 2002; however, the Company intends to extend it. At February 2, 2002, these off-balance sheet arrangements involved the sale by FDS Bank of its non-proprietary credit card receivables to a wholly-owned special purpose entity (the special purpose entity), which in turn transfers the purchased receivables to a bankruptcy-remote, qualified special purpose entity (the trust) in exchange for the securities issued by the trust. Following the transfer of the non-proprietary credit card receivables to the trust, the receivables are no longer the assets of FDS Bank or the special purpose entity and no longer appear on the Company's Consolidated Balance Sheet. Interests in the trust, which are variable and fluctuate with the level of receivables owned by the trust, are represented by Class A, B and C certificates, a required 2% seller's interest and the residual interest. The special purpose entity has sold the interests represented by the Class A and B certificates to two unrelated bank commercial paper conduit programs, but has retained the interests represented by the Class C certificates, the seller's interest and the residual interest. Proceeds from the sale of interests in the trust plus excess cash flow from the trust are used to buy the receivables from FDS Bank. The commercial paper conduit programs have agreed to buy interests in the trust of up to \$600 million in the aggregate. At February 2, 2002, the gross amount of receivables in the trust was \$630 million, the commercial paper conduit programs held \$438 million of interests represented by Class A certificates and \$62 million of interests represented by Class B certificates and the special purpose entity held \$62 million in interests represented by the Class C certificates, together with the 2% seller's interest and the residual interest. At February 2, 2002, the interests held by the Company through the special purpose entity (of which the Class C certificates are subordinated in right of payment in order to provide credit enhancement for the Class A and B certificates) were valued at \$111 million and included in other assets on the Company's Consolidated Balance Sheet. The assets of the trust consist of the receivables transferred to it by the special purpose entity. The trust is obligated to pay to the

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holders of certificates from collections on the trust's receivables the principal amount of their investment plus interest. The risk of the trust's collections being inadequate to make these payments in full, which is a function of potential defaults and delinquencies by the obligors under the receivables, is borne first by the Company in respect of its Class C certificates and thereafter by all holders of interests in the trust. Although the value of the Company's interest in the trust may be reduced or eliminated if the trust's collections are inadequate to pay its obligations, the Company has no financial responsibility for the trust's obligations.

The non-proprietary credit card receivables are not an integral part of the retail business of the Company. The Company's principal motivation in structuring the financing of its non-proprietary credit card receivables as off-balance sheet arrangements in 1997 was to facilitate comparisons with its principal competitors, which then had no non-proprietary credit card receivables. Although certain of the Company's principal competitors began to generate non-proprietary credit card receivables after 1997, the effects of such receivables on comparability were mitigated through such competitors' utilization of off-balance sheet structures and were otherwise not sufficiently significant to cause the Company to alter the structure of its existing financing arrangements. All income from the sale of the receivables to the trust is accounted for in SG&A expenses.

The Company is a party to a five-year \$1,200 million revolving credit facility that expires in June 2006 and a 364-day \$400 million revolving credit facility that expires in June 2002 (which the Company expects to extend annually). At February 2, 2002, the Company had no borrowings outstanding under either of these facilities, but had \$46 million of letters of credit outstanding under the five-year facility. The issuance of commercial paper under the Company's \$1,600 million unsecured commercial paper facility program will have the effect, while such commercial paper is outstanding, of reducing the Company's borrowing capacity under the Company's \$1,600 million bank credit agreements by an amount equal to the face amount of such commercial paper. As of February 2, 2002, there was no such commercial paper outstanding. The credit agreements governing those facilities require the Company to maintain a specified interest coverage ratio of no less than 3.25 and a specified leverage ratio of no more than .62. At February 2, 2002, the Company had an interest coverage ratio of 5.28 and a leverage ratio of .49 (calculated in each case in the manner prescribed by the applicable governing documents). Management believes that the likelihood of the Company defaulting on a debt covenant is not probable absent any material negative event affecting the U.S. economy as a whole. However, if the Company's results of operations or operating ratios deteriorate to a point where the Company is not in compliance with any of its covenants and the Company is unable to obtain a waiver, much of the Company's debt would be in default and callable.

able to manage its working capital levels and capital expenditure amounts so as to maintain its liquidity levels. The Company also relies on its \$1,600 million unsecured commercial paper facility, a \$375 million on-balance sheet asset-backed commercial paper program relating to the Company's proprietary credit card receivables and two off-balance sheet asset-backed bank commercial paper programs relating to the Company's non-proprietary credit card receivables (discussed above) in an aggregate amount of \$600 million, for short term liquidity. Access to the unsecured commercial paper program is dependent on the Company's credit rating; a downgrade in its short-term rating would hinder its ability to access this market. If the Company is unable to access the unsecured commercial paper market, it has the ability to access \$1,600 million pursuant to its bank credit agreements. These bank credit agreements have no material adverse change condition for utilization. The asset-backed commercial paper programs are used to finance the Company's proprietary and non-proprietary credit card receivables. These programs are extended annually and can be used to finance the receivables as long as the net portfolio yields remain positive. Depending upon conditions in the capital markets and other factors, the Company will from time to time consider the issuance of debt or other securities, or other possible capital markets transactions, the proceeds of which could be used to refinance current indebtedness or for other corporate purposes.

Critical Accounting Policies

Allowance for Doubtful Accounts

The Company evaluates the collectibility of its customer accounts receivable based on a combination of factors, including analysis of historical trends, aging of accounts receivable, write-off experience and expectations of future performance. Delinquent accounts are generally written off automatically after the passage of 210 days without receiving a full scheduled monthly payment. Accounts are written off sooner in the event of customer bankruptcy or other circumstances that make further collection unlikely. The Company reserves for doubtful accounts based on a loss-to-collections rate. At February 2, 2002, a 0.1 percentage point change in the loss-to-collections rate would impact the reserve for doubtful accounts by \$2 million.

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Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market using the last-in, first-out (LIFO) retail inventory method. Under the retail inventory method, inventory is segregated into departments of merchandise having similar characteristics, and is stated at its current retail selling value. Inventory retail values are converted to a cost basis by applying specific average cost factors for each merchandise department. Cost factors represent the average cost-to-retail ratio for each merchandise department based on beginning inventory and the fiscal year purchase activity. The retail inventory method inherently requires management judgments and contains estimates, such as the amount and timing of permanent markdowns to clear unproductive or slow-moving inventory, which may impact the ending inventory valuation as well as gross margins.

Permanent markdowns designated for clearance activity are recorded when the utility of the inventory has diminished. Factors considered in the determination of permanent markdowns include current and anticipated demand, customer preferences, age of the merchandise and fashion trends. When a decision is made to permanently mark down merchandise, the resulting gross profit reduction is recognized in the period the markdown is recorded.

Shrinkage is estimated as a percentage of sales for the period from the last inventory date to the end of the fiscal period. Such estimates are based on experience and the most recent physical inventory results. While it is not possible to quantify the impact from each cause of shrinkage, the Company has loss prevention programs and policies that minimize shrinkage experience. Physical inventories are taken within each merchandise department at least twice annually and inventory records are adjusted accordingly.

Long-Lived Asset Impairment and Restructuring Charges

The carrying value of long-lived assets are periodically reviewed by the Company whenever events or changes in circumstances indicate that a potential impairment has occurred. For long-lived assets held for use, a potential impairment has occurred if projected future undiscounted cash flows are less than the carrying value of the assets. The estimate of cash flows includes management's assumptions of cash inflows and outflows directly resulting from the use of that asset in operations. When a potential impairment has occurred, an impairment write-down is recorded if the carrying value of the long-lived asset exceeds its fair value. The Company believes its estimated cash flows are sufficient to support the carrying value of its long-lived assets. If estimated cash flows significantly differ in the future, the Company may be required to record asset impairment write-downs.

For long-lived assets held for disposal, whether by abandonment or sale, an impairment charge is recorded if the carrying amount of the assets exceeds its fair value less costs to sell. Such valuations include estimations of fair values, costs to dispose, and time periods over which to sell the assets. In addition, liabilities arise such as severance, contractual obligations and other accruals associated with store closings from decisions to dispose of assets. The Company estimates these liabilities based on the facts and circumstances in existence for each restructuring decision. The amounts the Company will ultimately realize or disburse could differ from the amounts assumed in arriving at the asset impairment and restructuring charge recorded.

Self-Insurance Reserves

The Company is self-insured for workers compensation and public liability claims up to certain maximum liability amounts. Although the amounts accrued are actuarially determined based on analysis of historical trends of losses, settlements, litigation costs and other factors, the amounts the Company will ultimately disburse could differ from such accrued amounts.

Pension and Other Employee Benefit Plans

The Company, through its actuaries, utilizes assumptions when estimating the liabilities for pension and other employee benefit plans. These assumptions, where applicable, include the discount rates used to determine the actuarial present value of projected benefit obligations, the rate of increase in future compensation levels, the long-term rate of return on assets and the growth in health care costs. The cost of these benefits is recognized in the financial statements over an employee's term of service with the Company.

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Discontinued Operations

Discontinued operations include management's best estimates of the amounts expected to be realized on the sale or wind-down of assets and businesses of the Fingerhut operations as well as estimates regarding the timing of those dispositions. As a result of uncertainties inherent in these estimates, the amount of loss actually experienced by the Company may differ materially from the estimated loss. If the actual loss exceeds the estimated loss, the Company would record the incremental loss in the period or periods in which it is experienced. Currently, assuming that a buyer cannot be found, the Fingerhut core catalog business liquidation is planned for completion during the second or third quarter of fiscal year 2002 and the credit operation liquidation is planned for completion within four years. Fingerhut's other operations, including Arizona Mail Order, Figi's, and Popular Club Plan, are anticipated to be sold as ongoing businesses by the end of fiscal year 2002.

Included in the loss on disposal, the Company recorded losses related to Fingerhut's core catalog accounts receivable portfolio through the four year wind-down period. The calculated loss includes estimates regarding customer payment rates, write-off rates, finance charge income, late fee income, and operating expenses, such as collection costs, necessary to carry out the wind-down of the portfolio. These estimates were based on a third party offer to purchase the portfolio, historical experience and industry data where available.

The estimated loss from the Fingerhut core catalog operations during the wind-down period includes assumptions of revenues to be earned and estimated expenses to be incurred based on historical experience as well as through detailed departmental plans regarding the costs necessary to complete the liquidation in the planned timeframe.

Losses on inventory were recognized based on estimated recovery values expected to be received from a third party liquidator. Write-downs of property, plant and equipment were based on historical recovery rates for similar liquidations of personal property and brokerage quotes, where available, for real estate properties. Other assets, such as tradenames, customer lists, supplies, prepaid expenses, and capitalized software, were written-down to estimated net realizable value, which in some cases was zero due to their lack of marketability.

The loss on sale of the Fingerhut subsidiaries was estimated using market value quotes from an investment bank, projected net book values of each subsidiary at the expected sale dates, and expenses necessary to disconnect the subsidiaries' support functions from Fingerhut's core catalog operations.

Severance and retention were estimated based on the current workforce, employment needs through the wind-down period, employment agreements where applicable, years of service, and estimated payout based on the general severance and retention plan offered to employees. Remaining lease obligations or contractual cancellation penalties were estimated based on a review of the contract terms in place.

Estimated interest expense has been allocated to discontinued operations based upon the debt balances attributable to those operations.

New Pronouncements

In 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets, effective for all business combinations initiated after June 30, 2001 and for fiscal years beginning after December 15, 2001, respectively. SFAS No. 141 eliminates the pooling of interests method of accounting for business combinations with limited exceptions for transactions initiated prior to July 1, 2001 and broadens the criteria for recording intangible assets separate from goodwill. The provisions of SFAS No. 141 were used as guidance to account for the acquisition of Liberty House. Under the provisions of SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their estimated lives.

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Application of the nonamortization provisions of SFAS No. 142, beginning in the first quarter of 2002, is expected to result in reductions to annual goodwill amortization of \$28 million and an increase in annual income from continuing operations of approximately \$24 million. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite-lived intangible assets, and the Company does not anticipate a material impact on the Company's consolidated financial position, results of operations or cash flows.

Also, in 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement supersedes SFAS No. 121 but retains many of its fundamental provisions. Additionally, this Statement expands the scope of discontinued operations to include more disposal transactions. The provisions of the Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company does not anticipate that its adoption will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Outlook

On February 26, 2002, the Company issued earnings guidance for 2002 and expects to achieve earnings per share from continuing operations of \$3.30 to \$3.55: 25 to 30 cents a share in the first quarter, 50 to 60 cents a share in the second quarter and \$2.45 to \$2.65 a share in the second half of the fiscal year, which ends February 1, 2003. Additionally, a comparable store sales increase of 1 to 1.5 percent is forecasted for 2002: down 2 to 3 percent in the first quarter, flattish in the second quarter and up 3 to 3.5 percent in the second half of 2002. In estimating comparable store sales and earnings per share, the Company assumed that general economic conditions and consumer confidence and demand would be such that sales would increase by the forecasted amounts and the rate of growth in operating income would be 0.5 to 1.0 percentage points, with most of the improvement coming from the gross margin rate, since in light of the sales forecasts, it will be difficult to significantly reduce SG&A expenses as a percent of net sales. The accuracy of these assumptions and of the resulting forecasts is subject to uncertainties and circumstances beyond the Company's control. Consequently, actual results could differ materially from the forecasted results.

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Item 8. Consolidated Financial Statements and Supplementary Data.

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

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| Independent Auditors' Report | |
| F-3 | |
| Consolidated Statements of Operations for the 52 weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000 | |
| F-4 | |
| Consolidated Balance Sheets at February 2, 2002 and February 3, 2001 | |
| F-5 | |
| Consolidated Statements of Changes in Shareholders' Equity for the 52 weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000 | |
| F-6 | |
| Consolidated Statements of Cash Flows for the 52 weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000 | |
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| Notes to Consolidated Financial Statements | |
| F-8 | |

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PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

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

1. Financial Statements:

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

2. Financial Statement Schedules:

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

3. Exhibits:

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

| Exhibit Number | Description | Document if Incorporated by Reference |
|----------------|---|---------------------------------------|
| 3.1 | Certificate of Incorporation Exhibit 3.1 to the Company's Annual Report on Form 10-K (File No. 001-135361) for the fiscal year ended January 28, 1995 (the 1994 Form 10-K) 3.1.1 | |
| | Certificate of Designations of Series A Junior Participating Preferred Stock Exhibit 3.1.1 to the 1994 Form 10-K 3.2 | |
| | By-Laws Exhibit 3.2 to the 1994 Form 10-K 4.1 | |
| | Certificate of Incorporation See Exhibits 3.1 and 3.1.1 4.2 | |
| | By-Laws See Exhibit 3.2 4.3 | |
| | Rights Agreement, dated as of | |

December 19,
1994, between
the Company and
the Bank of New
York, as rights
agent Exhibit 4.3
to the 1994
Form 10-K 4.4
Indenture, dated
as of
December 15,
1994, between
the Company and
State Street Bank
and Trust
Company
(successor to The
First National
Bank of Boston),
as
Trustee Exhibit 4.1
to the Company's
Registration
Statement on
Form S-3
(Registration
No. 33-88328)
filed on
January 9,
1995 4.4.1
Fifth
Supplemental
Indenture, dated
as of October 6,
1995, between
the Company and
State Street Bank
and Trust
Company
(successor to The
First National
Bank of Boston),
as
Trustee Exhibit 2
to the Company's
Registration
Statement on
Form 8-A, dated
October 4, 1995

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| Exhibit Number | Description | Document if Incorporated by Reference |
|--|-------------|---------------------------------------|
| 4.4.2 Seventh Supplemental Indenture, dated as of May 22, 1996, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee Exhibit 4 to the Company's Current Report on Form 8-K, dated as of May 21, 1996 | | |
| 4.4.3 Eighth Supplemental Indenture, dated as of July 14, 1997, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee Exhibit 2 to the Company's Current Report on Form 8-K dated as of July 15, 1997 (the July 1997 Form 8-K) | | |
| 4.4.4 Ninth Supplemental Indenture, dated as of July 14, 1997, between the Company and State Street Bank and Trust Company (successor to The First National Bank | | |

of Boston), as
Trustee Exhibit 3
to the July 1997
Form 8-K 4.5
Indenture, dated
as of
September 10,
1997, between
the Company
and Citibank,
N.A., as
Trustee Exhibit 4.4
to the
Company's
Amendment
Number 1 to
Form S-3 dated
as of
September 11,
1997 4.5.1
First
Supplemental
Indenture, dated
as of
February 6,
1998, between
the Company
and Citibank,
N.A., as
Trustee Exhibit 2
to the
Company's
Current Report
on Form 8-K
dated as of
February 6,
1998 4.5.2
Third
Supplemental
Trust Indenture,
dated as of
March 24, 1999,
between the
Company and
Citibank, N.A.,
as
Trustee Exhibit 4.2
to the
Company's
Registration
Statement on
Form S-4
(Registration
No. 333-76795)
dated as of
April 22,
1999 4.5.3
Fourth
Supplemental
Trust Indenture,
dated as of
June 6, 2000,

between the
Company and
Citibank, N.A.,
as
Trustee Exhibit 4.1
to the
Company's
Current Report
on Form 8-K,
dated as of
June 5,
2000 4.5.4
Fifth
Supplemental
Trust Indenture
dated as of
March 27, 2001,
between the
Company and
Citibank, N.A.,
as
Trustee Exhibit 4
to the
Company's
Current Report
on Form 8-K
dated as of
March 21,
2001 4.5.5
Sixth
Supplemental
Trust Indenture
dated as of
August 23,
2001, between
the Company
and Citibank,
N.A., as
Trustee Exhibit 4
to the
Company's
Current Report
on Form 8-K
dated as of
August 22, 2001

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| Exhibit Number | Description | Document if Incorporated by Reference |
|-------------------|--|---------------------------------------|
| 10.1 364 | <p>Day Credit Agreement, dated as of June 29, 2001, by and among the Company, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Administrative Agent, Fleet National Bank, as Syndication Agent, and the Bank of America, N. A., The Bank of New York and Credit Suisse First Boston, as Documentation Agents Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended August 4, 2001 (the August 2001 Form 10-Q)</p> | 10.2 |
| | <p>Five-Year Credit Agreement, dated as of June 29, 2001, by and among the Company, the Initial Lenders named therein, Citibank, N.A.,</p> | |

as
Administrative
Agent and
Paying Agent,
JPMorgan
Chase Bank
(formerly
known as The
Chase
Manhattan
Bank), as
Administrative
Agent, Fleet
National Bank,
as Syndication
Agent, and the
Bank of
America, N. A.,
The Bank of
New York and
Credit Suisse
First Boston, as
Documentation
Agents Exhibit 10.2
to the August
2001
Form 10-Q 10.3
Amended and
Restated
Pooling and
Servicing
Agreement,
dated as of
December 15,
1992 (the
Pooling and
Servicing
Agreement),
among the
Company,
Prime
Receivables
Corporation
(Prime) and
JPMorgan
Chase Bank
(formerly
known as The
Chase
Manhattan
Bank),
successor to
Chemical Bank,
as
Trustee Exhibit 4.10
to Prime s
Current Report
on Form 8-K
(File
No. 0-2118),
dated March 29,
1993 10.3.1

First
Amendment,
dated as of
December 1,
1993, to the
Pooling and
Servicing
Agreement Exhibit 10.10.1
to the
Company's
Annual Report
on Form 10-K
(File
No. 1-10951)
for the fiscal
year ended
January 29,
1994 (the 1993
Form 10-K) 10.3.2
Second
Amendment,
dated as of
February 28,
1994, to the
Pooling and
Servicing
Agreement Exhibit 10.10.2
to the 1993
Form 10-K 10.3.3
Third
Amendment,
dated as of
May 31, 1994,
to the Pooling
and Servicing
Agreement Exhibit 10.8.3
to the 1994
Form 10-K 10.3.4
Fourth
Amendment,
dated as of
January 18,
1995, to the
Pooling and
Servicing
Agreement Exhibit 10.6.4
to the
Company's
Annual Report
on Form 10-K
(File
No. 1-13536)
for the fiscal
year ended
February 3,
1996 (the 1995
Form 10-K)

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| Exhibit Number | Description | Document if Incorporated by Reference |
|--|--|---------------------------------------|
| 10.3.5 | Fifth Amendment, dated as of April 30, 1995, to the Pooling and Servicing Agreement Exhibit 10.6.5 | |
| to the 1995 Form 10-K 10.3.6 | Sixth Amendment, dated as of July 27, 1995, to the Pooling and Servicing Agreement Exhibit 10.6.6 | |
| to the 1995 Form 10-K 10.3.7 | Seventh Amendment, dated as of May 14, 1996, to the Pooling and Servicing Agreement Exhibit 10.6.7 | |
| to the Company s Annual Report on Form 10-K (File No. 1-13536) for the fiscal year ended February 1, 1997 (the 1996 Form 10-K) 10.3.8 | Eighth Amendment, dated as of March 3, 1997, to the Pooling and Servicing Agreement Exhibit 10.6.8 | |
| to the 1996 Form 10-K 10.3.9 | Ninth Amendment, dated as of August 28, 1997, to the Pooling and Servicing Agreement Exhibit 10.1 | |
| to the Company s Quarterly | | |

Report on
Form 10-Q for
the period
ended
November 1,
1997 (the
November 1997
Form 10-Q) 10.3.10
Tenth
Amendment,
dated as of
August 3, 1998,
to the Pooling
and Servicing
Agreement Exhibit 10.1
to the
Company s
Quarterly
Report on
Form 10-Q for
the period
ended
October 31,
1998 10.3.11
Eleventh
Amendment,
dated as of
March 23, 2000,
to the Pooling
and Servicing
Agreement Exhibit 10.1
to the July 2000
Form 10-Q
10.3.12
Twelfth
Amendment,
dated as of
November 20,
2001, to the
Pooling and
Servicing
Agreement Previously
filed.
10.4
Assumption
Agreement
under the
Pooling and
Servicing
Agreement,
dated as of
September 15,
1993 Exhibit 10.10.3
to the 1993
Form 10-K 10.5
Series 1992-3
Supplement,
dated as of
January 5, 1993,
to the Pooling
and Servicing
Agreement Exhibit 4.8

to Prime s
Current Report
on Form 8-K
(File
No. 0-2118),
dated
January 29,
1993 10.6
Series 1995-1
Supplement,
dated as of
July 27, 1995,
to the Pooling
and Servicing
Agreement Exhibit 4.7
to Prime s
Registration
Statement on
Form S-1, filed
July 14, 1995,
as
amended 10.6.1
First
Amendment to
Series 1995-1
Supplement,
dated as of
August 28,
1997, to the
Pooling and
Servicing
Agreement Exhibit 10.4
to the
November 1997
Form 10-Q

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| Exhibit Number | Description | Document if Incorporated by Reference |
|-------------------|---|---------------------------------------|
| 10.7 | Series 2000-1 Supplement, dated as of December 7, 2000, to Amended and Restated Pooling and Servicing Agreement dated as of December 15, 1992. Exhibit 1 to Prime s Current Report on Form 8-K (File No. 033-52374), dated December 27, 2000 | |
| 10.8 | Amended and Restated Pooling and Servicing Agreement dated as of March 18, 1998 (the Fingerhut Amended and Restated Pooling and Servicing Agreement), between Fingerhut Receivables, Inc., as Transferor, Axsys National Bank (formerly Fingerhut National Bank), as Servicer, and The Bank of New York (Delaware) as Trustee (incorporated by reference to Exhibit 4(d) to Fingerhut Receivables, Inc. Registration Statement on Form S-1) Exhibit 10.8 to the Company s Quarterly Report | |

on Form 10-Q
 for the period
 ended May 1,
 1999 (the May
 1999
 Form 10-Q) 10.8.1
 First
 Amendment
 dated May 25,
 2001 to the
 Fingerhut
 Amended and
 Restated Pooling
 and Servicing
 Agreement Exhibit 10.3
 to the August
 2001
 Form 10-Q 10.9
 Series 1998-2
 Supplement
 dated as of
 April 28, 1998 to
 the Fingerhut
 Amended and
 Restated Pooling
 and Servicing
 Agreement Exhibit 10.10
 to the May 1999
 Form 10-Q 10.9.1
 First
 Amendment
 dated as of
 March 17, 1999
 to Series 1998-2
 Supplement Exhibit 10.13
 to the May 1999
 Form 10-Q 10.10
 Receivables
 Purchase
 Agreement,
 dated as of
 December 15,
 1992 (the
 Receivables
 Purchase
 Agreement),
 among Abraham
 & Straus, Inc.,
 Bloomingdale s,
 Inc., Burdines,
 Inc., Jordan
 Marsh Stores
 Corporation,
 Lazarus, Inc.,
 Rich s
 Department
 Stores, Inc.,
 Stern s
 Department
 Stores, Inc., The
 Bon, Inc. and
 Prime Exhibit 10.2

to Prime s
Registration
Statement on
Form 8-A filed
January 22,
1993, as
amended 10.10.1
First
Amendment,
dated as of
June 23, 1993, to
the Receivables
Purchase
Agreement Exhibit 10.14.1
to 1993
Form 10-K 10.10.2
Second
Amendment,
dated as of
December 1,
1993, to the
Receivables
Purchase
Agreement Exhibit 10.14.2
to 1993
Form 10-K 10.10.3
Third
Amendment,
dated as of
February 28,
1994, to the
Receivables
Purchase
Agreement Exhibit 10.14.3
to 1993
Form 10-K 10.10.4
Fourth
Amendment,
dated as of
May 31, 1994, to
the Receivables
Purchase
Agreement Exhibit 10.13.4
to the 1994
Form 10-K 10.10.5
Fifth
Amendment,
dated as of
April 30, 1995,
to the
Receivables
Purchase
Agreement Exhibit 10.12.5
to the 1995
Form 10-K

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| Exhibit Number | Description | Document if Incorporated by Reference |
|-------------------|--|---------------------------------------|
| 10.10.6 | Sixth Amendment, dated as of August 26, 1995, to the Receivables Purchase Agreement Exhibit 10.13.6 to the 1996 Form 10-K | 10.10.7 |
| 10.10.7 | Seventh Amendment, dated as of August 26, 1995, to the Receivables Purchase Agreement Exhibit 10.13.7 to the 1996 Form 10-K | 10.10.8 |
| 10.10.8 | Eighth Amendment, dated as of May 14, 1996, to the Receivables Purchase Agreement Exhibit 10.13.8 to the 1996 Form 10-K | 10.10.9 |
| 10.10.9 | Ninth Amendment, dated as of March 3, 1997, to the Receivables Purchase Agreement. Exhibit 10.13.9 to the 1996 Form 10-K | 10.10.10 |
| 10.10.10 | Tenth Amendment, dated as of March 23, 2000, to the Receivables Purchase Agreement Exhibit 10.2 to the July 2000 Form 10-Q | |
| 10.10.11 | Eleventh Amendment, dated as of November 20, | |

2001, to
Receivables
Purchase
Agreement Previously
filed.
10.10.12
First
Supplement,
dated as of
September 15,
1993, to the
Receivables
Purchase
Agreement Exhibit 10.14.4
to 1993
Form 10-K 10.10.13
Second
Supplement,
dated as of
May 31, 1994,
to the
Receivables
Purchase
Agreement Exhibit 10.12.7
to the 1995
Form 10-K 10.11
Amended and
Restated
Purchase
Agreement
dated as of
March 18, 1998
between
Fingerhut
Receivables,
Inc., as Buyer
and Fingerhut
Companies,
Inc., as Seller
(incorporated by
reference to
Exhibit 10(d) to
Fingerhut
Receivables,
Inc.
Registration
Statement on
Form S-1) Exhibit 10.15
to the May 1999
Form 10-Q 10.12
Amended and
Restated Bank
Receivables
Purchase
Agreement
dated as of
March 18, 1998
between
Fingerhut
Companies,
Inc., as Buyer,
and Axsys

National Bank
(formerly
Fingerhut
National Bank),
as Seller
(incorporated by
reference to
Exhibit 10(e) to
Fingerhut
Receivables,
Inc.
Registration
Statement) Exhibit 10.16
to the May 1999
Form 10-Q 10.13
Reassignment
of Receivables,
dated as of
October 27,
2000, by and
between
Fingerhut
Receivables,
Inc. and The
Bank of New
York Exhibit 10.4
to the October
2000
Form 10-Q

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| Exhibit Number | Description | Document if Incorporated by Reference |
|-------------------|---|---------------------------------------|
| 10.14 | Depository Agreement, dated as of December 31, 1992, among Deerfield Funding Corporation, now known as Seven Hills Funding Corporation (Seven Hills), the Company, and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Depository Exhibit 10.15 to Company s Annual Report on Form 10-K (File No. 1-10951) for the fiscal year ended January 30, 1993 (1992 Form 10-K) | |
| | Liquidity Agreement, dated as of December 31, 1992, among Seven Hills, the Company, the financial institutions named therein, and Credit Suisse, New York Branch, as Liquidity Agent Exhibit 10.16 to 1992 Form 10-K | 10.15 |
| | Pledge and Security Agreement, dated as of December 31, 1992, among | 10.16 |

Seven Hills, the
Company,
JPMorgan
Chase Bank
(formerly
known as The
Chase
Manhattan
Bank), as
Depository and
Collateral
Agent, and the
Liquidity
Agent Exhibit 10.17
to 1992
Form 10-K 10.17
Commercial
Paper Dealer
Agreement,
dated as of
December 31,
1992, among
Seven Hills, the
Company, and
Goldman Sachs
Money Markets,
L.P. Exhibit 10.18
to 1992
Form 10-K
10.18
Commercial
Paper Dealer
Agreement,
dated as of
November 2,
2001, between
Seven Hills, the
Company and
Banc One
Capital
Markets,
Inc. Previously
filed 10.19
Commercial
Paper Dealer
Agreement,
dated as of
November 15,
2001, between
Seven Hills, the
Company and
Credit Suisse
First
Boston Previously
filed
10.20
Receivables
Purchase
Agreement,
dated as of
January 22,
1997, among

FDS Bank
(successor in
interest to FDS
National Bank)
and Prime II
Receivables
Corporation
(Prime
II) Exhibit 10.19
to the 1996
Form 10-K 10.21
Class A
Certificate
Purchase
Agreement,
dated as of
January 22,
1997, among
Prime II, FDS
Bank (successor
in interest to
FDS National
Bank), The
Class A
Purchasers
Parties thereto
and Credit
Suisse First
Boston, New
York Branch, as
Agent Exhibit 10.20
to the 1996
Form 10-K 10.22
Class B
Certificate
Purchase
Agreement,
dated as of
January 22,
1997, among
Prime II, FDS
Bank (successor
in interest to
FDS National
Bank), The
Class B
Purchasers
Parties thereto
and Credit
Suisse First
Boston, New
York Branch, as
Agent Exhibit 10.21
to the 1996
Form 10-K

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| Exhibit Number | Description | Document if Incorporated by Reference |
|-------------------|--|---------------------------------------|
| 10.23 | Class A Certificate Purchase Agreement, dated as of July 6, 1999, by and among Prime II, as Transferor, FDS Bank (successor in interest to FDS National Bank), as Servicer, The Class A Purchasers, and PNC Bank, National Association, as Agent and Administrative Agent Exhibit 10.6 to the July 1999 | |
| Form 10-Q 10.23.1 | First Amendment to Class A Certificate Purchase Agreement, dated as of August 3, 1999, by and among Prime II, as Transferor, FDS Bank (successor in interest to FDS National Bank), as Servicer, The Class A Purchasers, and PNC Bank, National Association, as Agent and Administrative Agent Exhibit 10.7 to the July 1999 | |
| Form 10-Q 10.23.2 | | |

Second
Amendment to
Class A
Certificate
Purchase
Agreement,
dated as of
October 10,
2000, by and
among Prime
II, as
Transferor,
FDS Bank
(successor in
interest to FDS
National
Bank), as
Servicer,
Market Street
Funding
Corporation, as
Class A
Purchaser, and
PNC Bank,
National
Association, as
Agent Exhibit 10.27.2
to the
Company's
Annual Report
on Form 10-K
(File
No. 1-13536)
for fiscal year
ended
February 3,
2001 (the 2000
Form 10-K) 10.24
Class B
Certificate
Purchase
Agreement,
dated as of
July 6, 1999,
by and among
Prime II, as
Transferor,
FDS Bank
(successor in
interest to FDS
National
Bank), as
Servicer, The
Class A
Purchasers, and
PNC Bank,
National
Association, as
Agent and
Administrative
Agent Exhibit 10.8
to the July

| | |
|-----------------------|---------|
| 1999 | |
| Form 10-Q | 10.24.1 |
| First | |
| Amendment to | |
| Class B | |
| Certificate | |
| Purchase | |
| Agreement, | |
| dated as of | |
| August 3, | |
| 1999, by and | |
| among Prime | |
| II, as | |
| Transferor, | |
| FDS Bank | |
| (successor in | |
| interest to FDS | |
| National | |
| Bank), as | |
| Servicer, The | |
| Class A | |
| Purchasers, and | |
| PNC Bank, | |
| National | |
| Association, as | |
| Agent and | |
| Administrative | |
| Agent Exhibit 10.9 | |
| to the July | |
| 1999 | |
| Form 10-Q | 10.24.2 |
| Second | |
| Amendment to | |
| Class B | |
| Certificate | |
| Purchase | |
| Agreement, | |
| dated as of | |
| October 10, | |
| 2000, by and | |
| among Prime | |
| II, as | |
| Transferor, | |
| FDS Bank | |
| (successor in | |
| interest to FDS | |
| National | |
| Bank), as | |
| Servicer, | |
| Market Street | |
| Funding | |
| Corporation, as | |
| Class B | |
| Purchaser, and | |
| PNC Bank, | |
| National | |
| Association, as | |
| Agent Exhibit 10.28.2 | |
| to the 2000 | |
| Form 10-K | 10.25 |
| Pooling and | |
| Servicing | |

Agreement,
dated as of
January 22,
1997, (the
Prime II
Pooling and
Servicing
Agreement)
among Prime
II, FDS Bank
(successor in
interest to FDS
National Bank)
and JPMorgan
Chase Bank
(formerly
known as The
Chase
Manhattan
Bank), as
Trustee Exhibit 10.22
to the 1996
Form 10-K

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| Exhibit Number | Description | Document if Incorporated by Reference |
|-------------------|--|---------------------------------------|
| 10.26 | Series 1997-1 Variable Funding Supplement, dated as of January 22, 1997, to the Prime II Pooling and Servicing Agreement Exhibit 10.23 to the 1996 | |
| Form 10-K | 10.26.1 First Amendment to Series 1997-1 Variable Funding Supplement, dated as of June 19, 2000, to the Prime II Pooling and Servicing Agreement Exhibit 10.4 to the July 2000 | |
| Form 10-Q | 10.27 Series 1999-1 Variable Funding Supplement, dated as of July 6, 1999, to the Prime II Pooling and Servicing Agreement Exhibit 10.5 to the July 1999 | |
| Form 10-Q | 10.27.1 First Amendment to Series 1999-1 Variable Funding Supplement, dated as of August 1, 2000, to the Prime II Pooling and Servicing Agreement Exhibit 10.3 to the July 2000 | |
| Form 10-Q | 10.28 Commercial Paper Issuing and Paying | |

Agent
Agreement,
dated as of
January 30,
1997, between
Citibank, N.A.
and the
Company Exhibit 10.25
to the 1996
Form 10-K10.29
Commercial
Paper Dealer
Agreement,
dated as of
March 12, 1999,
between the
Company, as
Issuer, and
Goldman Sachs
& Co., as
Dealer Exhibit 10.2
to the May 1999
Form 10-Q 10.30
Commercial
Paper Dealer
Agreement,
dated as of
March 12, 1999,
between the
Company, as
Issuer, and Banc
One Capital
Markets, Inc.
(successor in
interest to First
Chicago Capital
Markets, Inc.),
as
Dealer Exhibit 10.3
to the May 1999
Form 10-Q 10.31
Commercial
Paper Dealer
Agreement,
dated as of
March 12, 1999,
between the
Company, as
Issuer, and J.P.
Morgan
Securities Inc.
(formerly
known as Chase
Securities, Inc.),
as
Dealer Exhibit 10.4
to the May 1999
Form 10-Q 10.32
Tax Sharing
Agreement Exhibit 10.10
to
Form 10 10.33

Ralphs Tax
Indemnification
Agreement Exhibit 10.1
to
Form 10 10.34
Account
Purchase
Agreement
dated as of
May 10, 1991,
by and among
Monogram
Bank, USA,
Macy's, Macy
Credit
Corporation,
Macy Funding,
Macy's
California, Inc.,
Macy's
Northeast, Inc.,
Macy's South,
Inc., Bullock's
Inc., I. Magnin,
Inc., Master
Servicer, and
Macy Specialty
Stores, Inc.
** Exhibit 19.2
to Macy's
Quarterly
Report on
Form 10-Q for
the fiscal quarter
ended May 4,
1991 (File
No. 33-6192), as
amended under
cover of Form 8,
dated October 3,
1991 (Macy's
May 1991
Form 10-Q)

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| Exhibit Number | Description | Document if Incorporated by Reference |
|-------------------|--|---------------------------------------|
| 10.35 | Amended and Restated Credit Card Program Agreement, dated as of June 4, 1996, among GE Capital Consumer Card Co. (GE Bank), FDS Bank (successor in interest to FDS National Bank), Macy s East, Inc., Macy s West, Inc., Federated Western Properties, Inc. (successor in interest to Bullock s, Inc. and Broadway Stores, Inc.), FACS Group, Inc., and MSS-Delaware, Inc. | |
| | ** Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the period ended August 3, 1996 (the August 1996 | |
| | Form 10-Q) 10.36 Amended and Restated Trade Name and Service Mark License Agreement, dated as of June 4, 1996, among the Company, GE Bank and General Electric Capital Corporation (GE Capital) Exhibit 10.2 to the August 1996 Form 10-Q 10.37 | |

FACS Credit
Services and
License
Agreement,
dated as of
June 4, 1996, by
and among GE
Bank, GE
Capital and
FACS Group,
Inc.
** Exhibit 10.3
to the August
1996
Form 10-Q 10.38
FDS Guaranty,
dated as of
June 4,
1996 Exhibit 10.4
to the August
1996
Form 10-Q 10.39
GE Capital
Credit Services
and License
Agreement,
dated as of
June 4, 1996,
among GE
Capital, FDS
Bank (successor
in interest to
FDS National
Bank), the
Company and
FACS Group,
Inc.
** Exhibit 10.5
to the August
1996
Form 10-Q 10.40
GE Capital/GE
Bank Credit
Services
Agreement,
dated as of
June 4, 1996,
among GE
Capital and GE
Bank
** Exhibit 10.6
to the August
1996
Form 10-Q 10.41
Amended and
Restated
Commercial
Accounts
Agreement,
dated as of
June 4, 1996,
among GE

Capital, the
Company, FDS
Bank (successor
in interest to
FDS National
Bank), Macy's
East, Inc., Macy's
West, Inc.,
Federated
Western
Properties, Inc.
(successor in
interest to
Bullock's, Inc.
and Broadway
Stores, Inc.),
FACS Group,
Inc. and
MSS-Delaware,
Inc.
** Exhibit 10.7
to the August
1996
Form 10-Q 10.42
Agreement and
Plan of Merger,
dated as of
February 10,
1999, among the
Company,
Bengal
Subsidiary
Corporation and
Fingerhut
Companies, Inc.
(incorporated by
reference to
Exhibit (c)(I) of
the
Schedule 14D-1,
filed by the
Company and
Bengal on
February 18,
1999) Exhibit 10.1
to the May 1999
Form 10-Q 10.43
1992 Executive
Equity Incentive
Plan
* Exhibit 10.12
to the Company's
Registration
Statement on
Form 10 filed
November 27,
1991, as
amended

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| Exhibit Number | Description | Document if Incorporated by Reference |
|-------------------|--|---------------------------------------|
| 10.44 | 1995 Executive Equity Incentive Plan, as amended and restated as of May 19, 2000 | |
| | * Appendix A to the Company's proxy statement on Schedule 14A, filed April 19, 2000 (the 1999 Proxy Statement) | 10.45 |
| | 1992 Incentive Bonus Plan, as amended and restated as of May 19, 2000 | |
| | * Exhibit B to the 1999 Proxy Statement | 10.46 |
| | Form of Severance Agreement | |
| | * Exhibit 10.33 to the 1994 Form 10-K | 10.47 |
| | Form of Indemnification Agreement | |
| | * Exhibit 10.14 to Form 10 | 10.48 |
| | Senior Executive Medical Plan | |
| | * Exhibit 10.1.7 to the Company's Annual Report on Form 10-K (File No. 1-163) for the fiscal year ended February 3, 1990 | 10.49 |
| | Employment Agreement, dated as of August 27, 1999, between James M. Zimmerman and | |

the Company
* Exhibit 10.50
to the
Company's
Annual Report
on Form 10-K
for the fiscal
year ended
January 29,
2000
10.49.1
Amended
Exhibit A, dated
as of June 8,
2001, to the
Employment
Agreement
dated
August 27,
1999, between
James M.
Zimmerman and
the
Company Previously
filed
10.50
Employment
Agreement,
dated as of
April 1, 2000,
between Terry J.
Lundgren and
the Company
* Exhibit 10.1 to
the Company's
Quarterly
Report on
Form 10-Q for
the period ended
April 29,
2000 10.51
Form of
Employment
Agreement for
Executives and
Key Employees
* Exhibit 10.31
to 1993
Form 10-K 10.52
Form of
Severance
Agreement (for
Executives and
Key Employees
other than the
Executive
Officers)
* Exhibit 10.44
to the
Company's
Annual Report
on Form 10-K

for the fiscal
year ended
January 30,
1999 (the 1998
Form 10-K) 10.53
Form of Second
Amended and
Restated
Severance
Agreement (for
the Executive
Officers)
* Exhibit 10.45
to the 1998
Form 10-K 10.54
Supplementary
Executive
Retirement Plan,
as amended and
restated as of
January 1, 1997
* Exhibit 10.46
to the 1996
Form 10-K 10.55
Executive
Deferred
Compensation
Plan, as
amended
* Exhibit 10.47
to the 1996
Form 10-K 10.56
Profit Sharing
401(k)
Investment Plan
(amending and
restating the
Retirement
Income and
Thrift Incentive
Plan) effective
as of April 1,
1997
* Exhibit 10.48
to the 1996
Form 10-K

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| Exhibit Number | Description | Document if Incorporated by Reference |
|-------------------|--|---------------------------------------|
| 10.57 | Cash Account Pension Plan (amending and restating the Company Pension Plan) effective as of January 1, 1997 * Exhibit 10.49 to the 1996 Form 10-K 21 Subsidiaries Previously filed | |
| 22 | Consent of KPMG LLP | |
| 23 | Powers of Attorney Previously filed | |

* Constitutes a compensatory plan or arrangement.

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

(b) Reports on Form 8-K.

(i) Current report on Form 8-K, dated January 17, 2002, reporting matters under items 5 and 7 thereof.

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SIGNATURES

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

FEDERATED DEPARTMENT STORES, INC.

By: /s/ DENNIS J. BRODERICK

Dennis J. Broderick
Senior Vice President, General Counsel and Secretary
 Date: November 15, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on November 15, 2002.

| Signature | Title |
|------------------------|--|
| * | |
| James M. Zimmerman | Chairman of the Board and Chief Executive Officer (principal executive officer) and Director * |
| Terry J. Lundgren | President/Chief Operating Officer and Chief Merchandising Officer and Director * |
| Ronald W. Tysoe | Vice Chairman, Finance and Real Estate and Director * |
| Karen M. Hoguet | Senior Vice President and Chief Financial Officer * |
| Joel A. Belsky | Vice President and Controller (principal accounting officer) * |
| Meyer Feldberg | Director * |
| Earl G. Graves, Sr. | Director * |
| Sara Levinson | Director * |
| Joseph Neubauer | Director * |
| Joseph A. Pichler | Director * |
| Karl M. von der Heyden | Director * |
| Craig E. Weatherup | Director * |
| Marna C. Whittington | Director |

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

By: /s/ DENNIS J. BRODERICK

Dennis J. Broderick
Attorney-in-Fact

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CERTIFICATIONS

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

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

November 15, 2002

/s/ JAMES M. ZIMMERMAN

James M. Zimmerman

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

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

November 15, 2002

/s/ KAREN M. HOGUET

Karen M. Hoguet

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| Independent Auditors' Report | |
| F-3 | |
| Consolidated Statements of Operations for the 52 Weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000 | |
| F-4 | |
| Consolidated Balance Sheets at February 2, 2002 and February 3, 2001 | |
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| Consolidated Statements of Changes in Shareholders' Equity for the 52 Weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000 | |
| F-6 | |
| Consolidated Statements of Cash Flows for the 52 weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000 | |
| F-7 | |
| Notes to Consolidated Financial Statements | |
| F-8 | |

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MANAGEMENT'S REPORT

To the Shareholders of
Federated Department Stores, Inc.:

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

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

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

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

James M. Zimmerman
Chairman and Chief Executive Officer

Karen M. Hoguet
Senior Vice President, Chief Financial Officer

Joel A. Belsky
Vice President and Controller

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INDEPENDENT AUDITORS REPORT

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

We have audited the accompanying consolidated balance sheets of Federated Department Stores, Inc. and subsidiaries as of February 2, 2002 and February 3, 2001, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the fifty-two week period ended February 2, 2002, the fifty-three week period ended February 3, 2001 and the fifty-two week period ended January 29, 2000. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Federated Department Stores, Inc. and subsidiaries as of February 2, 2002 and February 3, 2001, and the results of their operations and their cash flows for the fifty-two week period ended February 2, 2002, the fifty-three week period ended February 3, 2001 and the fifty-two week period ended January 29, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Cincinnati, Ohio
February 26, 2002

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FEDERATED DEPARTMENT STORES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(millions, except per share data)

| | 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 | 52 Weeks Ended January 29, 2000 |
|--|--|--|--|
| Net sales | \$15,651 | \$16,638 | \$16,029 |
| Cost of sales: | | | |
| Recurring | 9,531 | 9,955 | 9,576 |
| Inventory valuation adjustments | 53 | | |
| <hr/> | | | |
| <hr/> | | | |
| <hr/> | | | |
| Total cost of sales | 9,584 | 9,955 | 9,576 |
| Selling, general and administrative expenses | 4,801 | 4,912 | 4,760 |
| Asset impairment charges | 52 | 74 | |
| Restructuring charges | 110 | 6 | |
| <hr/> | | | |
| <hr/> | | | |
| <hr/> | | | |
| Operating income | 1,104 | 1,691 | 1,693 |
| Interest expense | (331) | (327) | (320) |
| Interest income | 7 | 6 | 13 |
| <hr/> | | | |
| <hr/> | | | |
| <hr/> | | | |

Income from continuing operations before income taxes and extraordinary item

780 1,370 1,386

Federal, state and local income tax expense

(262) (549) (561)

Income from continuing operations before extraordinary item

518 821 825

Discontinued operations:

Loss from discontinued operations, net of tax effect

(14) (1,005) (30)

Loss on disposal of discontinued operations, including \$292 million of estimated operating losses during the phase-out period, net of tax effect

(770)

Extraordinary item, net of tax effect

(10)

Net income (loss)

\$(276) \$(184) \$795

Basic earnings (loss) per share:

Income from continuing operations

\$2.65 \$4.01 \$3.92

Loss from discontinued operations

(4.01) (4.91) (.14)

Extraordinary item

(.05)

Net income (loss)
\$(1.41) \$(.90) \$3.78

Diluted earnings (loss) per share:

Income from continuing operations
\$2.59 \$3.97 \$3.76
Loss from discontinued operations
(3.92) (4.86) (.14)
Extraordinary item
(.05)

Net income (loss)
\$(1.38) \$(.89) \$3.62

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

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FEDERATED DEPARTMENT STORES, INC.

CONSOLIDATED BALANCE SHEETS
(millions)

| | <u>February 2, 2002</u> | <u>February 3, 2001</u> |
|---------------------------------------|-----------------------------|-----------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$636 | \$222 |
| Accounts receivable | 2,379 | 2,435 |
| Merchandise inventories | 3,376 | 3,626 |
| Supplies and prepaid expenses | 124 | 121 |
| Deferred income tax assets | 21 | 4 |
| Net assets of discontinued operations | 744 | 1,436 |
| <hr/> | | |
| <hr/> | | |
| Total Current Assets | 7,280 | 7,844 |
| Property and Equipment net | 6,506 | 6,621 |
| Intangible Assets net | 683 | 617 |
| Other Assets | 575 | 492 |
| <hr/> | | |
| <hr/> | | |
| Total Assets | \$15,044 | \$15,574 |
| <hr/> | | |
| <hr/> | | |

LIABILITIES
AND SHAREHOLDERS
EQUITY

Current Liabilities:

| | |
|---|---------|
| Short-term debt | |
| \$1,012 | \$1,117 |
| Accounts payable and accrued liabilities | |
| 2,645 | 2,642 |
| Income taxes | |
| 57 | 245 |

| | |
|---------------------------|-------|
| Total Current Liabilities | |
| 3,714 | 4,004 |

| | |
|----------------|-------|
| Long-Term Debt | |
| 3,859 | 3,845 |

| | |
|-----------------------|-------|
| Deferred Income Taxes | |
| 1,345 | 1,362 |

| | |
|-------------------|-----|
| Other Liabilities | |
| 562 | 541 |

Shareholders' Equity:

| | |
|---|---|
| Common stock (200.8 and 198.7 million shares outstanding) | |
| 3 | 3 |

| | |
|----------------------------|-------|
| Additional paid-in capital | |
| 5,098 | 4,766 |

| | |
|--------------------|-------|
| Accumulated equity | |
| 2,367 | 2,643 |

| | |
|----------------|---------|
| Treasury stock | |
| (1,881) | (1,582) |

| | |
|---------------------------|-----|
| Unearned restricted stock | |
| (11) | (6) |

| | |
|---|-----|
| Accumulated other comprehensive loss | |
| (12) | (2) |

| | |
|----------------------------|-------|
| Total Shareholders' Equity | |
| 5,564 | 5,822 |

| | |
|---|----------|
| Total Liabilities and Shareholders' Equity | |
| \$15,044 | \$15,574 |

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

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FEDERATED DEPARTMENT STORES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(millions)

| | <u>Common</u> | <u>Additional</u> | <u>Accumulated</u> | <u>Treasury</u> | <u>Unearned</u> | <u>Accumulated</u> | <u>Total</u> |
|--|---------------|-------------------|--------------------|-----------------|-------------------|--------------------|----------------------|
| | <u>Stock</u> | <u>Capital</u> | <u>Equity</u> | <u>Stock</u> | <u>Restricted</u> | <u>Other</u> | <u>Shareholders'</u> |
| | | | | | <u>Stock</u> | <u>Income</u> | <u>Equity</u> |
| | | | | | | <u>(Loss)</u> | |
| Balance at January 30, 1999 | \$2 | \$4,406 | \$2,032 | \$(720) | \$(1) | \$(10) | \$5,709 |
| Net Income | | 795 | 795 | | | | |
| Minimum pension liability adjustment, net of income tax effect | | | 10 | | | 10 | |
| <hr/> | | | | | | | |
| Total comprehensive income | | | 805 | | | | |
| Stock repurchases | | (267) | (267) | | | | |
| Stock issued under stock plans | | 52 | (4) | (9) | | | 39 |
| Stock issued upon exercise of warrants | | 1 | 233 | | | | 234 |
| Restricted stock plan amortization | | | 3 | | | | 3 |
| Deferred compensation plan distributions | | | 1 | | | | 1 |
| Income tax benefit related to stock plan activity | | | 16 | | | | 16 |
| Equity issued in acquisition | | | 12 | | | | 12 |
| <hr/> | | | | | | | |
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Balance at January 29, 2000

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3 4,719 2,827 (990) (7) 6,552

Net loss

(184) (184)

Minimum pension liability adjustment, net of income tax effect

(2) (2)

Total comprehensive loss

(186)

Stock repurchases

(601) (601)

Stock issued under stock plans

8 8 (5) 11

Stock issued upon exercise of warrants

35 35

Restricted stock plan amortization

6 6

Deferred compensation plan distributions

1 1

Income tax benefit related to stock plan activity

4 4

Balance at February 3, 2001

3 4,766 2,643 (1,582) (6) (2) 5,822

Net loss

(276) (276)

Minimum pension liability adjustment, net of income tax effect

(10) (10)

Total comprehensive loss

(286)

Stock repurchases

(297) (297)

Stock issued under stock plans

55 (3) (10) 42

Stock issued upon exercise of warrants

267 267

| | | |
|---|----|----|
| Restricted stock plan amortization | | |
| | 5 | 5 |
| Deferred compensation plan distributions | | |
| | 1 | 1 |
| Income tax benefit related to stock plan activity | | |
| | 10 | 10 |

Balance at February 2, 2002
\$3 \$5,098 \$2,367 \$(1,881) \$(11) \$(12) \$5,564

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

Table of Contents**FEDERATED DEPARTMENT STORES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**
(millions)

| | 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 | 52 Weeks Ended January 29, 2000 |
|---|--|--|--|
| Cash flows from operating activities: | | | |
| Net income (loss) | \$(276) | \$(184) | \$795 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Loss from discontinued operations | 784 | 1,005 | 30 |
| Depreciation and amortization | 657 | 617 | 628 |
| Amortization of intangible assets | 28 | 31 | 36 |
| Amortization of financing costs | 7 | 6 | 6 |
| Amortization of unearned restricted stock | 4 | 3 | 1 |
| Asset impairment and restructuring charges | 215 | 80 | |
| Loss on early extinguishment of debt | 10 | | |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in accounts receivable | 83 | (105) | (126) |
| (Increase) decrease in merchandise inventories | 305 | (258) | (109) |
| Increase in supplies and prepaid expenses | (5) | | |
| Increase in other assets not separately identified | (52) | (25) | (27) |
| Increase (decrease) in accounts payable and accrued liabilities not separately identified | (236) | (23) | 240 |
| Increase (decrease) in current income taxes | (181) | 19 | 127 |

Increase in deferred income taxes
17 174 146
Increase (decrease) in other
liabilities not separately identified
7 (8) (7)

Net cash provided by operating
activities
1,372 1,332 1,735

Cash flows from investing activities:

Purchase of property and equipment
(615) (720) (745)
Acquisition of Liberty House, Inc.,
net of cash acquired
(175)
Capitalized software
(36) (66) (37)
Investments in companies
(4) (37)
Disposition of property and
equipment
55 70 46

Net cash used by investing activities
(771) (720) (773)

Cash flows from financing
activities:

Debt issued
1,000 750 1,516
Financing costs
(16) (6) (10)
Debt repaid
(1,140) (361) (525)
Increase (decrease) in outstanding
checks
37 (38) (3)
Acquisition of treasury stock
(299) (603) (267)
Issuance of common stock
323 53 290

Net cash provided (used) by
financing activities
(95) (205) 1,001

Net cash provided by continuing
operations
506 407 1,963
Net cash used by discontinued
operations
(92) (358) (2,097)

Net increase (decrease) in cash
414 49 (134)
Cash beginning of period
222 173 307

Cash end of period

\$636 \$222 \$173

Supplemental cash flow
information:

Interest paid

\$351 \$345 \$329

Interest received

7 6 13

Income taxes paid (net of refunds
received)

221 351 327

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

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FEDERATED DEPARTMENT STORES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

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

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. The Company from time to time invests in companies engaged in complementary businesses. Investments in companies in which the Company has the ability to exercise significant influence, but not control, are accounted for by the equity method. All other investments are carried at cost. The Company's investments in companies engaged in complementary businesses amounted to approximately \$10 million at February 2, 2002 and \$17 million at February 3, 2001 (see Note 4). All significant intercompany transactions have been eliminated. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions are subject to inherent uncertainties, which may result in actual amounts differing from reported amounts.

The Company operates in one segment as an operator of department stores.

Fingerhut Companies, Inc. (Fingerhut), a wholly-owned subsidiary, is being accounted for as a discontinued operation (see Note 2). Accordingly, for financial statement purposes, the assets, liabilities, results of operations and cash flows of this business have been segregated from those of continuing operations for all periods presented.

Cash includes cash and liquid investments with original maturities of three months or less.

The Company offers credit to its customers under regular 30-day and revolving accounts. Such revolving accounts are accepted on customary revolving credit terms and offer the customer the option of paying the entire balance on a 25-day basis without incurring finance charges. Alternatively, customers may make scheduled minimum payments and incur finance charges which are competitive with other retailers. Minimum payments vary from 2.5% to 100.0% of the account balance, depending on the size of the balance. The Company also offers credit on deferred billing terms for periods not to exceed one year. Such accounts are convertible to revolving credit, if unpaid, at the end of the deferral period. Finance charge income is treated as a reduction of selling, general and administrative expenses.

The Company evaluates the collectibility of its accounts receivable based on a combination of factors, including analysis of historical trends, aging of accounts receivable, write-off experience and expectations of future performance. Delinquent accounts are generally written off automatically after the passage of 210 days without receiving a full scheduled monthly payment. Accounts are written off sooner in the event of customer bankruptcy or other circumstances that make further collection unlikely. The Company reserves for doubtful accounts based on a loss-to-collections rate. At February 2, 2002, a 0.1 percentage point change in the loss-to-collections rate would impact the reserve for doubtful accounts by \$2 million.

Merchandise inventories are valued at lower of cost or market using the last-in, first-out (LIFO) retail inventory method. Under the retail inventory method, inventory is segregated into departments of merchandise having similar characteristics, and is stated at its current retail selling value. Inventory retail values are converted to a cost basis by applying specific average cost factors for each merchandise department. Cost factors represent the average cost-to-retail ratio for each merchandise department based on beginning inventory and the fiscal year purchase activity. The retail inventory method inherently requires management judgments and contains estimates, such as the amount and timing of permanent markdowns to clear unproductive or slow-moving inventory, which may impact the ending inventory valuation as well as gross margins.

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Permanent markdowns designated for clearance activity are recorded when the utility of the inventory has diminished. Factors considered in the determination of permanent markdowns include current and anticipated demand, customer preferences, age of the merchandise and fashion trends. When a decision is made to permanently mark down merchandise, the resulting gross profit reduction is recognized in the period the markdown is recorded.

Shrinkage is estimated as a percentage of sales for the period from the last inventory date to the end of the fiscal period. Such estimates are based on experience and the most recent physical inventory results. While it is not possible to quantify the impact from each cause of shrinkage, the Company has loss prevention programs and policies that minimize shrinkage experience. Physical inventories are taken within each merchandise department at least twice annually and inventory records are adjusted accordingly.

The Company receives cash or allowances from merchandise vendors as purchase price adjustments and in connection with cooperative advertising programs. Purchase price adjustments are credited to cost of sales and cooperative advertising payments are credited against advertising expense.

Depreciation and amortization are provided primarily on a straight-line basis over the shorter of estimated asset lives or related lease terms. Estimated asset lives range from 15 to 50 years for buildings and building equipment and 3 to 15 years for fixtures and equipment. Real estate taxes and interest on construction in progress and land under development are capitalized. Amounts capitalized are amortized over the estimated lives of the related depreciable assets.

The Company receives contributions from developers and merchandise vendors to fund building improvements and the construction of vendor shops. Such contributions are netted against the capital expenditures.

The carrying value of long-lived assets are periodically reviewed by the Company whenever events or changes in circumstances indicate that a potential impairment has occurred. For long-lived assets held for use, a potential impairment has occurred if projected future undiscounted cash flows are less than the carrying value of the assets. The estimate of cash flows includes management's assumptions of cash inflows and outflows directly resulting from the use of that asset in operations. When a potential impairment has occurred, an impairment write-down is recorded if the carrying value of the long-lived asset exceeds its fair value. The Company believes its estimated cash flows are sufficient to support the carrying value of its long-lived assets. If estimated cash flows significantly differ in the future, the Company may be required to record asset impairment write-downs.

For long-lived assets held for disposal, whether by abandonment or sale, an impairment charge is recorded if the carrying amount of the assets exceeds its fair value less costs to sell. Such valuations include estimations of fair values, costs to dispose, and time periods over which to sell the assets. In addition, liabilities such as severance, contractual obligations and other accruals associated with store closings arise from decisions to dispose of assets. The Company estimates these liabilities based on the facts and circumstances in existence for each restructuring decision. The amounts the Company will ultimately realize or disburse could differ from the amounts assumed in arriving at the asset impairment and restructuring charge recorded.

Intangible assets are amortized on a straight-line basis over their estimated lives (see Note 9). The Company reviews the carrying value of goodwill and other intangibles for impairment whenever significant events or changes occur which might impair recovery of recorded asset costs. The Company assesses the recoverability of the carrying value of goodwill based upon estimates of future discounted cash flows from related operations.

In 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets, effective for all business combinations initiated after June 30, 2001 and for fiscal years beginning after December 15, 2001, respectively. SFAS No. 141 eliminates the pooling of interests method of accounting for business combinations and broadens the criteria for recording intangible assets separate from goodwill. Under the provisions of SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their estimated lives.

The Company capitalizes purchased and internally developed software and amortizes such costs to expense on a straight-line basis over 2-5 years. Capitalized software is included in other assets.

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The Company is self-insured for workers compensation and public liability claims up to certain maximum liability amounts. Although the amounts accrued are actuarially determined based on analysis of historical trends of losses, settlements, litigation costs and other factors, the amounts the Company will ultimately disburse could differ from such accrued amounts.

The Company, through its actuaries, utilizes assumptions when estimating the liabilities for pension and other employee benefit plans. These assumptions, where applicable, include the discount rates used to determine the actuarial present value of projected benefit obligations, the rate of increase in future compensation levels, the long-term rate of return on assets and the growth in health care costs. The cost of these benefits is recognized in the financial statements over an employee's term of service with the Company.

Sales of merchandise are recorded at the time of delivery and reported net of merchandise returns. An estimated allowance for future sales returns is recorded and cost of sales is adjusted accordingly.

Advertising and promotional costs amounted to \$750 million for the 52 weeks ended February 2, 2002, \$808 million for the 53 weeks ended February 3, 2001 and \$784 million for the 52 weeks ended January 29, 2000, respectively. Department store non-direct response advertising and promotional costs are expensed as incurred. Direct response advertising and promotional costs for Bloomingdale's By Mail are deferred and expensed over the period during which the sales are expected to occur, generally one to four months.

Shipping and handling fees and costs do not represent a significant portion of the Company's operations and both items have consistently been included in selling, general and administrative expenses. Shipping and handling fees amounted to \$43 million, \$44 million and \$43 million for the 52 weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000, respectively. Shipping and handling costs amounted to \$41 million, \$42 million and \$43 million for the 52 weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000, respectively.

Financing costs are amortized on a straight-line basis over the life of the related debt.

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

The Company accounts for its stock-based employee compensation plan in accordance with Accounting Principles Board (APB) Opinion No. 25 and related interpretations (see Note 15).

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

Effective February 4, 2001, the Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, which establishes accounting and reporting standards for derivative instruments and hedging activities and requires recognition of all derivatives as either assets or liabilities and measurement of those instruments at fair value. On the date that the Company enters into a derivative contract, the Company designates the derivative instrument as either a fair value hedge, cash flow hedge or as a free-standing derivative instrument, each of which would receive different accounting treatment. Prior to entering into a hedge transaction, the Company formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. Derivative instruments that the Company may use as part of its interest rate risk management strategy include interest rate swap and interest rate cap agreements (see Note 17). Based on the Company's minimal use of derivatives, the adoption of this statement did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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2. Discontinued Operations

On January 16, 2002, the Company's Board of Directors approved a plan to dispose of the operations of Fingerhut, including the Arizona Mail Order, Figi's and Popular Club Plan businesses conducted by Fingerhut's subsidiaries, which were acquired by the Company on March 18, 1999. In connection with this plan, the Company recorded a \$770 million loss, which is net of income tax benefit of \$435 million, or \$3.85 per diluted share, representing the write-down of certain core catalog assets, severance, lease cancellation and real estate carrying costs related to the core catalog operations, the expected losses on the sale of the other catalog operations as well as an accrual for estimated operating losses during the phase-out period.

The \$770 million loss on disposal is based on management's best estimates of the amounts expected to be realized on the liquidation of the operating segment of Fingerhut, including the sale of the three catalog subsidiaries and certain properties, the wind-down and collection of the accounts receivable portfolio associated with the Fingerhut core catalog business and the liquidation of the inventory associated with the Fingerhut core catalog business, as well as estimates regarding the timing of those events. Currently, assuming a buyer cannot be found, the Fingerhut core catalog business liquidation is planned for completion during the second or third quarter of fiscal year 2002 and the credit operation liquidation is planned for completion within four years. Fingerhut's other operations, including Arizona Mail Order, Figi's, and Popular Club Plan, are anticipated to be sold as ongoing businesses by the end of fiscal year 2002. The amounts the Company will ultimately realize could differ in the coming twelve months from the amounts assumed in arriving at the loss on disposal of the discontinued operations.

Included in the loss on disposal are losses related to Fingerhut's core catalog accounts receivable portfolio through the four year wind-down period. The calculated loss includes estimates regarding customer payment rates, write-off rates, finance charge income, late fee income, and operating expenses, such as collection costs, necessary to carry out the wind-down of the portfolio. These estimates were based on a third party offer to purchase the portfolio, historical experience and industry data where available.

The estimated loss from the Fingerhut core catalog operations during the wind-down period includes assumptions of revenues to be earned and estimated expenses to be incurred based on historical experience as well as through detailed departmental plans regarding the costs necessary to complete the liquidation in the planned timeframe.

Losses on inventory were recognized based on estimated recovery values expected to be received from a third party liquidator. Write-downs of property, plant and equipment were based on historical recovery rates for similar liquidations of personal property and brokerage quotes, where available, for real estate properties. Other assets, such as tradenames, customer lists, supplies, prepaid expenses, and capitalized software, were written-down to estimated net realizable value, which in some cases was zero due to their lack of marketability.

The loss on sale of the Fingerhut subsidiaries was estimated using market value quotes from an investment bank, projected net book values of each subsidiary at the expected sale dates, and expenses necessary to disconnect the subsidiaries' support functions from Fingerhut's core catalog operations.

Severance and retention were estimated based on the current workforce, employment needs through the wind-down period, employment agreements where applicable, years of service, and estimated payout based on the general severance and retention plan offered to employees. Remaining lease obligations or contractual cancellation penalties were estimated based on a review of the contract terms in place.

The after-tax loss from discontinued operations for the 52 weeks ended February 2, 2002 was \$14 million, or \$.07 per diluted share.

Estimated interest expense has been allocated to discontinued operations based upon the debt balances attributable to those operations. Interest expense allocated to discontinued operations was \$82 million for the 52 weeks ended February 2, 2002, \$116 million for the 53 weeks ended February 3, 2001 and \$49 million for the 52 weeks ended January 29, 2000. Additionally, interest expense of \$77 million was included in the estimated operating losses from the measurement date to the disposal date, which was included in the loss on disposal of discontinued operations.

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Results of the Fingerhut operations have been classified as discontinued operations, and prior periods have been restated. The Company acquired Fingerhut on March 18, 1999. Discontinued operations include Fingerhut sales which totaled \$1,244 million for the 52 weeks ended February 2, 2002, \$1,769 million for the 53 weeks ended February 3, 2001 and \$1,687 million for the 52 weeks ended January 29, 2000. The loss from discontinued operations was \$22 million, net of an income tax benefit of \$8 million for the 52 weeks ended February 2, 2002, \$1,257 million, net of an income tax benefit of \$252 million for the 53 weeks ended February 3, 2001 and \$40 million, net of an income tax benefit of \$10 million for the 52 weeks ended January 29, 2000.

During the 53 weeks ended February 3, 2001, the Company recorded asset impairment and restructuring charges related to its Fingerhut business totaling \$882 million, \$35 million of which were included in cost of sales. In response to a significant credit delinquency problem associated with Fingerhut's core catalog operations, the Company reevaluated the long-term operating projections of, and performed an asset impairment analysis for, each Fingerhut business. This analysis included projected future undiscounted and discounted cash flows disaggregated for each Fingerhut business unit under a variety of operating assumptions, under a two-step impairment test.

First, using undiscounted projected future cash flows for each Fingerhut business, management determined that an impairment existed for only one of the businesses, and a write-down of certain fixed assets and goodwill was recorded in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. Secondly, using discounted projected cash flows at a discount rate commensurate with the Company's cost of capital, management determined that an impairment existed at several other Fingerhut businesses, including the core catalog business, and a write-down of goodwill and credit file intangibles was recorded in accordance with APB Opinion No. 17, Intangible Assets.

As a result of the above, the Company recorded asset write-downs of \$673 million for goodwill and credit file intangibles and \$18 million for Fingerhut fixed assets during the 53 weeks ended February 3, 2001. During this same period, the Company recorded a write-down of \$105 million of certain strategic equity investments made and held by Fingerhut as a result of the Company's determination, based on uncertain financing alternatives and comparisons to their market values or market values of similar publicly traded businesses, that these equity investments were impaired on an other than temporary basis. These investments are in companies that, through commercial relationships entered into in connection with the investments, expanded Fingerhut's Internet offerings and direct marketing strategic initiatives (e.g. through website affiliations) and are integrally related in terms of their genesis, purpose, nature, implementation and oversight to the operations of Fingerhut.

The Company also recorded \$86 million of restructuring costs during the 53 weeks ended February 3, 2001 related to the downsizing of the Fingerhut core catalog operations, including \$35 million of inventory valuation adjustments as a part of cost of sales. The remaining \$51 million of restructuring costs consisted of write-downs of property and other assets associated with the closing of collection and call centers and other duplicate facilities totaling \$26 million, an adjustment to the carrying value of certain accounts receivable associated with a discontinued business amounting to \$9 million and related severance costs totaling \$16 million, of which \$6 million had been paid to employees and \$10 million was accrued as of February 3, 2001. The severance costs covered approximately 2,100 employees.

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

| | February 2, 2002 | February 3, 2001 |
|---------------------|---------------------|---------------------|
| | (millions) | |
| Current assets | \$2,134 | \$2,292 |
| Other assets | 265 | 582 |
| Current liabilities | (1,118) | (261) |
| Total debt | (528) | (1,133) |
| Other liabilities | (9) | (44) |

\$744 \$1,436

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3. Acquisition

On July 9, 2001, the Company completed its acquisition of Liberty House, Inc. (Liberty House), a department store retailer operating 11 department stores and seven resort and specialty stores in Hawaii and one department store in Guam. The total purchase price of the Liberty House acquisition was approximately \$200 million, including the assumption of \$17 million of borrowed indebtedness. The acquisition was accounted for under the purchase method of accounting and, accordingly, the results of operations of Liberty House have been included in the Company's results of operations from the date of acquisition and the purchase price has been allocated to Liberty House's assets and liabilities based on their estimated fair values as of that date. The amount of goodwill and other identifiable intangibles related to the Liberty House acquisition amounted to \$95 million. Such goodwill has not been amortized, in accordance with the provisions of SFAS No. 142.

4. Asset Impairment and Restructuring Charges

During the 52 weeks ended February 2, 2002, the Company incurred asset impairment and restructuring charges related to its department store business. These costs related primarily to the closing of the Company's Stern's department store division and the conversion of most of its stores into Macy's and Bloomingdale's stores, the acquisition of Liberty House and the subsequent conversion of its stores into Macy's stores and the reorganization of the Company's department-store-related catalog and e-commerce operations.

The Company recorded \$53 million of inventory valuation adjustments, primarily related to discontinued merchandise lines, as a part of cost of sales during 2001. The inventory valuation adjustments included \$33 million related to the Stern's store closures and conversions, \$17 million related to the Liberty House store conversions and \$3 million related to the catalog and e-commerce reorganization. These inventory valuation adjustments consist of markdowns on merchandise that was sold at Stern's, Liberty House or through the Company's catalog and e-commerce channels and that would not continue to be sold following the conversion of the Stern's and Liberty House stores and the reorganization of the catalog and e-commerce business.

Asset impairment charges consist of:

| | 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 |
|---------------------------------------|--|--|
| | (millions) | |
| Catalog and e-commerce reorganization | \$40 | \$ |
| Stern's store closures | | |
| 8 43 | | |
| Equity investments | | |
| 4 26 | | |
| Stern's accounts receivable | | |
| 5 | | |
| <hr/> | | |
| <hr/> | | |
| \$52 | \$74 | |
| <hr/> | | |
| <hr/> | | |

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During the 52 weeks ended February 2, 2002, asset impairment charges included fixed asset and capitalized software write-downs related to the catalog and e-commerce reorganization and losses on Stern's stores which the Company expected to close and sell. Also during the 52 weeks ended February 2, 2002, the Company recorded a write-down of an investment as a result of the Company's determination, based on uncertain financing alternatives and a comparison to market values of similar publicly traded businesses, that this equity investment was impaired on an other than temporary basis.

During the 53 weeks ended February 3, 2001, asset impairment charges included losses on Stern's stores which the Company expected to close and sell and an adjustment to the carrying value of certain accounts receivable that would be uncollectable because of the Stern's closure. During this same period, the Company recorded a write-down of investments as a result of the Company's determination, based on uncertain financing alternatives and comparisons to their market value or market values of similar publicly traded businesses, that these equity investments were impaired on an other than temporary basis.

Restructuring charges consist of:

| | 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 |
|---------------------------------------|--|--|
| | (millions) | |
| Stern's store conversions | \$38 | \$ |
| Stern's severance | | |
| 18 | | |
| Stern's lease obligations | | |
| 14 6 | | |
| Stern's store closures | | |
| 13 | | |
| Stern's duplicate central costs | | |
| 9 | | |
| Liberty House store conversions | | |
| 10 | | |
| Liberty House duplicate central costs | | |
| 4 | | |
| Catalog and e-commerce reorganization | | |
| 4 | | |
| <hr/> | | |
| <hr/> | | |
| \$110 \$6 | | |
| <hr/> | | |
| <hr/> | | |

During the 52 weeks ended February 2, 2002, restructuring charges included costs associated with converting the Stern's stores into Macy's (including store remodeling costs, advertising, credit card issuance and promotion and other name change expenses), severance costs related to the Stern's closure, costs to close and sell certain Stern's stores (including lease obligations and other store closing expenses), Stern's duplicate central office costs, costs associated with converting the Liberty House stores into Macy's (including advertising, credit card issuance and promotion and other name change expenses), Liberty House duplicate central office costs and other exit costs associated with the catalog and e-commerce reorganization.

During the 53 weeks ended February 3, 2001, restructuring charges included costs to close and sell certain Stern's stores, primarily related to lease obligations.

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

The following table shows the activity associated with the Stern's restructuring accruals:

| | February 3, 2001 | Restructuring Charges | Payments | February 2, 2002 |
|-----------------------------|---------------------------------|----------------------------------|-----------------|---------------------------------|
| | (millions) | | | |
| Long-term lease obligations | \$ 6 | \$ 14 | \$ (2) | \$ 18 |
| Severance | | | | |
| \$ | \$ 18 | \$(16) | \$ 2 | |

The restructuring charge for severance covered approximately 2,500 people and the remaining accrual at February 2, 2002 relates to approximately 50 people.

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5. Extraordinary Item

The extraordinary item for the 52 weeks ended February 2, 2002 represents costs of \$16 million, net of income tax benefit of \$6 million, associated with the repurchase of the \$350 million 6.125% Term Enhanced ReMarketable Securities.

6. Accounts Receivable

| | February 2, 2002 | February 3, 2001 |
|--------------------------------------|---------------------|---------------------|
| (millions) | | |
| Due from customers | | |
| \$2,305 | \$2,291 | |
| Less allowance for doubtful accounts | | |
| 79 | 71 | |
| | | |
| | | |
| 2,226 | 2,220 | |
| Other receivables | | |
| 153 | 215 | |
| | | |
| | | |
| \$2,379 | \$2,435 | |
| | | |
| | | |

Sales through the Company's credit plans were \$4,154 million for the 52 weeks ended February 2, 2002, \$4,384 million for the 53 weeks ended February 3, 2001 and \$4,245 million for the 52 weeks ended January 29, 2000. The credit plans relating to certain operations of the Company are owned by a third party. Finance charge income amounted to \$361 million for the 52 weeks ended February 2, 2002, \$349 million for the 53 weeks ended February 3, 2001 and \$327 million and for the 52 weeks ended January 29, 2000.

Changes in the allowance for doubtful accounts are as follows:

| 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 | 52 Weeks Ended January 29, 2000 |
|--|--|--|
| (millions) | | |

| | | | |
|--|-------|------|------|
| Balance, beginning of year | \$71 | \$63 | \$77 |
| Charged to costs and expenses | 128 | 106 | 83 |
| Net uncollectible balances written off | (120) | (98) | (97) |

| | | | |
|----------------------|------|------|------|
| Balance, end of year | \$79 | \$71 | \$63 |
|----------------------|------|------|------|

7. Inventories

Merchandise inventories were \$3,376 million at February 2, 2002, compared to \$3,626 million at February 3, 2001. At these dates, the cost of inventories using the LIFO method approximated the cost of such inventories using the FIFO method. The application of the LIFO method did not impact cost of sales for the 52 weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 or the 52 weeks ended January 29, 2000.

8. Properties and Leases

| | | |
|--|-----------------|-----------------|
| | February | February |
| | 2, | 3, |
| | 2002 | 2001 |
| | <hr/> | <hr/> |

(millions)

| | | |
|---|-------|-------|
| Land | \$972 | \$992 |
| Buildings on owned land | 2,387 | 2,347 |
| Buildings on leased land and leasehold improvements | 1,674 | 1,698 |
| Fixtures and equipment | 4,257 | 4,095 |
| Leased properties under capitalized leases | 81 | 73 |

9,371 9,205
Less accumulated depreciation
and amortization
2,865 2,584

\$6,506 \$6,621

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In connection with various shopping center agreements, the Company is obligated to operate certain stores within the centers for periods of up to 20 years. Some of these agreements require that the stores be operated under a particular name.

The Company leases a portion of the real estate and personal property used in its operations. Most leases require the Company to pay real estate taxes, maintenance and other executory costs; some also require additional payments based on percentages of sales and some contain purchase options. Certain of the Company's real estate leases have terms that extend for significant numbers of years and provide for rental rates that increase over time. In addition, certain of these leases contain covenants that restrict the ability of the tenant (typically a subsidiary of the Company) to take specified actions (including the payment of dividends or other amounts on account of its capital stock) unless the tenant satisfies certain financial tests.

Minimum rental commitments (excluding executory costs) at February 2, 2002, for noncancellable leases are:

| | <u>Capitalized</u> | <u>Operating</u> | <u>Total</u> |
|---|--------------------|------------------|--------------|
| | Leases | Leases | Total |
| | (millions) | | |
| <hr/> | | | |
| Fiscal year: | | | |
| 2002 | \$12 | \$162 | \$174 |
| 2003 | 11 | 155 | 166 |
| 2004 | 10 | 149 | 159 |
| 2005 | 9 | 139 | 148 |
| 2006 | 7 | 142 | 149 |
| After 2006 | 51 | 1,924 | 1,975 |
| <hr/> | | | |
| <hr/> | | | |
| <hr/> | | | |
| Total minimum lease payments | 100 | \$2,671 | \$2,771 |
| <hr/> | | | |
| <hr/> | | | |
| Less amount representing interest | 43 | | |
| <hr/> | | | |
| Present value of net minimum capitalized lease payments | \$57 | | |

Capitalized leases are included in the Consolidated Balance Sheets as property and equipment while the related obligation is included in short-term (\$6 million) and long-term (\$51 million) debt. Amortization of assets subject to capitalized leases is included in depreciation and amortization expense. Total minimum lease payments shown above have not been reduced by minimum sublease rentals of approximately \$1 million on capitalized leases and \$43 million on operating leases.

Rental expense consists of:

| | 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 | 52 Weeks Ended January 29, 2000 |
|---|--|--|--|
| | (millions) | | |
| Real estate (excluding executory costs) | | | |
| Capitalized leases - | | | |
| Contingent rentals | \$2 | \$3 | \$3 |
| Operating leases - | | | |
| Minimum rentals | 160 | 159 | 142 |
| Contingent rentals | 22 | 21 | 23 |
| | 184 | 183 | 168 |
| Less income from subleases - | | | |
| Capitalized leases | 2 | 3 | 3 |
| Operating leases | 20 | 22 | 20 |

22 25 23

\$162 \$158 \$145

Personal property Operating
leases
\$22 \$23 \$21

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9. Intangible Assets

| | <u>February</u> | <u>February 3,</u> |
|-------------------------------|-----------------|--------------------|
| | 2, | 2001 |
| | 2002 | 2001 |
| | (millions) | |
| Goodwill | | |
| \$508 | \$415 | |
| Identifiable intangibles | | |
| 460 | 458 | |
| | | |
| | | |
| 968 | 873 | |
| Less accumulated amortization | | |
| 285 | 256 | |
| | | |
| | | |
| \$683 | \$617 | |
| | | |
| | | |

Goodwill has been amortized on a straight-line basis over its estimated useful life, ranging from 20 to 40 years. Identifiable intangibles include tradenames and customer lists and have been amortized on a straight-line basis over their estimated useful lives, ranging from 7 to 40 years. The Company reviews the carrying value of goodwill and other intangibles for impairment whenever significant events or changes occur which might impair recovery of recorded asset costs. The Company recorded \$94 million of tax benefits as a reduction to goodwill during the 53 weeks ended February 3, 2001 (see Note 12).

Upon adoption of SFAS No. 142, Goodwill and Other Intangible Assets, the Company will discontinue the practice of amortizing goodwill and indefinite lived intangible assets and will initiate an annual review for impairment. Impairment will be examined more frequently if certain indicators are encountered. Intangible assets with a determinable useful life will continue to be amortized over that period.

Application of the nonamortization provisions of SFAS No. 142, beginning in the first quarter of 2002, is expected to result in reductions to annual goodwill amortization of \$28 million and an increase in annual income from continuing operations of approximately \$24 million.

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10. Financing

The Company's debt, excluding the debt of Fingerhut which is included in discontinued operations, was as follows:

| | February 2, 2002 | February 3, 2001 |
|--|---------------------------------|---------------------------------|
| | <u>(millions)</u> | |
| Short-term debt: | | |
| Receivables backed financings | \$598 | \$609 |
| 8.125% Senior Notes due 2002 | 400 | |
| Capital lease and other short-term obligations | 14 | 8 |
| 6.125% Term Enhanced ReMarketable Securities | 350 | |
| 10.0% Senior Notes due 2001 | 110 | |
| Commercial Paper Program | 40 | |
| | <hr/> | |
| | <hr/> | |
| | \$1,012 | \$1,117 |
| | <hr/> | |
| | <hr/> | |
| Long-term debt: | | |
| Receivables backed financings | \$400 | \$997 |
| 6.625% Senior notes due 2008 | 500 | |
| 6.625% Senior notes due 2011 | 500 | |
| 8.5% Senior notes due 2003 | | |

450 450
 6.9% Senior debentures
 due 2029
 400 400
 6.3% Senior notes due
 2009
 350 350
 8.5% Senior notes due
 2010
 350 350
 7.45% Senior debentures
 due 2017
 300 300
 7.0% Senior debentures
 due 2028
 300 300
 6.79% Senior debentures
 due 2027
 250 250
 8.125% Senior notes due
 2002
 400
 Capital lease and other
 long-term obligations
 59 48

\$3,859 \$3,845

Interest expense was as follows:

| | 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 | 52 Weeks Ended January 29, 2000 |
|---------------------------------|--|--|--|
| | (millions) | | |
| Interest on debt | \$321 | \$318 | \$310 |
| Amortization of financing costs | 7 | 6 | 6 |
| Interest on capitalized leases | 6 | 7 | 7 |

334 331 323
Less interest capitalized on
construction
3 4 3

\$331 \$327 \$320

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Future maturities of long-term debt, other than capitalized leases, are shown below:

| | (millions) |
|--------------|------------|
| Fiscal year: | |
| 2003 | |
| 2004 | \$453 |
| 2005 | 252 |
| 2006 | 402 |
| 2007 | 1 |
| After 2007 | 2,700 |

During the 52 weeks ended February 2, 2002, the Company issued debt totaling \$1,000 million, consisting of \$500 million of 6.625% Senior Notes due 2008 and \$500 million of 6.625% Senior Notes due 2011. The Company repaid debt of \$1,140 million in 2001, consisting principally of \$649 million of net short-term borrowings, the \$350 million 6.125% Term Enhanced ReMarketable Securities and \$110 million of 10% Senior Notes.

The Company's bank credit agreements require the Company to maintain certain financial ratios. At February 2, 2002, the Company was well within these covenants. Management believes that the likelihood of the Company defaulting on a debt covenant is not probable absent any material negative event affecting the U.S. economy as a whole. However, if the Company's results of operations or operating ratios deteriorate to a point where the Company is not in compliance with any of its covenants and the Company is unable to obtain a waiver, much of the Company's debt would be in default and callable.

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

Receivables Backed Financings

Receivables backed financings classified as short-term debt consist of current amounts due under certain receivables backed certificates issued by a subsidiary of the Company together with receivables backed commercial paper issued by a subsidiary of the Company (of which none and \$370 million were outstanding as of February 2, 2002 and February 3, 2001, respectively). At February 2, 2002, the short-term receivables backed financings bear interest at 6.76%. Receivables backed financings classified as long-term debt consist of receivables backed certificates issued by a subsidiary of the Company, which certificates represent undivided interests in a master trust originated by such subsidiary, bear interest at 6.70% and mature in November 2005.

Bank Credit Agreements

The Company and certain financial institutions are parties to (i) the Five-Year Credit Agreement, pursuant to which such financial institutions have provided the Company with a \$1,200 million revolving loan facility which expires June 29, 2006 (the Five-Year Facility) and (ii) the 364-Day Credit Agreement, pursuant to which such financial institutions have provided the Company with a \$400 million revolving loan facility which expires June 28, 2002, and must be extended annually (the 364-Day Facility) and, together with the Five-Year Facility, the Revolving Loan Facilities). The Company's obligations under the Revolving Loan Facilities are not secured or guaranteed.

As of February 2, 2002 and February 3, 2001, there were no revolving credit loans outstanding under the Revolving Loan Facilities. However, there were \$46 million and \$45 million of standby letters of credit outstanding under the Revolving Loan Facilities at February 2, 2002 and February 3, 2001, respectively. Revolving loans under the Revolving Loan Facilities bear interest based on published rates.

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Commercial Paper

The Company established a \$1,600 million program for the issuance from time to time of unsecured commercial paper. The issuance of commercial paper under the program will have the effect, while such commercial paper is outstanding, of reducing the Company's borrowing capacity under the Revolving Loan Facilities by an amount equal to the principal amount of such commercial paper. As of February 2, 2002 and February 3, 2001, there was none and \$40 million, respectively, of such commercial paper outstanding.

Senior Notes and Debentures

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

Other Financing Arrangements

In addition to the financing arrangements discussed above, the Company entered into arrangements providing for off balance sheet financing of up to \$600 million of non-proprietary credit card receivables arising under accounts owned by the Company.

In order to facilitate comparisons with major competitors, the Company structured and finances its non-proprietary credit card receivables using an off-balance sheet arrangement which currently is set to expire in 2002. However, the Company intends to extend the arrangement. Under this arrangement, FDS Bank, a subsidiary of the Company, sells its non-proprietary credit card receivables to a wholly-owned special purpose entity which in turn transfers the purchased receivables to a bankruptcy-remote, qualified special purpose entity (the trust). The special purpose entity has sold interests in the trust to two unrelated bank commercial paper conduit programs. Proceeds from this sale plus excess cash flow from the trust are used to buy the receivables from FDS Bank. The two commercial paper conduit programs have agreed to buy interests in the trust of up to \$600 million in the aggregate. These interests are variable and fluctuate with the level of receivables. The trust has issued three classes of certificates: Class A, Class B and Class C certificates. The bank conduit programs hold the Class A and Class B certificates and the Company holds the Class C certificates, which are subordinated interests that serve as a credit enhancement to the Class A and Class B certificates and expose the Company's retained trust assets to possible credit losses. The Company also holds a required 2% seller's interest and the residual interest in the trust. The investors and the trust have no recourse against the Company beyond the trust assets. In order to maintain the committed level of securitized assets, the Company reinvests cash collections on securitized accounts in additional balances. During the 52 weeks ended February 2, 2002 and the 53 weeks ended February 3, 2001, proceeds from collections which were reinvested amounted to \$3,057 million and \$2,734 million, respectively.

The issuance of the certificates to outside investors is considered to be a sale, which results in an immaterial gain to the Company. The Company also retains servicing responsibilities for which it receives annual servicing fees, approximating 2% of the outstanding balances. During the 52 weeks ended February 2, 2002 and the 53 weeks ended February 3, 2001, \$12 million and \$11 million, respectively, of servicing fees were received.

As of February 2, 2002, the securitized non-proprietary credit card balances were \$630 million and the related retained interest included in other assets was \$111 million. As of February 3, 2001, the securitized non-proprietary credit card balances were \$580 million and the related retained interest included in other assets was \$80 million. For the 52 weeks ended February 2, 2002, the net charge-offs related to the non-proprietary credit card receivables were \$24 million and the delinquency rate at February 2, 2002 was 3.0%. For the 53 weeks ended February 3, 2001, the net charge-offs related to the non-proprietary credit card receivables were \$19 million and the delinquency rate at February 3, 2001 was 2.6%.

The Company intends to hold its Class C certificates and contractually required seller's interest to maturity. The residual interest is considered available-for-sale. Due to the revolving nature of the underlying credit card receivables, the high principal payment rate and the reserve for anticipated credit losses, the carrying value of the Company's retained interest in transferred credit card receivables approximates fair value and is included in other assets. Key economic assumptions used in measuring the

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retained interests at the date of securitization resulting from securitizations completed during the 52 weeks ended February 2, 2002 and the 53 weeks ended February 3, 2001 include the estimated payment rate, anticipated credit losses and the discount rate applied to the residual cash flows. The weighted average estimated payment rate was 42.1% for the 52 weeks ended February 2, 2002 and 42.7% for the 53 weeks ended February 3, 2001, anticipated credit losses averaged 5.2% for the 52 weeks ended February 2, 2002 and 4.4% for the 53 weeks ended February 3, 2001 and the discount rate used on the residual cash flows was 10.5% for the 52 weeks ended February 2, 2002 and 11.0% for the 53 weeks ended February 3, 2001.

For each 0.1 percentage point change in anticipated credit losses, the Company's retained interest in securitized receivables at February 2, 2002 would change by \$1 million. The anticipated credit losses are the primary variable assumption that is subject to a sensitivity analysis.

As of February 2, 2002 and February 3, 2001, purchased interests of \$500 million and \$484 million, respectively, were held by third parties under this off-balance sheet arrangement.

There were also \$22 million and \$32 million of trade letters of credit outstanding at February 2, 2002 and February 3, 2001, respectively.

11. Accounts Payable and Accrued Liabilities

| | February 2, 2002 | February 3, 2001 |
|--|---------------------------------|-----------------------------|
| | <u>(millions)</u> | |
| Merchandise and expense accounts payable | \$1,677 | \$1,724 |
| Liabilities to customers | 378 | 359 |
| Taxes other than income taxes | 103 | 107 |
| Accrued wages and vacation | 93 | 94 |
| Accrued interest | 80 | 69 |
| Other | 314 | 289 |
| | <hr/> | |
| | <hr/> | |
| | \$2,645 | \$2,642 |
| | <hr/> | |
| | <hr/> | |

Liabilities to customers include an estimated allowance for future sales returns of \$43 million and \$42 million at February 2, 2002 and February 3, 2001, respectively. Adjustments to the allowance for future sales returns, which amounted to a charge of \$1 million for the 52 weeks ended February 2, 2002 and January 29, 2000 and a credit of \$1 million for the 53 weeks ended February 3, 2001, are reflected in cost of sales.

12. Taxes

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Income tax expense is as follows:

| 52 Weeks Ended February 2, 2002 | | | 53 Weeks Ended February 3, 2001 | | | 52 Weeks Ended January 29, 2000 | | |
|------------------------------------|----------|-------|------------------------------------|----------|-------|------------------------------------|----------|-------|
| Current | Deferred | Total | Current | Deferred | Total | Current | Deferred | Total |

(millions)

Federal

\$263 \$(51) \$212 \$474 \$(23) \$451 \$581 \$(118) \$463

State and local

60 (10) 50 98 98 109 (11) 98

\$323 \$(61) \$262 \$572 \$(23) \$549 \$690 \$(129) \$561

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The income tax expense reported differs from the expected tax computed by applying the federal income tax statutory rate of 35% for the 52 weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000 to income from continuing operations before income taxes and extraordinary item. The reasons for this difference and their tax effects are as follows:

| | 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 | 52 Weeks Ended January 29, 2000 |
|---|--|--|--|
| | (millions) | | |
| Expected tax | \$273 | \$480 | \$485 |
| State and local income taxes, net of federal income tax benefit | 37 | 63 | 64 |
| Permanent difference arising from the amortization of intangible assets | 6 | 7 | 9 |
| Disposition of a subsidiary | (44) | | |
| Other | (10) | (1) | 3 |
| | | | |
| | | | |
| | | | |
| | \$262 | \$549 | \$561 |
| | | | |
| | | | |
| | | | |

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

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

| February 2, 2002 | February 3, 2001 |
|---------------------------------|---------------------------------|
| (millions) | |

Deferred tax assets:

Operating loss carryforwards

\$60 \$46

Accrued liabilities accounted

for on a cash basis for tax

purposes

181 148

Postretirement benefits other

than pensions

135 145

Allowance for doubtful

accounts

58 31

Capitalized lease debt

21 24

Other

171 114

Total gross deferred tax assets

626 508

Deferred tax liabilities:

Excess of book basis over tax

basis of property and

equipment

(1,304) (1,319)

Merchandise inventories

(151) (141)

Deductible intangibles

(124) (126)

Prepaid pension expense

(93) (69)

Other

(278) (211)

Total gross deferred tax
liabilities

(1,950) (1,866)

Net deferred tax liability
\$(1,324) \$(1,358)

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During the year ended February 3, 2001, the Company recorded an additional \$94 million of tax benefits related to an acquired enterprise's net operating loss carryforwards (NOLs) and reduced goodwill accordingly. As of February 2, 2002, the Company had NOLs of approximately \$171 million which are available through 2009.

13. Retirement Plans

The Company has a defined benefit plan (Pension Plan) and a defined contribution plan (Savings Plan) which cover substantially all employees who work 1,000 hours or more in a year. In addition, the Company has a defined benefit supplementary retirement plan which include benefits, for certain employees, in excess of qualified plan limitations. For the 52 weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000 net retirement expense for these plans totaled \$22 million, \$27 million and \$35 million, respectively.

Measurement of plan assets and obligations for the Pension Plan and the defined benefit supplementary retirement plan are calculated as of December 31 of each year. The discount rates used to determine the actuarial present value of projected benefit obligations under such plans were 7.25% as of December 31, 2001 and 7.50% as of December 31, 2000. The assumed weighted average rate of increase in future compensation levels was 5.8% as of December 31, 2001 and 5.0% as of December 31, 2000 for the Pension Plan and 7.7% as of December 31, 2001 and 5.0% as of December 31, 2000 for the defined benefit supplementary retirement plan. The long-term rate of return on assets (Pension Plan only) was 9.75% as of December 31, 2001 and December 31, 2000.

Table of Contents**Pension Plan**

The following provides a reconciliation of benefit obligations, plan assets and funded status of the Pension Plan as of December 31, 2001 and 2000:

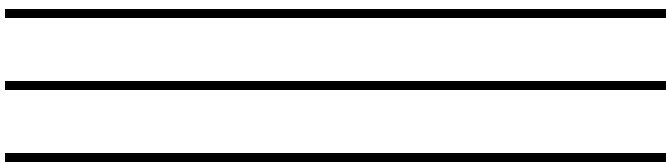
| | <u>2002</u> | <u>2001</u> |
|---|-------------|-------------|
| | (millions) | |
| Change in projected benefit obligation | | |
| Projected benefit obligation, beginning of year | \$1,368 | \$1,295 |
| Service cost | 35 | 34 |
| Interest cost | 97 | 98 |
| Plan amendments | 1 | |
| Actuarial loss | 10 | 71 |
| Benefits paid | (114) | (130) |
| | <hr/> | |
| | <hr/> | |
| Projected benefit obligation, end of year | \$1,397 | \$1,368 |
| Changes in plan assets (primarily stocks, bonds and U.S. government securities) | | |
| Fair value of plan assets, beginning of year | \$1,670 | \$1,811 |
| Actual return on plan assets | (76) | (11) |
| Benefits paid | (114) | (130) |
| | <hr/> | |
| | <hr/> | |
| Fair value of plan assets, end of year | \$1,480 | \$1,670 |

Funded status
 \$83 \$302
 Unrecognized net
 (gain) loss
 149 (94)
 Unrecognized prior
 service cost
 2 2

Prepaid pension expense
 \$234 \$210

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

| | 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 | 52 Weeks Ended January 29, 2000 |
|--------------------------------------|--|---------------------------------------|---------------------------------------|
| | (millions) | | |
| Service cost | \$35 | \$34 | \$35 |
| Interest cost | 97 | 98 | 92 |
| Expected return on assets | (156) | (151) | (142) |
| Cost of special termination benefits | 3 | | |
| | \$(24) | \$(19) | \$(12) |



In connection with a program to modify certain health care benefits for future retirees at one division, the Company incurred \$3 million during the 52 weeks ended January 29, 2000 of special termination benefits to eligible employees who elected to retire within a specified time period.

As permitted under SFAS No. 87, *Employers' Accounting for Pensions*, the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the Pension Plans.

The Company's policy is to fund the Pension Plan at or above the minimum required by law. For the 2001 and 2000 plan years, no funding contribution was required or made. Plan assets are held by independent trustees.

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Supplementary Retirement Plan

The following provides a reconciliation of benefit obligations, plan assets and funded status of the supplementary retirement plan as of December 31, 2001 and 2000:

| | <u>2002</u> | <u>2001</u> |
|---|-------------|-------------|
| | (millions) | |
| Change in projected benefit obligation | | |
| Projected benefit obligation, beginning of year | \$137 | \$116 |
| Service cost | 5 | 4 |
| Interest cost | 12 | 9 |
| Plan amendments | (1) | 2 |
| Actuarial loss | 36 | 14 |
| Benefits paid | (9) | (8) |
| <hr/> | | |
| <hr/> | | |
| Projected benefit obligation, end of year | \$180 | \$137 |
| Change in plan assets | | |
| Fair value of plan assets, beginning of year | \$ | \$ |
| Company contributions | 9 | 8 |
| Benefits paid | (9) | (8) |
| <hr/> | | |
| <hr/> | | |
| Fair value of plan assets, end of year | \$ | \$ |
| <hr/> | | |

Funded status
\$(180) \$(137)
Unrecognized net loss
65 36
Unrecognized prior service
cost
2 4

Accrued benefit cost
\$(113) \$(97)

Amounts recognized in the
statement of financial
position

Accrued benefit cost
\$(135) \$(105)
Intangible asset
2 4
Accumulated other
comprehensive income
20 4

Net amount recognized
\$(113) \$(97)

The accumulated benefit obligation for the supplementary retirement plan was \$135 million and \$105 million as of December 31, 2001 and December 31, 2000, respectively.

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

| | 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 | 52 Weeks Ended January 29, 2000 |
|------------------------------------|--|---------------------------------------|---------------------------------------|
| | (millions) | | |
| Service cost | \$5 | \$4 | \$4 |
| Interest cost | 12 | 9 | 9 |
| Amortization of prior service cost | 2 | 2 | 1 |
| Recognition of net actuarial loss | 6 | 2 | 4 |
| | \$25 | \$17 | \$18 |

As permitted under SFAS No. 87, Employers Accounting for Pensions, the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plans.

Savings Plans

The Savings Plan includes a voluntary savings feature for eligible employees. The Company's contribution is based on the Company's annual earnings and the minimum contribution is 33 1/3% of an employee's eligible savings. Expense for the Savings Plans amounted to \$21 million for the 52 weeks ended February 2, 2002, \$29 million for the 53 weeks ended February 3, 2001 and \$29 million for the 52 weeks ended January 29, 2000.

Deferred Compensation Plan

The Company has a deferred compensation plan wherein eligible executives may elect to defer a portion of their compensation each year as either stock credits or cash credits. The Company transfers shares to a trust to cover the number it estimates will be needed for distribution on account of stock credits currently outstanding. At February 2, 2002 and February 3, 2001, the liability under the plan, which is reflected in other liabilities, was \$34 million and \$31 million, respectively. Expense for the 52 weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000, was immaterial.

14. Postretirement Health Care and Life Insurance Benefits

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

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The following provides a reconciliation of benefit obligations, plan assets and funded status of the postretirement obligations as of December 31, 2001 and 2000:

| | <u>2002</u> | <u>2001</u> |
|--|-------------------|-------------|
| | <u>(millions)</u> | |
| Change in accumulated postretirement benefit obligation | | |
| Accumulated postretirement benefit obligation, beginning of year | \$271 | \$270 |
| Service cost | 1 | 1 |
| Interest cost | 19 | 20 |
| Actuarial loss | 18 | 10 |
| Benefits paid | (29) | (30) |
| <hr/> | | |
| Accumulated postretirement benefit obligation, end of year | \$280 | \$271 |
| Change in plan assets | | |
| Fair value of plan assets, beginning of year | \$ | \$ |
| Company contributions | 29 | 30 |
| Benefits paid | (29) | (30) |
| <hr/> | | |
| Fair value of plan assets, end of year | \$ | \$ |
| <hr/> | | |

Funded status
 \$(280) \$(271)
 Unrecognized net gain
 (29) (56)
 Unrecognized prior
 service cost
 (28) (35)

Accrued benefit cost
 \$(337) \$(362)

Net post retirement benefit expense included the following actuarially determined components:

| | 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 | 52 Weeks Ended January 29, 2000 |
|--|--|--|--|
| | (millions) | | |
| Service cost | \$1 | \$1 | \$1 |
| Interest cost | 19 | 20 | 20 |
| Amortization of prior service cost | (7) | (7) | (7) |
| Recognition of net actuarial gain | (9) | (9) | (8) |
| Reduction for special termination benefits | (4) | | |
| | | | |
| | | | |
| | | | |
| | \$4 | \$5 | \$2 |

The discount rate used in determining the actuarial present value of unfunded postretirement benefit obligations was 7.25% as of December 31, 2001 and 7.50% as of December 31, 2000.

The future medical benefits provided by the Company for certain employees are based on a fixed amount per year of service, and the accumulated postretirement benefit obligation is not affected by increases in health care costs. However, the future medical benefits provided by the Company for certain other employees are affected by increases in health care costs. For purposes of determining the present values of unfunded postretirement benefit obligations, the annual growth rate in the per capita cost of various components of such medical benefit obligations was assumed to range from 7.0% to 13.0% in the first year, and to decrease gradually for each such component to 6.0% by 2005 and to remain at that level thereafter. The foregoing growth-rate assumption has a significant effect on such determination. To illustrate, increasing such assumed growth rates by one percentage point would increase the present value of unfunded postretirement benefit obligation as of December 31, 2001 by \$8 million and the net periodic postretirement benefit expense for 2001 by \$1 million. Alternatively, decreasing such assumed growth rates by one percentage point would decrease the present value of unfunded postretirement benefit obligations as of December 31, 2001 by \$8 million and the net periodic postretirement benefit expense for 2001 by \$1 million.

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As permitted under SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan.

15. Equity Plan

The Company has adopted an equity plan intended to provide an equity interest in the Company to key management personnel and thereby provide additional incentives for such persons to devote themselves to the maximum extent practicable to the businesses of the Company and its subsidiaries. The equity plan is administered by the Compensation Committee of the Board of Directors (the Compensation Committee). The Compensation Committee is authorized to grant options, stock appreciation rights and restricted stock to officers and key employees of the Company and its subsidiaries. The equity plan also provides for the award of options to non-employee directors.

Stock option transactions are as follows:

| | 52 Weeks Ended February 2, 2002 | | 53 Weeks Ended February 3, 2001 | | 52 Weeks Ended January 29, 2000 | |
|--|------------------------------------|---|------------------------------------|---|------------------------------------|---|
| | Shares | Weighted Average Options Price | Shares | Weighted Average Options Price | Shares | Weighted Average Options Price |

(shares in thousands)

| | | | | | | |
|--------------------------------|-----------|---------|-----------|---------|-----------|---------|
| Outstanding, beginning of year | 24,082.8 | \$36.08 | 17,307.1 | \$38.95 | 13,660.8 | \$36.72 |
| Granted | 3,995.0 | 42.91 | 8,248.3 | 30.08 | 5,775.0 | 41.13 |
| Canceled | (958.1) | 38.65 | (1,055.4) | 40.36 | (658.8) | 40.33 |
| Exercised | (1,507.1) | 28.57 | (417.2) | 25.97 | (1,469.9) | 26.10 |

| | | | | | | |
|--------------------------|----------|---------|----------|---------|----------|---------|
| Outstanding, end of year | 25,612.6 | \$37.49 | 24,082.8 | \$36.08 | 17,307.1 | \$38.95 |
|--------------------------|----------|---------|----------|---------|----------|---------|

Exercisable, end of year
 11,759.7 \$36.58 9,040.5 \$34.92 5,800.3 \$31.33

Weighted average fair value of options granted during the year
 \$19.62 \$14.33 \$17.54

The following summarizes information about stock options which remain outstanding as of February 2, 2002:

| Range of Exercise Price | Number Outstanding | Options Outstanding | | Options Exercisable | |
|-------------------------|--------------------|---|------------------------------------|---------------------|---------------------------------|
| | | Weighted Average Remaining Contractual Life | Weighted Average Exercisable Price | Number Exercisable | Weighted Average Exercise Price |
| | (thousands) | | | (thousands) | |
| \$11.63-25.00 | 1,604.4 | 2.5 | | | |
| years \$21.29 | 1,604.4 | \$21.29 | | | |
| 25.01-40.00 | | | | | |
| | 14,130.7 | 7.1 | | | |
| years 32.56 | 6,572.9 | 33.56 | | | |
| 40.01-79.44 | | | | | |
| | 9,877.5 | 7.6 | | | |
| years 47.19 | 3,582.4 | 48.95 | | | |

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As of February 2, 2002, 8.3 million shares of Common Stock were available for additional grants pursuant to the Company's equity plan, of which 105,300 shares were available for grant in the form of restricted stock. During the 52 weeks ended February 2, 2002, 234,278 shares of Common Stock were granted in the form of restricted stock, with 221,278 shares at a market value of \$43.00 fully vesting after four years and 13,000 shares at a market value of \$38.60 fully vesting after three years. During the 53 weeks ended February 3, 2001, 122,700 shares of Common Stock were granted in the form of restricted stock at a market value of \$39.81 vesting ratably over a four-year period. During the 52 weeks ended January 29, 2000, 212,600 shares of Common Stock were granted in the form of restricted stock at market values ranging from \$39.25 to \$46.75 vesting ratably over a four-year period. Compensation expense is recorded for all restricted stock grants based on the amortization of the fair market

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value at the time of grant of the restricted stock over the period the restrictions lapse. There have been no grants of stock appreciation rights under the equity plan.

The Company applies APB Opinion No. 25 and related Interpretations in accounting for compensation cost under its equity plan. Had compensation cost for the Company's equity plan been determined consistent with SFAS No. 123, Accounting for Stock-Based Compensation, for options granted subsequent to January 28, 1995, the Company's net income (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below:

| | | 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 | 52 Weeks Ended January 29, 2000 |
|-----------------------------------|-------------|--|--|--|
| (millions, except per share data) | | | | |
| Net income (loss) | As Reported | \$ (276) | \$ (184) | \$ 795 |
| Pro forma | | (323) | (226) | 758 |
| Basic earnings (loss) per share | | | | |
| As Reported | | (1.41) | (.90) | 3.78 |
| Pro forma | | (1.65) | (1.11) | 3.60 |
| Diluted earnings (loss) per share | | | | |
| As Reported | | (1.38) | (.89) | 3.62 |
| Pro forma | | (1.62) | (1.09) | 3.45 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used:

| | 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 | 52 Weeks Ended January 29, 2000 |
|-------------------------|--|--|--|
| (millions) | | | |
| Dividend yield | | | |
| Expected volatility | 39.1% | 37.0% | 32.5% |
| Risk-free interest rate | 4.6% | 6.3% | 5.4% |
| Expected life | 6 years | 6 years | 6 years |

16. Shareholders' Equity

The authorized shares of the Company consist of 125.0 million shares of preferred stock (Preferred Stock), par value of \$.01 per share, with no shares issued, and 500.0 million shares of Common Stock, par value of \$.01 per share, with 265.0 million shares of Common Stock issued and 200.8 million shares of Common Stock outstanding at February 2, 2002 and 254.4 million shares of Common Stock issued and 197.6 million shares of Common Stock outstanding at February 3, 2001 (with shares held in the Company's treasury or by subsidiaries of the Company being treated as issued, but not outstanding).

The Company purchased 7.4 million shares of its Common Stock in 2001 at a cost of approximately \$300 million and 17.6 million shares of its Common Stock in 2000 at an approximate cost of \$600 million, under its stock repurchase program. On May 18, 2001, the Board of Directors approved a \$500 million increase to the current stock repurchase program increasing the authorization to \$1,500 million. As of February 2, 2002, the Company had approximately \$600 million of the \$1,500 million authorization remaining. The Company may continue or, from time to time, suspend repurchases of shares under its stock repurchase program, depending on prevailing market conditions, alternate uses of capital and other factors.

In 2001, the Company issued 9.0 million shares of its Common Stock upon the exercise of the Company's Series D warrants. In 2000, the Company issued 1.0 million shares of its Common Stock upon the exercise of the Company's Series B Warrants.

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Common Stock

The holders of the Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Subject to preferential rights that may be applicable to any Preferred Stock, holders of Common Stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor. However, it is not presently anticipated that dividends will be paid on Common Stock in the foreseeable future.

Preferred Share Purchase Rights

Each share of Common Stock is accompanied by one right (a Right) issued pursuant to the Share Purchase Rights Agreement between the Company and The Bank of New York, as Rights Agent. Each Right entitles the registered holder thereof to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value \$.01 per share (the Series A Preferred Shares), of the Company at a price (the Purchase Price) of \$62.50 per one one-hundredth of a Series A Preferred Share (subject to adjustment).

In general, the Rights will not become exercisable or transferable apart from the shares of Common Stock with which they were issued unless a person or group of affiliated or associated persons becomes the beneficial owner of, or commences a tender offer that would result in beneficial ownership of, 20% or more of the outstanding shares of Common Stock (any such person or group of persons being referred to as an

Acquiring Person). Thereafter, under certain circumstances, each Right (other than any Rights that are or were beneficially owned by an Acquiring Person, which Rights will be void) could become exercisable to purchase at the Purchase Price a number of shares of Common Stock having a market value equal to two times the Purchase Price. The Rights will expire on December 19, 2004 unless earlier redeemed by the Company at a redemption price of \$.03 per Right (subject to adjustment).

Treasury Stock

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

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

| | 52 Weeks Ended February 2, 2002 | 53 Weeks Ended February 3, 2001 | 52 Weeks Ended January 29, 2000 |
|-----------------------------------|---|--|--|
| | (millions) | | |
| Balance, beginning of year | 26,735.3 | 9,439.9 | 3,819.4 |
| Additions: | | | |
| Repurchase program | 7,408.0 | 17,573.3 | 5,631.7 |
| Restricted stock | 32.7 | 42.7 | 5.8 |
| Deferred compensation plans | 13.9 | 9.1 | 4.1 |
| Distributions through stock plans | (19.1) | (329.7) | (21.1) |
| | <hr/> | | |
| | <hr/> | | |
| | <hr/> | | |

Balance, end of year
34,170.8 26,735.3 9,439.9

Additions to treasury stock for restricted stock and the deferred compensation plans represent shares accepted in lieu of cash to cover employee tax liabilities upon lapse of restrictions for restricted stock and upon distribution of Common Stock under the deferred compensation plans.

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

| | <u>52 Weeks Ended February 2, 2002</u> | <u>53 Weeks Ended February 3, 2001</u> | <u>52 Weeks Ended January 29, 2000</u> |
|----------------------------|--|--|--|
| | (millions) | | |
| Balance, beginning of year | 554.1 | 483.8 | 434.5 |
| Additions | 45.1 | 96.2 | 63.6 |
| Distributions | (39.2) | (25.9) | (14.3) |
| <hr/> | | | |
| <hr/> | | | |
| <hr/> | | | |
| Balance, end of year | 560.0 | 554.1 | 483.8 |
| <hr/> | | | |
| <hr/> | | | |
| <hr/> | | | |

17. Financial Instruments and Concentrations of Credit Risk

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

Cash and short-term investments

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

Accounts receivable

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

Long-term debt

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

Interest rate cap agreements

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

Interest rate swap agreements

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

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

| | February 2, 2002 | | | February 3, 2001 | | |
|-------------------------------|----------------------|--------------------|---------------|----------------------|--------------------|---------------|
| | Notational Amount | Carrying Amount | Fair Value | Notational Amount | Carrying Amount | Fair Value |
| | | | | | | |
| | | | | | | (millions) |
| Long-term debt | \$3,808 | \$3,808 | \$3,893 | \$3,797 | \$3,799 | |
| Interest rate cap agreements | 375 | 375 | 1 | 1 | | |
| Interest rate swap agreements | 600 | 1 | 1 | | | |

The interest rate cap agreements are used, in effect, to hedge interest rate risk related to a portion of the variable rate indebtedness under the Company's Receivables Backed Financings.

The interest rate swap agreements are used, in effect, to convert a portion of the Company's fixed-rate debt to variable rate debt.

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

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

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18. Earnings Per Share

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

| | 52 Weeks Ended February 2, 2002 | | 53 Weeks Ended February 3, 2001 | | 52 Weeks Ended January 29, 2000 | |
|--|--|--------|--|-------|--|--------|
| | Income | Share | Income | Share | Income | Shares |
| | (millions, except per share data) | | | | | |
| Income from continuing operations before extraordinary item and average number of shares outstanding | \$518 | 195.1 | \$821 | 204.3 | \$825 | 210.0 |
| Shares to be issued under deferred compensation plans | .6 | .5 | .4 | | | |
| <hr/> | | | | | | |
| <hr/> | | | | | | |
| <hr/> | | | | | | |
| <hr/> | | | | | | |
| <hr/> | | | | | | |
| <hr/> | | | | | | |
| <hr/> | | | | | | |
| <hr/> | | | | | | |
| \$518 | 195.7 | \$821 | 204.8 | \$825 | 210.4 | |
| Basic earnings per share | | | | | | |
| | \$2.65 | \$4.01 | \$3.92 | | | |
| <hr/> | | | | | | |
| <hr/> | | | | | | |
| <hr/> | | | | | | |
| Effect of dilutive securities: | | | | | | |
| Warrants | | | | | | |
| | 1.8 | 1.1 | 6.9 | | | |
| Stock options | | | | | | |
| | 2.1 | 1.1 | 2.3 | | | |
| <hr/> | | | | | | |

| | | | | | |
|----------------------------|-------|--------|-------|--------|-------|
| \$518 | 199.6 | \$821 | 207.0 | \$825 | 219.6 |
| Diluted earnings per share | | | | | |
| \$2.59 | | \$3.97 | | \$3.76 | |

In addition to the warrants and stock options reflected in the foregoing table, stock options to purchase 10.0 million, 9.2 million and 4.7 million shares of common stock at prices ranging from \$35.31 to \$79.44 per share were outstanding at February 2, 2002, February 3, 2001 and January 29, 2000, respectively, but were not included in the computation of diluted earnings per share because the exercise price thereof exceeded the average market price and their inclusion would have been antidilutive.

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Table of Contents**19. Quarterly Results (unaudited)**

Unaudited quarterly results for the 52 weeks ended February 2, 2002 and the 53 weeks ended February 3, 2001, were as follows:

| | <u>First Quarter</u> | <u>Second Quarter</u> | <u>Third Quarter</u> | <u>Fourth Quarter</u> |
|--|-----------------------------------|---------------------------|--------------------------|---------------------------|
| | (millions, except per share data) | | | |
| 52 Weeks Ended February 2, 2002: | | | | |
| Net sales | \$3,556 | \$3,488 | \$3,475 | \$5,132 |
| Cost of sales | 2,177 | 2,135 | 2,143 | 3,129 |
| Selling, general and administrative expenses | 1,175 | 1,113 | 1,192 | 1,321 |
| Asset impairment and restructuring charges (see Note 4) | 26 | 27 | 14 | 95 |
| Income from continuing operations | 58 | 124 | 26 | 310 |
| Discontinued operations (a) | (14) | (13) | (757) | |
| Net income (loss) | 58 | 110 | 3 | (447) |
| Basic earnings (loss) per share: | | | | |
| Income from continuing operations | .30 | .63 | .13 | 1.57 |
| Net income (loss) | .30 | .56 | .02 | (2.27) |
| Diluted earnings (loss) per share: | | | | |
| Income from continuing operations | .29 | .62 | .13 | 1.55 |
| Net income (loss) | .29 | .55 | .02 | (2.23) |
| 53 Weeks Ended February 3, 2001: | | | | |
| Net sales | \$3,573 | \$3,679 | \$3,782 | \$5,604 |
| Cost of sales | 2,152 | 2,173 | 2,295 | 3,335 |
| Selling, general and administrative expenses | 1,152 | 1,104 | 1,218 | 1,438 |
| Asset impairment and restructuring charges (see Note 4) | 80 | | | |
| Income from continuing operations | 118 | 194 | 109 | 400 |
| Discontinued operations (a) | (29) | (131) | (777) | (68) |
| Net income (loss) | 89 | 63 | (668) | 332 |
| Basic earnings (loss) per share: | | | | |
| Income from continuing operations | .56 | .94 | .54 | 2.01 |

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Net income (loss)

.42 .31 (3.32) 1.67

Diluted earnings (loss) per share:

Income from continuing operations

.55 .93 .54 1.99

Net income (loss)

.41 .30 (3.32) 1.65

- (a) Discontinued operations include the after-tax operations of Fingerhut Companies, Inc. The fourth quarter of 2001 includes the estimated after-tax loss on the disposal of discontinued operations of \$770 million.

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