

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-K

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

For the Fiscal Year Ended  
January 29, 2000

Commission File Number  
1-13536

## Federated Department Stores, Inc.

151 West 34th Street  
New York, New York 10001

(212) 494-1602

and

7 West Seventh Street  
Cincinnati, Ohio 45202

(513) 579-7000

Incorporated in Delaware

I.R.S. No. 13-3324058

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$.01 per share	New York Stock Exchange
Rights to Purchase Series A Junior Participating Preferred Stock	New York Stock Exchange
Series D Warrants	New York Stock Exchange
10% Senior Notes due 2001	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 211,548,809 shares of the Company's Common Stock outstanding as of April 1, 2000, 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 March 31, 2000, was approximately \$8,964,400,000.

#### Documents Incorporated by Reference

Portions of the definitive proxy statement (the "Proxy Statement") relating to the Company's Annual Meeting of Stockholders to be held on May 19, 2000 (the "Annual Meeting"), are incorporated by reference in Part III hereof.

*Unless the context requires otherwise, (i) references to “the Company” are, for all periods prior to December 19, 1994 (the “Merger Date”), references to Federated Department Stores, Inc. (“Federated”) and its subsidiaries and their respective predecessors, and for all periods following the merger (the “Merger”) of Federated and R.H. Macy & Co. Inc. (“Macy’s”) on the Merger Date, references to the surviving corporation in the Merger and its subsidiaries and (ii) references to “1999,” “1998,” “1997,” “1996” and “1995” are references to the Company’s fiscal years ended January 29, 2000, January 30, 1999, January 31, 1998, February 1, 1997 and February 3, 1996, respectively.*

*This report and other reports, statements and information previously or subsequently filed by the Company with the Securities and Exchange Commission (the “SEC”) contain or may contain forward-looking statements. Such statements are based upon the beliefs and assumptions of, and on information available to, the management of the Company at the time such statements are made. The following are or may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995: (i) statements preceded by, followed by or that include the words “may,” “will,” “could,” “should,” “believe,” “expect,” “future,” “potential,” “anticipate,” “intend,” “plan,” “estimate” or “continue” or the negative or other variations thereof and (ii) statements regarding matters that are not historical facts. Such forward-looking statements are subject to various risks and uncertainties, including (i) risks and uncertainties relating to the possible invalidity of the underlying beliefs and assumptions, (ii) possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions, and (iii) actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, competitors and legislative, regulatory, judicial and other governmental authorities and officials. In addition to any risks and uncertainties specifically identified in the text surrounding such forward-looking statements, the statements in the immediately preceding sentence and the statements under captions such as “Risk Factors” and “Special Considerations” in reports, statements and information filed by the Company with the SEC from time to time constitute cautionary statements identifying important factors that could cause actual amounts, results, events and circumstances to differ materially from those reflected in such forward-looking statements.*

## **Item 1. Business.**

*General.* The Company, through its subsidiaries, is one of the leading operators of full-line department stores in the United States, with over 400 department stores in 33 states as of January 29, 2000. The Company’s subsidiaries operate department stores under the names “Bloomingdale’s,” “The Bon Marché,” “Burdines,” “Goldsmith’s,” “Lazarus,” “Macy’s,” “Rich’s” and “Stern’s.” These 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. The department stores are located at urban or suburban sites, principally in densely populated areas across the United States.

The Company, through its division, Federated Direct, also operates direct-to-customer mail catalog businesses under the names “Bloomingdale’s By Mail,” “Macy’s By Mail” and “Fingerhut,” and electronic commerce businesses which provide goods and services online through its subsidiary Fingerhut Companies, Inc. (“Fingerhut”) and under the names “bloomingdales.com” and “macys.com.” Through Fingerhut, the Company operates a database marketing business that 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 offers a broad range of services to third parties,

including telemarketing, direct marketing, information management, warehousing, product fulfillment and distribution, order and returns processing, customer service and credit-related services. The Company also has investments in entities engaged in complementary businesses, including Internet businesses.

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"), supports the proprietary credit programs of the Company's retail operating divisions in respect of all proprietary credit card accounts owned by the Company except support relating to statement mailing and payment processing, which is provided by GE Capital Consumer Card Co. ("GE Bank"). GE Bank owns all of the "Macy's" credit card accounts originated prior to the Merger and an allocated portion of the "Macy's" credit card accounts originated subsequent to the 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 except for Bloomingdale's and Stern's, which source some of their private label merchandise through Associated Merchandising Corporation. Bloomingdale's also has its own private label program and sells some of FMG's merchandise.
- Federated Logistics, 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, Figi's 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 such retail operations by providing data processing, customer service, telemarketing and fulfillment services, as well as other corporate office functions.

The Company and its predecessors have been operating department stores since 1820. Federated was organized as a Delaware corporation in 1920. On May 26, 1994, Federated acquired Joseph Horne Co., Inc. pursuant to a subsidiary merger. On December 19, 1994, Federated acquired Macy's pursuant to the 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.

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

*Employees.* As of January 29, 2000, the Company had approximately 133,000 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 January 29, 2000 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 1999. 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 compete with other department stores in the geographic areas in which they operate. In addition, both the Company's department stores and direct-to-customer operations compete with 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.

*Operating Segment Information.* The information set forth in Note 16 to Consolidated Financial Statements appearing elsewhere in this report is incorporated by reference into this Item 1.

**Item 1A. Executive Officers of the Registrant.**

The following table sets forth certain information regarding the executive officers of the Company:

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
James M. Zimmerman . . . . .	56	Chairman of the Board and Chief Executive Officer; Director
Terry J. Lundgren . . . . .	47	President and Chief Merchandising Officer; Director
Ronald W. Tysoe . . . . .	47	Vice Chairman, Finance and Real Estate; Director
Thomas G. Cody . . . . .	58	Executive Vice President, Legal and Human Resources
Dennis J. Broderick . . . . .	51	Senior Vice President, General Counsel and Secretary
Karen M. Hoguet . . . . .	43	Senior Vice President and Chief Financial Officer
Joel A. Belsky . . . . .	46	Vice President and Controller

James M. Zimmerman has been Chairman of the Board and Chief Executive Officer of the Company since May 1997; prior thereto he served as the President and Chief Operating Officer of the Company since May 1988.

Terry J. Lundgren has been President and Chief Merchandising Officer of the Company since May 1997 and served as the Chairman of the Company's Federated Merchandising Group division from February 1994 until February 19, 1998.

Ronald W. Tysoe has been Vice Chairman, Finance and Real Estate of the Company since April 1990 and served as Chief Financial Officer of the Company from April 1990 until October 31, 1997.

Thomas G. Cody has been Executive Vice President, Legal and Human Resources of the Company since May 1988.

Dennis J. Broderick has been Secretary of the Company since July 1993 and Senior Vice President and General Counsel of the Company since January 1990.

Karen M. Hoguet has been Senior Vice President of the Company since April 1991 and Chief Financial Officer of the Company since October 31, 1997. Prior to July 6, 1999, Mrs. Hoguet served as the Treasurer of the Company since January 1992.

Joel A. Belsky has been Vice President and Controller of the Company since October 1996. Prior thereto, he served as Divisional Vice President and Deputy Controller of the Company since March 1993.

**Item 2. Properties.**

The properties of the Company consist primarily of stores and related retail facilities, including warehouses and distribution and fulfillment centers. The Company also owns or leases other properties, including corporate office space in New York and Cincinnati and other facilities at which centralized operational support functions are conducted. As of January 29, 2000, the Company operated 403 department stores in 33 states, comprising a total of 81,914,000 square feet. Of such department stores, 197 were entirely or mostly owned and 206 stores were entirely or mostly leased. Pursuant to 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.

**Item 3. Legal Proceedings.**

The Company and its subsidiaries are involved in various proceedings that are incidental to the normal course of their businesses. The Company does not expect that any of such proceedings will have a material adverse effect on the Company's financial position or results of operations.

**Item 4. Submission of Matters to a Vote of Security-Holders.**

None.

## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The Common Stock is listed on the New York Stock Exchange (the "NYSE") under the trading symbol "FD." As of January 29, 2000, the Company had approximately 16,000 stockholders of record. The following table sets forth for each fiscal quarter during 1999 and 1998 the high and low sales prices per share of Common Stock as reported on the NYSE Composite Tape:

	1999		1998	
	Low	High	Low	High
1st Quarter .....	36.438	47.125	42.750	53.000
2nd Quarter .....	45.938	57.063	49.813	56.188
3rd Quarter .....	38.438	52.875	32.813	53.313
4th Quarter .....	40.938	53.875	35.938	46.375

The Company has not paid any dividends on its Common Stock during its two most recent fiscal years, and does not anticipate paying any dividends on the Common Stock in the foreseeable future.

## Item 6. Selected Financial Data.

The selected financial data set forth below should be read in conjunction with the Consolidated Financial Statements and the notes thereto and the other information contained elsewhere in this report.

	52 Weeks Ended January 29, 2000	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997	53 Weeks Ended February 3, 1996
	(millions, except per share data)				
Consolidated Statement of Income Data:					
Net sales . . . . .	\$17,716	\$15,365	\$15,220	\$14,833	\$14,614
Cost of sales . . . . .	10,443	9,218	9,200	9,018	9,038
Selling, general and administrative expenses . . . . .	5,572	4,692	4,679	4,922	4,913
Operating income . . . . .	1,701	1,455	1,341	893	663
Interest expense . . . . .	(368)	(304)	(418)	(499)	(508)
Interest income . . . . .	13	12	35	47	47
Income before income taxes and extraordinary items	1,346	1,163	958	441	202
Federal, state and local income tax expense . . . . .	(551)	(478)	(383)	(175)	(127)
Income before extraordinary items . . . . .	795	685	575	266	75
Extraordinary items (a) . . . . .	—	(23)	(39)	—	—
Net income . . . . .	<u>\$ 795</u>	<u>\$ 662</u>	<u>\$ 536</u>	<u>\$ 266</u>	<u>\$ 75</u>
Basic earnings per share:					
Income before extraordinary items . . . . .	\$ 3.78	\$ 3.27	\$ 2.74	\$ 1.28	\$ .39
Net income . . . . .	3.78	3.16	2.56	1.28	.39
Diluted earnings per share:					
Income before extraordinary items . . . . .	\$ 3.62	\$ 3.06	\$ 2.58	\$ 1.24	\$ .39
Net income . . . . .	3.62	2.96	2.41	1.24	.39
Average number of shares outstanding . . . . .	210.0	209.1	209.2	207.5	191.5
Depreciation and amortization . . . . .	\$ 738	\$ 624	\$ 590	\$ 533	\$ 497
Capital expenditures . . . . .	\$ 770	\$ 695	\$ 696	\$ 846	\$ 699
Balance Sheet Data (at year end):					
Cash . . . . .	\$ 218	\$ 307	\$ 142	\$ 149	\$ 173
Working capital . . . . .	3,970	2,904	3,134	2,831	3,262
Total assets . . . . .	17,692	13,464	13,738	14,264	14,295
Short-term debt . . . . .	1,284	524	556	1,095	733
Long-term debt . . . . .	4,589	3,057	3,919	4,606	5,632
Shareholders' equity . . . . .	6,552	5,709	5,256	4,669	4,274

(a) The extraordinary items for 1998 and 1997 were after-tax expenses associated with debt prepayments.

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

The Company acquired Fingerhut on March 18, 1999. The acquisition is being accounted for under the purchase method of accounting and, accordingly, the Company's results of operations do not include any revenues or expenses related to the acquisition prior to the closing date. The results of operations of Fingerhut have been grouped with the Company's Bloomingdale's By Mail, Macy's By Mail and macys.com operations and certain other direct marketing activities as the direct-to-customer segment.

### ***Results of Operations***

*Comparison of the 52 Weeks Ended January 29, 2000 and January 30, 1999.* Net sales for 1999 totaled \$17,716 million, compared to net sales of \$15,365 million for 1998, an increase of 15.3%. Net sales for department stores for 1999 were \$15,850 million compared to \$15,365 million for 1998, an increase of 3.2%. On a comparable store basis (sales from stores in operation throughout all of 1998 and 1999), net sales for 1999 increased 4.5% compared to 1998. Net sales for the direct-to-customer segment were \$1,866 million for 1999.

Cost of sales was 58.9% of net sales for 1999, compared to 60.0% for 1998. Cost of sales as a percent of net sales for department stores improved 0.2% in 1999 compared to 1998, benefiting from continued strength in consumer demand. This improvement in the cost of sales rate for department stores, together with a relatively lower cost of sales rate for the direct-to-customer segment, contributed to the overall 1.1% improvement in the cost of sales rate for 1999. The valuation of department store merchandise inventories on the last-in, first-out basis did not impact cost of sales in either year.

Selling, general and administrative ("SG&A") expenses were 31.5% of net sales for 1999, compared to 30.5% for 1998. Department store SG&A expenses improved 1.3% as a percent of department store net sales, reflecting the impact of higher sales with relatively flat nonpayroll expenses and lower bad debt expense, which was partially offset by reduced finance charge income resulting from lower average accounts receivable billings. A relatively higher SG&A expense rate for the direct-to-customer segment, including recently launched businesses, and increased amortization expense resulting from the Fingerhut acquisition combined to offset the improvement in the department store SG&A expense rate and produce a 1.0% increase in the overall SG&A expense rate for 1999.

Net interest expense was \$355 million for 1999 compared to \$292 million for 1998. The higher interest expense for 1999 is due mainly to the increased outstanding debt resulting from the Fingerhut acquisition and the consolidation of the Fingerhut Master Trust for financial reporting purposes.

The Company's effective income tax rate of 40.9% for 1999 differs from the federal income tax statutory rate of 35.0% principally because of the effect of state and local income taxes and permanent differences arising from the amortization of intangible assets and from other non-deductible items.

*Comparison of the 52 Weeks Ended January 30, 1999 and January 31, 1998.* Net sales for 1998 were \$15,365 million compared to \$15,220 million for 1997, an increase of 1.0%. Excluding sales of the specialty stores division that was sold in July 1998, net sales increased 1.7% in 1998. On a comparable store basis (sales from stores in operation throughout all of 1997 and 1998), net sales increased 2.2% in 1998.

Cost of sales was 60.0% of net sales for 1998, compared to 60.5% for 1997. The 0.5% improvement in the cost of sales rate reflects positive customer response to the merchandise assortments in the stores during the second and fourth quarters, attributed partially to an improved merchandise receipt flow. The valuation of merchandise inventory on the last-in, first-out basis did not impact cost of sales in either year.

Selling, general and administrative expenses were 30.5% of net sales for 1998, compared to 30.7% for 1997. Selling, general and administrative expenses include finance charge income and expenses for doubtful customer accounts receivable. Finance charge income was \$345 million for 1998, down from \$391 million in 1997, primarily due to lower average accounts receivable balances as a result of accelerated payments. Amounts charged to expense for doubtful accounts receivable were \$112 million for 1998, compared to \$167 million for 1997. The decrease primarily reflects a reduction in the amount of uncollectible balances written off in 1998, also due to lower average accounts receivable balances and accelerated payments.

Net interest expense was \$292 million for 1998, compared to \$383 million for 1997. The lower interest expense for 1998 is principally due to lower levels of borrowings and lower interest rates resulting from refinancings completed in 1998 and 1997.

The Company's effective tax rate of 41.1% for 1998 differs from the federal income tax statutory rate of 35.0% principally because of the effect of state and local income taxes and permanent differences arising from the amortization of intangible assets and from other non-deductible items.

The extraordinary items of \$23 million and \$39 million for 1998 and 1997, respectively, represent after-tax expenses associated with debt prepayments.

### ***Liquidity and Capital Resources***

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

Net cash provided by operating activities in 1999 was \$1,263 million, compared to \$1,690 million provided in 1998. The Company's improved operating results were more than offset by an increase in accounts receivable in 1999 compared to a decrease in 1998. The increase in accounts receivable in 1999 resulted from higher credit sales and a post-acquisition increase in Fingerhut's accounts receivable.

Net cash used by investing activities was \$2,432 million for 1999, including the purchase of Fingerhut. Investing activities for 1999 also included purchases of property and equipment totaling \$770 million, capitalized software of \$52 million and investments in companies engaged in complementary businesses totaling \$117 million. The Company opened four new department stores and two new furniture galleries during 1999.

Net cash provided to the Company by all financing activities was \$1,080 million. The Company funded the acquisition of Fingerhut through a combination of cash on hand and short-term borrowings. During 1999, the Company issued \$350 million of 6.3% Senior Notes due 2009 and \$400 million of 6.9% Senior Debentures due 2029, the proceeds of which were used to refinance a portion of the short-term borrowings used by the Company to acquire Fingerhut. The Company repaid debt of \$650 million in 1999, consisting principally of \$490 million of receivables backed financings and the \$125 million of Senior Notes assumed in the Fingerhut acquisition.

The Company purchased 5.6 million shares of its common stock in 1999 at an approximate cost of \$267 million. On January 27, 2000, the Board of Directors approved a new stock repurchase program that authorizes the Company to purchase up to \$500 million of its common stock. The Company may from time to time commence, continue or suspend repurchases of shares under the repurchase program, depending on prevailing market conditions, alternate uses of capital and other factors. During 1999, the Company issued 9.0 million shares of its common stock upon the exercise of the Company's Series C Warrants.

In 1999, the Company took certain actions which resulted in the consolidation of the Fingerhut Master Trust for financial reporting purposes. The principal assets and liabilities of the Fingerhut Master Trust consisted of accounts receivable transferred by Fingerhut to the Trust in transactions treated as sales under Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and the related debt issued by the Trust. As a result of the Company's actions, the transfer of receivables and debt are being treated as secured borrowings as of and subsequent to July 31, 1999. These actions increased the Company's consolidated net assets and debt by \$1,132 million at July 31, 1999 and by \$1,300 million at January 29, 2000.

The Company intends to open eight new department stores and four new furniture galleries in 2000 and its budgeted capital expenditures are approximately \$3,000 million for the 2000 to 2002 period. Management presently anticipates funding such expenditures from operations.

Management believes the department store business and other retail businesses will continue to consolidate. Accordingly, the Company intends from time to time to consider additional acquisitions of, and investments in, department stores, Internet-related companies, catalog companies and other complementary assets and companies.

Management believes that, with respect to its current operations, cash on hand and funds from operations, together with its credit facilities, will be sufficient to cover its reasonably foreseeable working capital, capital expenditure and debt service requirements. Acquisition transactions, if any, are expected to be financed through a combination of cash on hand and from operations, and the possible issuance from time to time of long-term debt or other securities. 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.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The Company is exposed to market risk from changes in interest rates which may adversely affect its financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposures through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company does not use financial instruments for trading or other speculative purposes and is not party to any leveraged financial instruments.

The Company is exposed to interest rate risk primarily through its borrowing activities, which are described in Note 8 to the Consolidated Financial Statements. The majority of the Company's borrowings are under fixed rate instruments. However, the Company uses interest rate swap and interest rate cap agreements to help manage its exposure to interest rate movements and reduce borrowing costs. See Notes 8 and 15 to the Consolidated Financial Statements, which are incorporated herein by reference.

Based on the Company's market risk sensitive instruments (including variable rate debt and derivative financial instruments) outstanding at January 29, 2000, the Company has determined that there was no material market risk exposure to the Company's consolidate financial position, results of operations or cash flows as of such date.

**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.

**INDEX**

	<u>Page</u>
Management’s Report .....	F-2
Independent Auditors’ Report .....	F-3
Consolidated Statements of Income for the 52 weeks ended January 29, 2000, January 30, 1999 and January 31, 1998 .....	F-4
Consolidated Balance Sheets at January 29, 2000 and January 30, 1999 .....	F-5
Consolidated Statements of Changes in Shareholders’ Equity for the 52 weeks ended January 29, 2000, January 30, 1999 and January 31, 1998 .....	F-6
Consolidated Statements of Cash Flows for the 52 weeks ended January 29, 2000, January 30, 1999 and January 31, 1998 .....	F-7
Notes to Consolidated Financial Statements .....	F-8

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant.**

Information called for by this item is set forth under Item 1 “Election of Directors” and “Compliance with Section 16(a) of the Securities and Exchange Act of 1934” in the Proxy Statement, and in Item 1A “Executive Officers of the Registrant,” and incorporated herein by reference.

**Item 11. Executive Compensation.**

Information called for by this item is set forth under “Executive Compensation” and “Compensation Committee Report on Executive Compensation” in the Proxy Statement and incorporated herein by reference.

**Item 12. Security Ownership and Certain Beneficial Owners and Management.**

Information called for by this item is set forth under “Stock Ownership” in the Proxy Statement and incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions.**

None.

## 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.

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
3.1	Certificate of Incorporation	Exhibit 3.1 to the Company’s Annual Report on Form 10-K 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 in interest 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	Third Supplemental Indenture, dated as of January 23, 1995, between the Company and State Street Bank and Trust Company (successor in interest to The First National Bank of Boston), as Trustee	Exhibit 4.4.1 to the 1994 Form 10-K
4.4.2	Fifth Supplemental Indenture, dated as of October 6, 1995, between the Company and State Street Bank and Trust Company (successor in interest 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

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
4.4.3	Seventh Supplemental Indenture, dated as of May 22, 1996, between the Company and State Street Bank and Trust Company (successor in interest 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
4.4.4	Eighth Supplemental Indenture, dated as of July 14, 1997, between the Company and State Street Bank and Trust Company (successor in interest 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")
4.4.5	Ninth Supplemental Indenture, dated as of July 14, 1997, between the Company and State Street Bank and Trust Company (successor in interest 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	Second Supplemental Indenture, dated as of August 26, 1998, 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 25, 1998
4.5.3	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
4.6	Series D Warrant Agreement	Exhibit 4.7 to the 1994 Form 10-K
10.1	364 Day Credit Agreement, dated as of July 28, 1997, by and among the Company, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, Fleet National Bank (successor in interest to BankBoston, N.A.), as Syndication Agent, and The Bank of America, National Trust & Savings Association, as Documentation Agent	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended August 2, 1997 (the "August 1997 Form 10-Q")

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
10.1.1	Second Amended and Restated Credit Agreement, dated as of July 26, 1999, by and among the Company, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, Fleet National Bank (successor in interest to BankBoston, N.A.), as Syndication Agent, and The Bank of America, National Trust & Savings Association, as Documentation Agent	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended July 31, 1999 (the "July 1999 Form 10-Q")
10.2	Five-Year Credit Agreement, dated as of July 28, 1997, by and among the Company, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, Fleet National Bank (successor in interest to BankBoston, N.A.), as Syndication Agent, and The Bank of America, National Trust & Savings Association, as Documentation Agent	Exhibit 10.2 to the August 1997 Form 10-Q
10.2.1	Letter Amendment to the Five-Year Credit Agreement, dated as of June 29, 1998, by and among the Company, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, Fleet National Bank (successor in interest to BankBoston, N.A.), as Syndication Agent, and The Bank of America, National Trust & Savings Association, as Documentation Agent	Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended August 1, 1998
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 The Chase Manhattan Bank, (successor in interest 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")

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
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")
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
10.4	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
10.7	Series 1996-1 Supplement, dated as of May 14, 1996, to the Pooling and Servicing Agreement	Exhibit 4 to Prime's Current Report on Form 8-K (File No. 0-21118) dated May 24, 1996
10.7.1	First Amendment to Series 1996-1 Supplement, dated as of August 28, 1997, to the Pooling and Servicing Agreement	Exhibit 10.5 to the November 1997 Form 10-Q

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
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 (File No. 333-45599))	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”)
10.9	Series 1998-1 Supplement dated as of April 28, 1998 to the Fingerhut Amended and Restated Pooling and Servicing Agreement	Exhibit 10.9 to the May 1999 Form 10-Q
10.9.1	First Amendment dated as of March 17, 1999 to Series 1998-1 Supplement	Exhibit 10.12 to the May 1999 Form 10-Q
10.10	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
10.10.1	First Amendment dated as of March 17, 1999 to Series 1998-2 Supplement	Exhibit 10.13 to the May 1999 Form 10-Q
10.11	Series 1998-3 Supplement dated as of April 28, 1998 to the Fingerhut Amended and Restated Pooling and Servicing Agreement	Exhibit 10.11 to the May 1999 Form 10-Q
10.11.1	First Amendment dated as of March 17, 1999 to Series 1998-3 Supplement	Exhibit 10.14 to the May 1999 Form 10-Q
10.11.2	Second Amendment to the Series 1998-3 Supplement, dated as of July 29, 1999, by and among Fingerhut Receivables, Inc., as Transferor, Axsys National Bank (formerly Fingerhut National Bank), as Servicer, and The Bank of New York (Delaware), as Trustee	Exhibit 10.2 to the July 1999 Form 10-Q
10.12	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
10.12.1	First Amendment, dated as of June 23, 1993, to the Receivables Purchase Agreement	Exhibit 10.14.1 to 1993 Form 10-K

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
10.12.2	Second Amendment, dated as of December 1, 1993, to the Receivables Purchase Agreement	Exhibit 10.14.2 to 1993 Form 10-K
10.12.3	Third Amendment, dated as of February 28, 1994, to the Receivables Purchase Agreement	Exhibit 10.14.3 to 1993 Form 10-K
10.12.4	Fourth Amendment, dated as of May 31, 1994, to the Receivables Purchase Agreement	Exhibit 10.13.4 to the 1994 Form 10-K
10.12.5	Fifth Amendment, dated as of April 30, 1995, to the Receivables Purchase Agreement	Exhibit 10.12.5 to the 1995 Form 10-K
10.12.6	Sixth Amendment, dated as of August 26, 1995, to the Receivables Purchase Agreement	Exhibit 10.13.6 to the 1996 Form 10-K
10.12.7	Seventh Amendment, dated as of August 26, 1995, to the Receivables Purchase Agreement	Exhibit 10.13.7 to the 1996 Form 10-K
10.12.8	Eighth Amendment, dated as of May 14, 1996, to the Receivables Purchase Agreement	Exhibit 10.13.8 to the 1996 Form 10-K
10.12.9	Ninth Amendment, dated as of March 3, 1997, to the Receivables Purchase Agreement.	Exhibit 10.13.9 to the 1996 Form 10-K
10.12.10	First Supplement, dated as of September 15, 1993, to the Receivables Purchase Agreement	Exhibit 10.14.4 to 1993 Form 10-K
10.12.11	Second Supplement, dated as of May 31, 1994, to the Receivables Purchase Agreement	Exhibit 10.12.7 to the 1995 Form 10-K
10.13	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 (File No. 333-45599))	Exhibit 10.15 to the May 1999 Form 10-Q
10.14	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 (File No. 333-45599))	Exhibit 10.16 to the May 1999 Form 10-Q
10.15	Depository Agreement, dated as of December 31, 1992, among Deerfield Funding Corporation, now known as Seven Hills Funding Corporation (“Seven Hills”), the Company, and 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”)

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
10.16	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
10.17	Pledge and Security Agreement, dated as of December 31, 1992, among Seven Hills, the Company, The Chase Manhattan Bank, as Depository and Collateral Agent, and the Liquidity Agent	Exhibit 10.17 to 1992 Form 10-K
10.18	Security Purchase Agreement, dated as of July 30, 1998, by and among Fingerhut Receivables, Inc. (the "Transferor"), Kitty Hawk Funding Corporation ("Kitty Hawk"), Falcon Asset Securitization Corporation ("Falcon"), Four Winds Funding Corporation ("Four Winds" and, collectively with Kitty Hawk and Falcon, the "Conduit Purchasers"), The Bank of America, N.A. ("BofA" or the "Administrative Agent"), The First National Bank of Chicago ("First Chicago"), Norddeutsche Landesbank Girozentrale, New York Branch and/or Cayman Island Branch ("Norddeutsche"), and Commerzbank Aktiengesellschaft, Chicago Branch ("Commerzbank" and collectively with BofA, First Chicago and Norddeutsche, the "Alternate Purchasers" and collectively with BofA and First Chicago, the "Managing Agents")	Exhibit 10.3 to the July 1999 Form 10-Q
10.18.1	First Amendment Agreement to Fingerhut Receivables, Inc. Security Purchase Agreement, dated as of July 29, 1999, by and among Fingerhut Receivables, Inc., Kitty Hawk, Falcon, Four Winds, the Conduit Purchasers, the Alternate Purchasers and the Managing Agents	Exhibit 10.4 to the July 1999 Form 10-Q
10.19	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
10.20	Commercial Paper Dealer Agreement, dated as of December 31, 1992, among Seven Hills, the Company, and Shearson Lehman Brothers, Inc.	Exhibit 10.19 to 1992 Form 10-K

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
10.21	Receivables Purchase Agreement, dated as of January 22, 1997, among FDS National Bank and Prime II Receivables Corporation (“Prime II”)	Exhibit 10.19 to the 1996 Form 10-K
10.22	Class A Certificate Purchase Agreement, dated as of January 22, 1997, among Prime II, 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
10.23	Class B Certificate Purchase Agreement, dated as of January 22, 1997, among Prime II, 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
10.24	Class A Certificate Purchase Agreement, dated as of July 6, 1999, by and among Prime II, as Transferor, 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
10.24.1	First Amendment to Class A Certificate Purchase Agreement, dated as of August 3, 1999, by and among Prime II, as Transferor, 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
10.25	Class B Certificate Purchase Agreement, dated as of July 6, 1999, by and among Prime II, as Transferor, 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
10.25.1	First Amendment to Class B Certificate Purchase Agreement, dated as of August 3, 1999, by and among Prime II, as Transferor, 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

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
10.26	Pooling and Servicing Agreement, dated as of January 22, 1997, (the “Prime II Pooling and Servicing Agreement”) among Prime II, FDS National Bank and The Chase Manhattan Bank, as Trustee	Exhibit 10.22 to the 1996 Form 10-K
10.27	Series 1997-1 Supplement, dated as of January 22, 1997, to the Prime II Pooling and Servicing Agreement	Exhibit 10.23 to the 1996 Form 10-K
10.28	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
10.29	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-K
10.30	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
10.31	Commercial Paper Dealer Agreement, dated as of March 12, 1999, between the Company, as Issuer, and First Chicago Capital Markets, Inc., as Dealer	Exhibit 10.3 to the May 1999 Form 10-Q
10.32	Commercial Paper Dealer Agreement, dated as of March 12, 1999, between the Company, as Issuer, and Chase Securities Inc., as Dealer	Exhibit 10.4 to the May 1999 Form 10-Q
10.33	Tax Sharing Agreement	Exhibit 10.10 to Form 10
10.34	Ralphs Tax Indemnification Agreement	Exhibit 10.1 to Form 10
10.35	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
10.36	Amended and Restated Credit Card Program Agreement, dated as of June 4, 1996, among GE Capital Consumer Card Co. (“GE Bank”), FDS National Bank, Macy’s East, Inc., Macy’s West, Inc., Bullock’s, Inc., 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”)

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
10.37	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
10.38	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
10.39	FDS Guaranty, dated as of June 4, 1996	Exhibit 10.4 to the August 1996 Form 10-Q
10.40	GE Capital Credit Services and License Agreement, dated as of June 4, 1996, among GE Capital, FDS National Bank, the Company and FACS Group, Inc.**	Exhibit 10.5 to the August 1996 Form 10-Q
10.41	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
10.42	Amended and Restated Commercial Accounts Agreement, dated as of June 4, 1996, among GE Capital, the Company, FDS National Bank, Macy’s East, Inc., Macy’s West, Inc., Bullock’s, Inc., Broadway Stores, Inc., FACS Group, Inc. and MSS-Delaware, Inc.**	Exhibit 10.7 to the August 1996 Form 10-Q
10.43	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
10.44	1992 Executive Equity Incentive Plan*	Exhibit 10.12 to the Company’s Registration Statement on Form 10 filed November 27, 1991, as amended
10.45	1995 Executive Equity Incentive Plan, as amended and restated as of May 21, 1999*	Appendix A to the Company’s Proxy Statement on Schedule 14A, filed April 21, 1999
10.46	1992 Incentive Bonus Plan, as amended and restated as of December 10, 1999*	
10.47	Form of Severance Agreement*	Exhibit 10.33 to the 1994 Form 10-K
10.48	Form of Indemnification Agreement*	Exhibit 10.14 to Form 10
10.49	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

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
10.50	Employment Agreement, dated as of August 27, 1999, between James M. Zimmerman and the Company*	
10.51	Employment Agreement, dated as of May 16, 1997, between Terry J. Lundgren and the Company*	Exhibit 10.43 to the 1997 Form 10-K
10.52	Form of Employment Agreement for Executives and Key Employees*	Exhibit 10.31 to 1993 Form 10-K
10.53	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")
10.54	Form of Second Amended and Restated Severance Agreement (for the Executive Officers)*	Exhibit 10.45 to the 1998 Form 10-K
10.55	Supplementary Executive Retirement Plan, as amended and restated as of January 1, 1997*	Exhibit 10.46 to the 1996 Form 10-K
10.56	Executive Deferred Compensation Plan, as amended*	Exhibit 10.47 to the 1996 Form 10-K
10.57	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
10.58	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	
22	Consent of KPMG LLP	
23	Powers of Attorney	
27	Financial Data Schedule	

\* 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 December 6, 1999, reporting matters under items 5 and 7 thereof.



## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Management's Report .....	F-2
Independent Auditors' Report .....	F-3
Consolidated Statements of Income for the 52 weeks ended January 29, 2000, January 30, 1999, and January 31, 1998 .....	F-4
Consolidated Balance Sheets at January 29, 2000, and January 30, 1999 .....	F-5
Consolidated Statements of Changes in Shareholders' Equity for the 52 weeks ended January 29, 2000, January 30, 1999 and January 31, 1998 .....	F-6
Consolidated Statements of Cash Flows for the 52 weeks ended January 29, 2000, January 30, 1999 and January 31, 1998 .....	F-7
Notes to Consolidated Financial Statements .....	F-8

## 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 generally accepted accounting principles, 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 generally accepted auditing standards.

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

## 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 January 29, 2000 and January 30, 1999, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the fifty-two week periods ended January 29, 2000, January 30, 1999 and January 31, 1998. 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 generally accepted auditing standards. 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 January 29, 2000 and January 30, 1999, and the results of their operations and their cash flows for the fifty-two week periods ended January 29, 2000, January 30, 1999 and January 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

Cincinnati, Ohio  
February 22, 2000

**FEDERATED DEPARTMENT STORES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(millions, except per share data)

	<u>52 Weeks Ended January 29, 2000</u>	<u>52 Weeks Ended January 30, 1999</u>	<u>52 Weeks Ended January 31, 1998</u>
Net sales .....	\$17,716	\$15,365	\$15,220
Cost of sales .....	10,443	9,218	9,200
Selling, general and administrative expenses .....	<u>5,572</u>	<u>4,692</u>	<u>4,679</u>
Operating income .....	1,701	1,455	1,341
Interest expense .....	(368)	(304)	(418)
Interest income .....	<u>13</u>	<u>12</u>	<u>35</u>
Income before income taxes and extraordinary items ....	1,346	1,163	958
Federal, state and local income tax expense .....	<u>(551)</u>	<u>(478)</u>	<u>(383)</u>
Income before extraordinary items .....	795	685	575
Extraordinary items .....	<u>—</u>	<u>(23)</u>	<u>(39)</u>
Net income .....	<u>\$ 795</u>	<u>\$ 662</u>	<u>\$ 536</u>
Basic earnings per share:			
Income before extraordinary items .....	\$ 3.78	\$ 3.27	\$ 2.74
Extraordinary items .....	<u>—</u>	<u>(.11)</u>	<u>(.18)</u>
Net income .....	<u>\$ 3.78</u>	<u>\$ 3.16</u>	<u>\$ 2.56</u>
Diluted earnings per share:			
Income before extraordinary items .....	\$ 3.62	\$ 3.06	\$ 2.58
Extraordinary items .....	<u>—</u>	<u>(.10)</u>	<u>(.17)</u>
Net income .....	<u>\$ 3.62</u>	<u>\$ 2.96</u>	<u>\$ 2.41</u>

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

**FEDERATED DEPARTMENT STORES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(millions)

	<u>January 29, 2000</u>	<u>January 30, 1999</u>
<b>ASSETS</b>		
Current Assets:		
Cash .....	\$ 218	\$ 307
Accounts receivable .....	4,313	2,209
Merchandise inventories .....	3,589	3,259
Supplies and prepaid expenses .....	230	117
Deferred income tax assets .....	<u>172</u>	<u>80</u>
Total Current Assets .....	8,522	5,972
Property and Equipment – net .....	6,828	6,572
Intangible Assets – net .....	1,735	631
Other Assets .....	<u>607</u>	<u>289</u>
Total Assets .....	<u>\$17,692</u>	<u>\$13,464</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Short-term debt .....	\$ 1,284	\$ 524
Accounts payable and accrued liabilities .....	3,043	2,446
Income taxes .....	<u>225</u>	<u>98</u>
Total Current Liabilities .....	4,552	3,068
Long-Term Debt .....	4,589	3,057
Deferred Income Taxes .....	1,444	1,060
Other Liabilities .....	555	570
Shareholders' Equity .....	<u>6,552</u>	<u>5,709</u>
Total Liabilities and Shareholders' Equity .....	<u>\$17,692</u>	<u>\$13,464</u>

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

**FEDERATED DEPARTMENT STORES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(millions)

	Common Stock	Additional Paid-In Capital	Accumulated Equity	Treasury Stock	Unearned Restricted Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at February 1, 1997 .....	\$2	\$4,400	\$ 834	\$(566)	\$(1)	\$ -	\$4,669
Net Income .....			536				536
Minimum pension liability adjustment, net of income tax effect .....						(3)	(3)
Total comprehensive income .....							533
Stock issued under stock plans .....		46		(7)	(1)		38
Deferred compensation plan distributions				1			1
Income tax benefit related to stock plan activity .....		15					15
Balance at January 31, 1998 .....	2	4,461	1,370	(572)	(2)	(3)	5,256
Net Income .....			662				662
Minimum pension liability adjustment, net of income tax effect .....						(7)	(7)
Total comprehensive income .....							655
Stock repurchases .....				(591)			(591)
Stock issued under stock plans .....		36		(6)			30
Deferred compensation plan distributions				1			1
Restricted stock plan amortization .....					1		1
Income tax benefit related to stock plan activity .....		13					13
Stock issued in conversion of subordinated notes .....		(104)		448			344
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
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
Equity issued in acquisition .....		12					12
Income tax benefit related to stock plan activity .....		16					16
Balance at January 29, 2000 .....	<u>\$3</u>	<u>\$4,719</u>	<u>\$2,827</u>	<u>\$(990)</u>	<u>\$(7)</u>	<u>\$ -</u>	<u>\$6,552</u>

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

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

	<u>52 Weeks Ended</u> <u>January 29, 2000</u>	<u>52 Weeks Ended</u> <u>January 30, 1999</u>	<u>52 Weeks Ended</u> <u>January 31, 1998</u>
Cash flows from operating activities:			
Net income .....	\$ 795	\$ 662	\$ 536
Adjustments to reconcile net income to net cash provided by			
Operating activities:			
Depreciation and amortization .....	657	596	563
Amortization of intangible assets .....	78	27	27
Amortization of financing costs .....	7	7	20
Amortization of unearned restricted stock .....	3	1	-
Loss on early extinguishment of debt .....	-	23	39
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable .....	(473)	235	194
(Increase) decrease in merchandise inventories .....	(164)	(20)	7
Increase in supplies and prepaid expenses .....	(27)	(2)	(5)
(Increase) decrease in other assets not separately identified ..	(8)	31	(7)
Increase (decrease) in accounts payable and accrued			
liabilities not separately identified .....	194	6	(36)
Increase in current income taxes .....	128	25	103
Increase in deferred income taxes .....	64	103	138
Increase (decrease) in other liabilities not separately			
identified .....	9	(4)	(6)
Net cash provided by operating activities .....	<u>1,263</u>	<u>1,690</u>	<u>1,573</u>
Cash flows from investing activities:			
Acquisition of Fingerhut Companies, Inc., net of cash acquired ..	(1,539)	-	-
Purchase of property and equipment .....	(770)	(695)	(696)
Capitalized software .....	(52)	-	-
Investments in companies .....	(117)	-	-
Disposition of property and equipment .....	46	50	178
Collection of note receivable .....	-	200	200
Net cash used by investing activities .....	<u>(2,432)</u>	<u>(445)</u>	<u>(318)</u>
Cash flows from financing activities:			
Debt issued .....	1,684	650	763
Financing costs .....	(10)	-	(7)
Debt repaid .....	(650)	(1,229)	(2,027)
Increase (decrease) in outstanding checks .....	33	47	(45)
Acquisition of treasury stock .....	(267)	(594)	(2)
Issuance of common stock .....	290	46	56
Net cash provided (used) by financing activities .....	<u>1,080</u>	<u>(1,080)</u>	<u>(1,262)</u>
Net increase (decrease) in cash .....	(89)	165	(7)
Cash beginning of period .....	307	142	149
Cash end of period .....	<u>\$ 218</u>	<u>\$ 307</u>	<u>\$ 142</u>
Supplemental cash flow information:			
Interest paid .....	\$ 348	\$ 306	\$ 412
Interest received .....	14	15	38
Income taxes paid (net of refunds received) .....	327	304	121

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

**FEDERATED DEPARTMENT STORES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Organization and Summary of Significant Accounting Policies**

Federated Department Stores, Inc. (the "Company") is a retail organization operating department stores and direct-to-customer businesses that sell a wide range of products and services, 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 \$126 million at January 29, 2000. There were no such investments at January 30, 1999. All significant intercompany transactions have been eliminated. The preparation of financial statements in conformity with generally accepted accounting principles 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.

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

Installments of deferred payment accounts receivable maturing after one year are included in current assets in accordance with industry practice. Such 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 competitive finance charges. Minimum payments vary from 2.5% to 100.0% of the account balance, depending on the size of the balance. Profits on installment sales are included in income when the sales are made. Finance charge income is treated as a reduction of selling, general and administrative expenses.

Substantially all department store merchandise inventories are valued by the retail method and stated on the LIFO (last-in, first-out) basis, which is generally lower than market. Direct-to-customer merchandise inventories are stated at the lower of FIFO (first-in, first-out) cost or market.

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, 3 to 15 years for fixtures and equipment and 2 to 5 years for capitalized software. 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 carrying value of property and equipment is periodically reviewed and adjusted appropriately by the Company whenever events or changes in circumstances indicate that the estimated fair value is less than the carrying amount.

Intangible assets are amortized on a straight-line basis over their estimated lives (see Note 7). The carrying value of intangible assets is periodically reviewed by the Company and impairments are recognized when the present value of the expected future operating cash flows derived from such intangible assets is less than their carrying value.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

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Advertising and promotional costs amounted to \$1,219 million, \$739 million and \$680 million for the 52 weeks ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. Direct response advertising and promotional costs are deferred and expensed over the period during which the sales are expected to occur, generally one to four months. Non-direct response advertising and promotional costs are expensed as incurred.

Financing costs are amortized 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 cost of postretirement benefits other than pensions is recognized in the financial statements over an employee's term of service with the Company.

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 13).

Earnings per share are computed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128 "Earnings Per Share" (see Note 17).

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

In 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activity," which is effective for fiscal years beginning after June 15, 2000. This statement establishes accounting and reporting standards for derivative instruments and hedging activities and requires recognition of all derivatives as either assets or liabilities on the balance sheet using fair value measurement. The accounting for changes in the fair value of derivatives depends on the intended use of the derivatives and the hedging designation, if any. Based on the Company's minimal use of derivatives, management does not anticipate that the adoption of this statement will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

### **2. Acquisition**

On March 18, 1999, the Company purchased Fingerhut Companies, Inc. ("Fingerhut"), for a purchase price of approximately \$1,720 million, including the assumption of \$125 million of debt.

The Fingerhut acquisition is being accounted for under the purchase method of accounting. Accordingly, the Company's results of operations do not include Fingerhut's results of operations for any period prior to March 18, 1999 and the purchase price has been allocated to Fingerhut's assets and liabilities based on the estimated fair value of these assets and liabilities as of March 18, 1999.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

**3. Extraordinary Items**

The extraordinary item for the 52 weeks ended January 30, 1999 represents costs of \$23 million, net of income tax benefit of \$15 million, associated with a debt prepayment.

The extraordinary item for the 52 weeks ended January 31, 1998 represents costs of \$39 million, net of income tax benefit of \$25 million, associated with debt prepayments.

**4. Accounts Receivable**

	January 29, 2000	January 30, 1999
	(millions)	
Due from customers .....	\$4,392	\$2,099
Less allowance for doubtful accounts .....	358	77
	4,034	2,022
Other receivables .....	279	187
Net receivables .....	\$4,313	\$2,209

Sales through the Company's credit plans were \$5,726 million, \$4,028 million and \$4,002 million for the 52 weeks ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. The credit plans relating to certain operations of the Company are owned by a third party.

Finance charge income amounted to \$465 million, \$345 million and \$391 million for the 52 weeks ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

Changes in allowance for doubtful accounts are as follows:

	52 Weeks Ended January 29, 2000	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998
	(millions)		
Balance, beginning of year .....	\$ 77	\$100	\$ 96
Charged to costs and expenses .....	310	112	167
Acquired .....	275	-	-
Net uncollectible balances written off .....	(304)	(135)	(163)
Balance, end of year .....	\$ 358	\$ 77	\$ 100

**5. Inventories**

Merchandise inventories were \$3,589 million at January 29, 2000, compared to \$3,259 million at January 30, 1999. At these dates, the cost of department store inventories using the LIFO method approximated the cost of such inventories using the first-in, first-out method. The application of the LIFO method did not impact cost of sales for the 52 weeks ended January 29, 2000, January 30, 1999 or January 31, 1998.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

**6. Properties and Leases**

	<b>January 29, 2000</b>	<b>January 30, 1999</b>
	(millions)	
Land .....	\$1,021	\$1,018
Buildings on owned land .....	2,467	2,399
Buildings on leased land and leasehold improvements .....	1,660	1,552
Fixtures and equipment .....	3,831	3,713
Leased properties under capitalized leases .....	<u>73</u>	<u>73</u>
	9,052	8,755
Less accumulated depreciation and amortization .....	<u>2,224</u>	<u>2,183</u>
	<u><u>\$6,828</u></u>	<u><u>\$6,572</u></u>

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 January 29, 2000, for noncancellable leases are:

	<b>Capitalized Leases</b>	<b>Operating Leases</b>	<b>Total</b>
	(millions)		
Fiscal year:			
2000 .....	\$ 12	\$ 177	\$ 189
2001 .....	12	166	178
2002 .....	10	148	158
2003 .....	9	132	141
2004 .....	9	123	132
After 2005 .....	<u>55</u>	<u>1,931</u>	<u>1,986</u>
Total minimum lease payments .....	107	<u><u>\$2,677</u></u>	<u><u>\$2,784</u></u>
Less amount representing interest .....	<u>46</u>		
Present value of net minimum capitalized lease payments . . . .	<u><u>\$ 61</u></u>		

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

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 (\$55 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 \$4 million on capitalized leases and \$21 million on operating leases.

Rental expense consists of:

	<u>52 Weeks Ended January 29, 2000</u>	<u>52 Weeks Ended January 30, 1999</u> (millions)	<u>52 Weeks Ended January 31, 1998</u>
Real estate (excluding executory costs)			
Capitalized leases –			
Contingent rentals .....	\$ 3	\$ 3	\$ 4
Operating leases –			
Minimum rentals .....	149	144	149
Contingent rentals .....	<u>23</u>	<u>21</u>	<u>23</u>
	<u>175</u>	<u>168</u>	<u>176</u>
Less income from subleases –			
Capitalized leases .....	3	2	2
Operating leases .....	<u>20</u>	<u>19</u>	<u>18</u>
	<u>23</u>	<u>21</u>	<u>20</u>
	<u>\$152</u>	<u>\$147</u>	<u>\$156</u>
Personal property – Operating leases .....	<u>\$ 50</u>	<u>\$ 22</u>	<u>\$ 37</u>

**7. Intangible Assets**

	<u>January 29, 2000</u>	<u>January 30, 1999</u>
	(millions)	
Goodwill .....	\$1,201	\$362
Identifiable intangibles .....	<u>802</u>	<u>458</u>
	2,003	820
Less accumulated amortization .....	<u>268</u>	<u>189</u>
Intangible assets — net .....	<u>\$1,735</u>	<u>\$631</u>

Goodwill is being amortized on a straight-line basis over its estimated useful life, ranging from 20 to 40 years. Identifiable intangibles include tradenames, customer lists and credit files and are being amortized on a straight-line basis over their estimated useful lives, ranging from 7 to 40 years.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

**8. Financing**

	<u>January 29, 2000</u>	<u>January 30, 1999</u>
	(millions)	
Short-term debt:		
Receivables backed financings .....	\$ 885	\$ 490
Commercial paper program .....	393	–
Current portion of long-term debt .....	<u>6</u>	<u>34</u>
Total short-term debt .....	<u>\$1,284</u>	<u>\$ 524</u>
Long-term debt:		
Receivables backed financings .....	\$1,624	\$ 836
8.5% Senior notes due 2003 .....	450	450
8.125% Senior notes due 2002 .....	400	400
6.9% Senior debentures due 2029 .....	400	–
6.125% Term Enhanced ReMarketable Securities due 2011 .....	350	–
6.3% Senior notes due 2009 .....	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
10.0% Senior notes due 2001 .....	110	110
Capital lease obligations .....	<u>55</u>	<u>61</u>
Total long-term debt .....	<u>\$4,589</u>	<u>\$3,057</u>

Interest expense was as follows:

	<u>52 Weeks Ended January 29, 2000</u>	<u>52 Weeks Ended January 30, 1999</u>	<u>52 Weeks Ended January 31, 1998</u>
	(millions)		
Interest on debt .....	\$357	\$293	\$392
Amortization of financing costs .....	7	7	20
Interest on capitalized leases .....	<u>7</u>	<u>7</u>	<u>8</u>
Subtotal .....	371	307	420
Less interest capitalized on construction .....	<u>3</u>	<u>3</u>	<u>2</u>
	<u>\$368</u>	<u>\$304</u>	<u>\$418</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

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

	<u>(millions)</u>
Fiscal year:	
2001 .....	\$ 958
2002 .....	1,189
2003 .....	709
2004 .....	328
2005 .....	–
After 2005 .....	1,350

The Company funded the acquisition of Fingerhut through a combination of cash on hand and short-term borrowings. During 1999, the Company issued \$350 million of 6.3% Senior Notes due 2009 and \$400 million of 6.9% Senior Debentures due 2029, the proceeds of which were used to refinance a portion of the short-term borrowings used by the Company to acquire Fingerhut. The Company repaid debt of \$650 million in 1999, consisting principally of \$490 million of receivables backed financings and the \$125 million of Senior Notes assumed in the Fingerhut acquisition.

In 1999, the Company took certain actions which resulted in the consolidation of the Fingerhut Master Trust for financial reporting purposes. The principal assets and liabilities of the Fingerhut Master Trust consisted of accounts receivable transferred by Fingerhut to the Trust in transactions treated as sales under SFAS No. 125, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” and the related debt issued by the Trust. As a result of the Company’s actions, the transfer of receivables and debt are being treated as secured borrowings as of and subsequent to July 31, 1999. These actions increased the Company’s consolidated net assets and debt by \$1,132 million at July 31, 1999 and by \$1,300 million at January 29, 2000.

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 subsidiaries of the Company together with receivables backed commercial paper issued by subsidiaries of the Company (of which \$372 million and none were outstanding as of January 29, 2000 and January 30, 1999, respectively). Receivables backed financings classified as long-term debt consist of receivables backed certificates issued by subsidiaries of the Company, which certificates represent undivided interests in master trusts originated by such subsidiaries, and bear interest at both fixed and floating rates. The majority of the certificates bear interest at fixed rates ranging from 6.07% to 6.90% and a portion of the certificates bear interest at a floating rate based on LIBOR. The receivables backed financings classified as long-term debt at January 29, 2000 have maturity dates between February 2001 and April 2004.

### **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 \$1,500 million revolving loan

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

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facility (the “Five Year Facility”) and (ii) the 364 Day Credit Agreement, pursuant to which such financial institutions have provided the Company with a \$500 million revolving loan facility (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 January 29, 2000 and January 30, 1999, there were no revolving credit loans outstanding under the Revolving Loan Facilities. However, there were \$31 million and \$69 million of letters of credit outstanding under the Revolving Loan Facilities at January 29, 2000 and January 30, 1999, respectively. Revolving loans under the Revolving Loan Facilities bear interest based on published rates.

### **Commercial Paper**

The Company established a \$2,000 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 January 29, 2000, there was \$393 million of such commercial paper outstanding. As of January 30, 1999, there was no 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.

### **Term Enhanced ReMarketable Securities (“TERMS”)**

The TERMS are unsecured obligations of the Company. The final maturity is scheduled to occur on September 1, 2011 (“Final Maturity”), but may be adjusted during the remarketing process. The TERMS will bear interest at the rate of 6.125% per annum to September 1, 2001 (“Investor Maturity Date”). The interest rate to Final Maturity will be determined during the remarketing process and will be equal to the sum of 5.64% per annum plus the Company’s then current credit spread for similar debt instruments. At the Investor Maturity Date, the remarketing dealer may purchase the TERMS from the investors, at face value, and remarket the securities to new investors or the remarketing dealer may give notice to the Company that such securities shall be tendered to the Company and retired.

### **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 \$500 million of non-proprietary credit card receivables arising under accounts owned by the Company. At January 29, 2000 and January 30, 1999, \$423 million and \$340 million, respectively, of borrowings were outstanding under these arrangements.

There were also \$67 million of letters of credit outstanding at January 29, 2000. There were no such letters of credit outstanding at January 30, 1999.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

**9. Accounts Payable and Accrued Liabilities**

	<u>January 29, 2000</u>	<u>January 30, 1999</u>
	(millions)	
Merchandise and expense accounts payable .....	\$1,876	\$1,630
Liabilities to customers .....	415	263
Taxes other than income taxes .....	181	116
Accrued wages and vacation .....	160	91
Accrued interest .....	60	45
Other .....	<u>351</u>	<u>301</u>
	<u>\$3,043</u>	<u>\$2,446</u>

**10. Taxes**

Income tax expense is as follows:

	<u>52 Weeks Ended January 29, 2000</u>			<u>52 Weeks Ended January 30, 1999</u>			<u>52 Weeks Ended January 31, 1998</u>		
	<u>Current</u>	<u>Deferred</u>	<u>Total</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
	(millions)								
Federal .....	\$458	\$ (4)	\$454	\$405	\$(19)	\$386	\$319	\$ (1)	\$318
State and local .....	<u>98</u>	<u>(1)</u>	<u>97</u>	<u>96</u>	<u>(4)</u>	<u>92</u>	<u>66</u>	<u>(1)</u>	<u>65</u>
	<u>\$556</u>	<u>\$ (5)</u>	<u>\$551</u>	<u>\$501</u>	<u>\$(23)</u>	<u>\$478</u>	<u>\$385</u>	<u>\$ (2)</u>	<u>\$383</u>

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 January 29, 2000, January 30, 1999 and January 31, 1998, to income before income taxes and extraordinary items. The reasons for this difference and their tax effects are as follows:

	<u>52 Weeks Ended January 29, 2000</u>	<u>52 Weeks Ended January 30, 1999</u>	<u>52 Weeks Ended January 31, 1998</u>
	(millions)		
Expected tax .....	\$471	\$407	\$335
State and local income taxes, net of federal income tax benefit .....	63	60	43
Permanent difference arising from amortization of intangible assets .....	14	9	9
Other .....	<u>3</u>	<u>2</u>	<u>(4)</u>
	<u>\$551</u>	<u>\$478</u>	<u>\$383</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

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

	<u>January 29, 2000</u>	<u>January 30, 1999</u>
	(millions)	
Deferred tax assets:		
Operating loss carryforwards . . . . .	\$ 76	\$ 115
Accrued liabilities accounted for on a cash basis for tax purposes . . .	187	172
Allowance for doubtful accounts . . . . .	178	30
Postretirement benefits other than pensions . . . . .	155	165
Capitalized lease debt . . . . .	27	29
Other . . . . .	<u>104</u>	<u>149</u>
Total gross deferred tax assets . . . . .	<u>727</u>	<u>660</u>
Deferred tax liabilities:		
Excess of book basis over tax basis of property and equipment . . . . .	(1,408)	(1,355)
Deductible intangibles . . . . .	(210)	–
Merchandise inventories . . . . .	(112)	(125)
Prepaid pension expense . . . . .	(71)	(64)
Other . . . . .	<u>(198)</u>	<u>(96)</u>
Total gross deferred tax liabilities . . . . .	<u>(1,999)</u>	<u>(1,640)</u>
Net deferred tax liability . . . . .	<u>\$ (1,272)</u>	<u>\$ (980)</u>

As of January 29, 2000, the Company had net operating loss carryforwards of approximately \$216 million which are available through 2009.

**11. Retirement Plans**

The Company has defined benefit plans (“Pension Plans”) and defined contribution plans (“Savings Plans”) which cover substantially all employees who work 1,000 hours or more in a year. In addition, the Company has defined benefit supplementary retirement plans which include benefits, for certain employees, in excess of qualified plan limitations. For the 52 weeks ended January 29, 2000, January 30, 1999 and January 31, 1998, net retirement expense for these plans totaled \$53 million, \$30 million and \$35 million, respectively.

Measurement of plan assets and obligations for the Pension Plans and the defined benefit supplementary retirement plans 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 7.75% as of December 31, 1999 and 6.75% as of December 31, 1998. The assumed weighted average rate of increase in future compensation levels under such plans was 5.0% as of December 31, 1999 and December 31, 1998. The long-term rate of return on assets (Pension Plans only) was 9.75% as of December 31, 1999 and December 31, 1998.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

**Pension Plans**

The following provides a reconciliation of benefit obligations, plan assets and funded status of the Pension Plans as of December 31, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
	<u>(millions)</u>	
Change in projected benefit obligation		
Projected benefit obligation, beginning of year . . . . .	\$1,460	\$1,403
Service cost . . . . .	38	29
Interest cost . . . . .	95	97
Acquisition . . . . .	52	–
Actuarial (gain) loss . . . . .	(164)	58
Benefits paid . . . . .	<u>(136)</u>	<u>(127)</u>
Projected benefit obligation, end of year . . . . .	\$1,345	\$1,460
Changes in plan assets (primarily stocks, bonds and U.S. government securities)		
Fair value of plan assets, beginning of year . . . . .	\$1,664	\$1,590
Actual return on plan assets . . . . .	288	201
Acquisition . . . . .	47	–
Benefits paid . . . . .	<u>(136)</u>	<u>(127)</u>
Fair value of plan assets, end of year . . . . .	<u>\$1,863</u>	<u>\$1,664</u>
Funded status . . . . .	\$ 518	\$ 204
Unrecognized net gain . . . . .	(337)	(28)
Unrecognized prior service cost . . . . .	<u>2</u>	<u>3</u>
Prepaid benefit cost . . . . .	<u>\$ 183</u>	<u>\$ 179</u>
Amounts recognized in the statement of financial position		
Prepaid pension expense . . . . .	\$ 192	\$ 179
Accrued benefit cost . . . . .	<u>(9)</u>	<u>–</u>
Net amount recognized . . . . .	<u>\$ 183</u>	<u>\$ 179</u>

Net pension costs for the Company's Pension Plans included the following actuarially determined components:

	<u>52 Weeks Ended January 29, 2000</u>	<u>52 Weeks Ended January 30, 1999</u>	<u>52 Weeks Ended January 31, 1998</u>
		<u>(millions)</u>	
Service cost . . . . .	\$ 38	\$ 29	\$ 30
Interest cost . . . . .	95	97	99
Expected return on assets . . . . .	(146)	(137)	(132)
Amortization of prior service cost . . . . .	1	1	–
Cost of special termination benefits . . . . .	<u>3</u>	<u>–</u>	<u>9</u>
Net pension expense (credit) . . . . .	<u>\$ (9)</u>	<u>\$ (10)</u>	<u>\$ 6</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

In connection with programs 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 and \$9 million during the 52 weeks ended January 31, 1998 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 Plans at or above the minimum required by law. For the 1999 plan year, a \$1 million funding contribution is required by September 15, 2000. For the 1998 plan year, no funding contribution was required or made. Plan assets are held by independent trustees.

**Supplementary Retirement Plans**

The following provides a reconciliation of benefit obligations, plan assets and funded status of the supplementary retirement plans as of December 31, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
	(millions)	
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 132	\$ 94
Service cost	4	4
Interest cost	9	8
Acquisition	1	–
Actuarial (gain) loss	(22)	36
Benefits paid	<u>(7)</u>	<u>(10)</u>
Projected benefit obligation, end of year	\$ 117	\$ 132
Change in plan assets		
Fair value of plan assets, beginning of year	\$ –	\$ –
Company contributions	7	10
Benefits paid	<u>(7)</u>	<u>(10)</u>
Fair value of plan assets, end of year	<u>\$ –</u>	<u>\$ –</u>
Funded status	\$(117)	\$(132)
Unrecognized net loss	24	49
Unrecognized prior service cost	<u>4</u>	<u>6</u>
Accrued benefit cost	<u>\$ (89)</u>	<u>\$ (77)</u>
Amounts recognized in the statement of financial position		
Accrued benefit cost	(91)	(99)
Intangible asset	2	5
Accumulated other comprehensive income	<u>–</u>	<u>17</u>
Net amount recognized	<u>\$ (89)</u>	<u>\$ (77)</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

The accumulated benefit obligation for the supplementary retirement plans was \$91 million and \$99 million as of December 31, 1999 and December 31, 1998, respectively.

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

	<u>52 Weeks Ended January 29, 2000</u>	<u>52 Weeks Ended January 30, 1999</u>	<u>52 Weeks Ended January 31, 1998</u>
		(millions)	
Service cost .....	\$ 4	\$ 4	\$2
Interest cost .....	9	8	5
Amortization of prior service cost .....	1	1	2
Recognition of net actuarial loss .....	<u>4</u>	<u>3</u>	<u>–</u>
Net pension expense .....	<u>\$18</u>	<u>\$16</u>	<u>\$9</u>

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**

Certain savings plans include voluntary savings features which are eligible for employer matching contributions and others are subject to discretionary profit sharing contributions. Expense for the Savings Plans amounted to \$44 million for the 52 weeks ended January 29, 2000, \$24 million for the 52 weeks ended January 30, 1999 and \$20 million for the 52 weeks ended January 31, 1998.

**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 January 29, 2000, January 30, 1999 and January 31, 1998, the liability under the plan, which is reflected in other liabilities, was \$26 million, \$21 million, and \$17 million, respectively. Expense for the 52 weeks ended January 29, 2000, 52 weeks ended January 30, 1999, and 52 weeks ended January 31, 1998, was immaterial.

**12. Postretirement Health Care and Life Insurance Benefits**

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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

The following provides a reconciliation of benefit obligations, plan assets and funded status of the postretirement obligations as of December 31, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
	<u>(millions)</u>	
Change in accumulated postretirement benefit obligation		
Accumulated postretirement benefit obligation, beginning of year . . . . .	\$ 332	\$ 325
Service cost . . . . .	1	2
Interest cost . . . . .	20	22
Plan amendments . . . . .	(24)	(2)
Actuarial (gain) loss . . . . .	(33)	12
Benefits paid . . . . .	<u>(26)</u>	<u>(27)</u>
Accumulated postretirement benefit obligation, end of year . . . . .	\$ 270	\$ 332
Change in plan assets		
Fair value of plan assets, beginning of year . . . . .	\$ –	\$ –
Company contributions . . . . .	26	27
Benefits paid . . . . .	<u>(26)</u>	<u>(27)</u>
Fair value of plan assets, end of year . . . . .	<u>\$ –</u>	<u>\$ –</u>
Funded status . . . . .	\$ (270)	\$ (332)
Unrecognized net gain . . . . .	(76)	(50)
Unrecognized prior service cost . . . . .	<u>(42)</u>	<u>(30)</u>
Accrued benefit cost . . . . .	<u>\$ (388)</u>	<u>\$ (412)</u>

Net postretirement benefit expense included the following actuarially determined components:

	<u>52 Weeks Ended</u> <u>January 29, 2000</u>	<u>52 Weeks Ended</u> <u>January 30, 1999</u>	<u>52 Weeks Ended</u> <u>January 31, 1998</u>
	<u>(millions)</u>		
Service cost . . . . .	\$ 1	\$ 2	\$ 2
Interest cost . . . . .	20	23	23
Amortization of prior service cost . . . . .	(7)	(5)	(4)
Recognition of net actuarial gain . . . . .	(8)	(9)	(11)
Reduction for special termination benefits . . . . .	<u>(4)</u>	<u>–</u>	<u>(3)</u>
Net postretirement benefit expense . . . . .	<u>\$ 2</u>	<u>\$ 11</u>	<u>\$ 7</u>

The discount rate used in determining the actuarial present value of unfunded postretirement benefit obligations was 7.75% as of December 31, 1999 and 6.75% as of December 31, 1998.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

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 6.5% to 9.0% in the first year, and to decrease gradually for each such component to range from 4.5% to 5.5% by 2003 and to remain at those levels 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, 1999 by \$9 million and the net periodic postretirement benefit expense for 1999 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, 1999 by \$9 million and the net periodic postretirement benefit expense for 1999 by \$1 million.

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.

**13. 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:

	<u>52 Weeks Ended January 29, 2000</u>		<u>52 Weeks Ended January 30, 1999</u>		<u>52 Weeks Ended January 31, 1998</u>	
	<u>Shares</u>	<u>Weighted Average Option Price</u>	<u>Shares</u>	<u>Weighted Average Option Price</u>	<u>Shares</u>	<u>Weighted Average Option Price</u>
			(shares in thousands)			
Outstanding, beginning of year . . . . .	13,660.8	\$36.72	10,825.3	\$28.78	9,140.2	\$24.65
Granted . . . . .	5,775.0	41.13	4,592.2	52.49	4,133.7	34.49
Canceled . . . . .	(658.8)	40.33	(677.5)	35.54	(630.0)	29.51
Exercised . . . . .	<u>(1,469.9)</u>	<u>26.10</u>	<u>(1,079.2)</u>	<u>24.96</u>	<u>(1,818.6)</u>	<u>20.80</u>
Outstanding, end of year . . . . .	<u>17,307.1</u>	<u>\$38.95</u>	<u>13,660.8</u>	<u>\$36.72</u>	<u>10,825.3</u>	<u>\$28.78</u>
Exercisable, end of year . . . . .	<u>5,800.3</u>	<u>\$31.33</u>	<u>4,590.8</u>	<u>\$25.34</u>	<u>3,315.0</u>	<u>\$22.56</u>
Weighted average fair value of options granted during the year . . . . .		<u>\$17.54</u>		<u>\$20.67</u>		<u>\$14.26</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

The following summarizes information about stock options which remain outstanding as of January 29, 2000:

<u>Range of Exercise Price</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding</u> (thousands)	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercisable Price</u>	<u>Number Exercisable</u> (thousands)	<u>Weighted Average Exercise Price</u>
\$11.63–25.00	2,505.6	4.4 years	\$21.01	2,498.4	\$21.01
25.01–40.00	7,747.2	7.7 years	35.42	2,380.8	33.88
40.01–79.44	7,054.3	8.7 years	49.21	921.1	52.69

As of January 29, 2000, 8.9 million shares of Common Stock were available for additional grants pursuant to the Company's equity plan, of which 462,300 shares were available for grant in the form of restricted stock. 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. No shares of Common Stock were granted in the form of restricted stock during the 52 weeks ended January 30, 1999. During the 52 weeks ended January 31, 1998, 30,000 shares of Common Stock were granted in the form of restricted stock at a market value of \$34.38 vesting ratably over a three-year period. Compensation expense is recorded for all restricted stock grants based on the amortization of the fair market 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 and earnings per share would have been reduced to the pro forma amounts indicated below:

		<u>52 Weeks Ended January 29, 2000</u>	<u>52 Weeks Ended January 30, 1999</u>	<u>52 Weeks Ended January 31, 1998</u>
		(millions, except per share data)		
Net income	As Reported . . . . .	\$ 795	\$ 662	\$ 536
	Pro forma . . . . .	758	637	521
Basic earnings per share	As Reported . . . . .	3.78	3.16	2.56
	Pro forma . . . . .	3.60	3.04	2.49
Diluted earnings per share	As Reported . . . . .	3.62	2.96	2.41
	Pro forma . . . . .	3.45	2.85	2.34

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

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:

	<u>52 Weeks Ended January 29, 2000</u>	<u>52 Weeks Ended January 30, 1999</u>	<u>52 Weeks Ended January 31, 1998</u>
Dividend yield . . . . .	–	–	–
Expected volatility . . . . .	32.5%	30.6%	29.7%
Risk-free interest rate . . . . .	5.4%	5.7%	6.8%
Expected life . . . . .	6 years	6 years	6 years

**14. 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 252.9 million shares of Common Stock issued and 213.5 million shares of Common Stock outstanding at January 29, 2000 and 242.2 million shares of Common Stock issued and 208.5 million shares of Common Stock outstanding at January 30, 1999 (with shares held in the Company’s treasury or by subsidiaries of the Company being treated as issued, but not outstanding).

The Company purchased 5.6 million shares of its Common Stock in 1999 at an approximate cost of \$267 million and 12.8 million shares of its Common Stock in 1998 at an approximate cost of \$591 million, under a stock repurchase program. On January 27, 2000, the Board of Directors approved a new stock repurchase program which authorizes the Company to purchase up to \$500 million of its Common Stock. The Company may from time to time commence, continue or suspend repurchases of shares under the repurchase program, depending on prevailing market conditions, alternate uses of capital and other factors.

In 1999, the Company issued 9.0 million shares of its Common Stock upon the exercise of the Company’s Series C Warrants.

**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).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

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).

**Future Stock Issuances**

The Company is authorized to issue 9.0 million shares of Common Stock (subject to adjustment) upon the exercise of the Company’s Series D Warrants. The Series D Warrants have an exercise price of \$29.92 and expire on December 19, 2001.

In February 2000, the Company issued 1.0 million shares of Common Stock and received \$35 million in proceeds from the exercise of the Company’s Series B Warrants, which expired on February 15, 2000.

**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:

	<u>52 Weeks Ended January 29, 2000</u>	<u>52 Weeks Ended January 30, 1999</u>	<u>52 Weeks Ended January 31, 1998</u>
		(thousands)	
Balance, beginning of year . . . . .	3,819.4	159.3	84.8
Additions:			
Repurchase program . . . . .	5,631.7	12,810.1	–
Restricted stock . . . . .	5.8	51.6	70.0
Deferred compensation plans . . . . .	4.1	4.1	4.5
Distributions:			
Stock plans . . . . .	(21.1)	–	–
Issued in conversion of subordinated notes	<u>–</u>	<u>(9,205.7)</u>	<u>–</u>
Balance, end of year . . . . .	<u>9,439.9</u>	<u>3,819.4</u>	<u>159.3</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

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 January 29, 2000</u>	<u>52 Weeks Ended January 30, 1999</u> (thousands)	<u>52 Weeks Ended January 31, 1998</u>
Balance, beginning of year . . . . .	434.5	378.7	283.5
Additions . . . . .	63.6	80.0	123.7
Distributions . . . . .	<u>(14.3)</u>	<u>(24.2)</u>	<u>(28.5)</u>
Balance, end of year . . . . .	<u>483.8</u>	<u>434.5</u>	<u>378.7</u>

**15. 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

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

	January 29, 2000			January 30, 1999		
	<u>Notional Amount</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
			(millions)			
Long-term debt . . . . .	\$4,534	\$4,534	\$4,361	\$2,997	\$2,996	\$3,207
Interest rate cap agreements . . . . .	1,201	–	–	789	–	–
Interest rate swap agreements . . . . .	777	6	(16)	–	–	–

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. These interest rate cap agreements are recorded at cost and are amortized on a straight-line basis over the life of the cap.

The interest rate swap agreements are used, in effect, to hedge interest rate risk related to a portion of the debt outstanding under the Company’s Receivables Backed Financings. The notional amount of the interest rate swap agreements amortize down to zero in tandem with a portion of the debt outstanding under the Company’s Receivables Backed Financings.

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 trade receivables. The Company places its temporary cash investments in what it believes to be high credit quality financial instruments. Credit risk with respect to trade receivables 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.

**16. Segment Data**

The Company conducts its business through two segments, department stores and direct-to-customer. The department store segment sells a wide range of merchandise, including men’s, women’s and children’s apparel and accessories, cosmetics, home furnishings and other consumer goods. The direct-to-customer segment (Fingerhut, Bloomingdale’s By Mail, Macy’s By Mail, macys.com and certain other direct marketing activities) sells a broad range of products and services directly to consumers via catalogs, direct marketing and the Internet. “Corporate and other” consists of the assets and liabilities, and related income or expense, associated with the corporate office and certain items managed on a company-wide basis (e.g., intangibles, financial instruments, investments, income taxes, retirement benefits and properties held for sale or disposition).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

The financial information for each segment is reported on the basis used internally by the Company to evaluate performance and allocate resources. Prior year operating segment results have not been restated to conform to the current presentation as it is not practicable to do so.

	<u>52 Weeks Ended January 29, 2000</u>	<u>52 Weeks Ended January 30, 1999</u> (millions)	<u>52 Weeks Ended January 31, 1998</u>
Net sales			
Department Stores .....	\$15,850	\$15,365	\$15,220
Direct-to-Customer .....	1,866	—	—
	<u>\$17,716</u>	<u>\$15,365</u>	<u>\$15,220</u>
Operating income			
Department Stores .....	\$ 1,871	\$ 1,589	\$ 1,473
Direct-to-Customer .....	51	—	—
Total segment operating income .....	1,922	1,589	1,473
Corporate and other .....	(221)	(134)	(132)
	<u>\$ 1,701</u>	<u>\$ 1,455</u>	<u>\$ 1,341</u>
Depreciation and amortization expense			
Department Stores .....	\$ 619	\$ 592	\$ 559
Direct-to-Customer .....	33	—	—
Corporate and other .....	86	32	31
	<u>\$ 738</u>	<u>\$ 624</u>	<u>\$ 590</u>
Capital expenditures (purchase of property and equipment)			
Department Stores .....	\$ 738	\$ 691	\$ 691
Direct-to-Customer .....	29	—	—
Corporate and other .....	3	4	5
	<u>\$ 770</u>	<u>\$ 695</u>	<u>\$ 696</u>
	<u>January 29, 2000</u>	<u>January 30, 1999</u> (millions)	
Total assets			
Department Stores .....	\$12,553	\$12,221	
Direct-to-Customer .....	2,736	—	
Corporate and other .....	2,403	1,243	
	<u>\$17,692</u>	<u>\$13,464</u>	

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

**17. Earnings Per Share**

The reconciliation of basic earnings per share to diluted earnings per share based on income before extraordinary items is as follows:

	52 Weeks Ended January 29, 2000		52 Weeks Ended January 30, 1999		52 Weeks Ended January 31, 1998	
	Shares	Income	Shares	Income	Shares	Income
	(millions, except per share data)					
Income before extraordinary items and average number of shares outstanding . . . . .	210.0	\$795	209.1	\$685	209.2	\$575
Shares to be issued under deferred compensation plans . . . . .	<u>.4</u>		<u>.4</u>		<u>.3</u>	
	210.4	\$795	209.5	\$685	209.5	\$575
Basic earnings per share . . . . .		<u>\$3.78</u>		<u>\$3.27</u>		<u>\$2.74</u>
Effect of dilutive securities:						
Warrants . . . . .	6.9		7.4		5.4	
Stock options . . . . .	2.3		2.2		2.0	
Convertible notes . . . . .			<u>6.8</u>	<u>7</u>	<u>10.2</u>	<u>10</u>
	219.6	\$795	225.9	\$692	227.1	\$585
Diluted earnings per share . . . . .		<u>\$3.62</u>		<u>\$3.06</u>		<u>\$2.58</u>

In addition to the warrants and stock options reflected in the foregoing table, warrants and stock options to purchase 4.7 million, 4.7 million and 0.2 million shares of common stock at prices ranging from \$41.50 to \$79.44 per share were outstanding at January 29, 2000, January 30, 1999 and January 31, 1998, respectively, but were not included in the computation of diluted earnings per share because the exercise price thereof exceeded the average market price and would have been antidilutive.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued**

**18. Quarterly Results (unaudited)**

Unaudited quarterly results for the 52 weeks ended January 29, 2000 and January 30, 1999, were as follows:

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	(millions, except per share data)			
<b>52 Weeks Ended January 29, 2000:</b>				
Net sales . . . . .	\$3,600	\$4,006	\$4,137	\$5,973
Operating income . . . . .	225	318	302	856
Net income . . . . .	87	137	123	448
Basic earnings per share . . . . .	.42	.65	.59	2.11
Diluted earnings per share . . . . .	.40	.61	.56	2.04
<b>52 Weeks Ended January 30, 1999:</b>				
Net sales . . . . .	\$3,357	\$3,426	\$3,548	\$5,034
Operating income . . . . .	181	267	257	750
Income before extraordinary item . . . . .	60	107	110	408
Net income . . . . .	60	107	87	408
Basic earnings per share:				
Income before extraordinary item . . . . .	.29	.51	.53	1.95
Net income . . . . .	.29	.51	.42	1.95
Diluted earnings per share:				
Income before extraordinary item . . . . .	.27	.47	.50	1.88
Net income . . . . .	.27	.47	.40	1.88