

FEDERATED DEPARTMENT STORES INC /DE/

Form DEF 14A

May 27, 2005

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OMB APPROVAL

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  **p**  
Filed by a Party other than the Registrant  **o**

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- p** Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**FEDERATED DEPARTMENT STORES, INC.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- p** No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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4) Date Filed:

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SEC 1913 (11-01)

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**TO THE STOCKHOLDERS OF  
FEDERATED DEPARTMENT STORES, INC. AND  
THE MAY DEPARTMENT STORES COMPANY**

Federated Department Stores, Inc., which is referred to as Federated, and The May Department Stores Company, which is referred to as May, have entered into an agreement and plan of merger whereby Federated will acquire May. In the merger, May stockholders will receive 0.3115 shares of Federated common stock and \$17.75 in cash for each share of May common stock they own. Upon completion of the merger, we estimate that May's former stockholders will own approximately 97 million, or approximately 36%, of the then-outstanding shares of Federated common stock. Federated's stockholders will continue to own their existing shares, which will not be affected by the merger. Shares of Federated common stock are listed on the New York Stock Exchange under the symbol FD. Upon completion of the merger, May common stock, which is listed on the New York Stock Exchange under the symbol MAY, will be delisted.

We are each holding our annual meeting of stockholders in order to obtain those approvals necessary to consummate the merger and to approve certain other matters as described in this joint proxy statement/prospectus. Information about these meetings, the merger and other business to be considered by Federated and May stockholders is contained in this joint proxy statement/prospectus. **We urge you to read this joint proxy statement/prospectus, and the documents incorporated by reference into this joint proxy statement/prospectus, carefully and in their entirety, in particular, see Risk Factors beginning on page 22.**

We are very excited about the opportunities the proposed merger brings to both May and Federated stockholders, and we thank you for your consideration and continued support.

Terry J. Lundgren  
Chairman, President and  
Chief Executive Officer  
Federated Department Stores, Inc.

John L. Dunham  
Chairman, President and  
Chief Executive Officer  
The May Department Stores Company

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

This joint proxy statement/prospectus is dated May 31, 2005,  
and is first being mailed to May and Federated stockholders on or about May 31, 2005.

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**REFERENCES TO ADDITIONAL INFORMATION**

Except where we indicate otherwise, as used in this joint proxy statement/ prospectus, Federated refers to Federated and its consolidated subsidiaries and May refers to May and its consolidated subsidiaries. This joint proxy statement/ prospectus incorporates important business and financial information about Federated and May from documents that each company has filed with the Securities and Exchange Commission, referred to as the SEC, but that have not been included in or delivered with this joint proxy statement/ prospectus. This joint proxy statement/ prospectus incorporates the annual report on Form 10-K of Federated for the fiscal year ended January 29, 2005, and the annual report on Form 10-K/A of May for the fiscal year ended January 29, 2005. If you are a May stockholder, the May annual report is delivered with this joint proxy statement/ prospectus. If you are a Federated stockholder, the Federated annual report is delivered with this joint proxy statement/ prospectus. For a list of documents incorporated by reference into this joint proxy statement/ prospectus and how you may obtain them, see **Where You Can Find More Information** beginning on page 185.

This information is available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference into this joint proxy statement/ prospectus by accessing the SEC's website maintained at [www.sec.gov](http://www.sec.gov).

In addition, Federated's SEC filings are available to the public on Federated's website, [www.fds.com/corporategovernance](http://www.fds.com/corporategovernance), and May's filings with the SEC are available to the public on May's website, [www.mayco.com](http://www.mayco.com). Information contained on Federated's website, May's website or the website of any other person is not incorporated by reference into this joint proxy statement/ prospectus, and you should not consider information contained on those websites as part of this joint proxy statement/ prospectus.

Federated will provide you with copies of this information relating to Federated, without charge, if you request them in writing or by telephone from:

Federated Department Stores, Inc.  
7 West Seventh Street  
Cincinnati, Ohio 45202  
Attention: Investor Relations  
(513) 579-7780

May will provide you with copies of this information relating to May, without charge, if you request them in writing or by telephone from:

The May Department Stores Company  
611 Olive Street  
St. Louis, Missouri 63101  
Attention: Investor Relations  
(314) 342-6300

**If you would like to request documents, please do so by July 6, 2005, in order to receive them before the annual meetings.**

Federated has supplied all information contained in or incorporated by reference in this joint proxy statement/ prospectus relating to Federated, and May has supplied all information contained in or incorporated by reference in this joint proxy statement/ prospectus relating to May.

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**THE MAY DEPARTMENT STORES COMPANY**  
**611 Olive Street**  
**St. Louis, Missouri 63101**  
**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD ON JULY 13, 2005**

To our fellow Stockholders and Holders of ESOP preference shares of  
The May Department Stores Company:

We will hold our 2005 annual meeting of stockholders at 10:00 a.m., Eastern Daylight Savings Time, on July 13, 2005, at The Pierre-New York, 2 East 61st Street, New York, New York 10021, unless postponed or adjourned to a later date. The May annual meeting will be held for the following purposes:

1. To approve and adopt the Agreement and Plan of Merger, dated as of February 27, 2005, by and among May, Federated Department Stores, Inc. and Milan Acquisition LLC, a wholly owned subsidiary of Federated, and the transactions contemplated by the merger agreement, including the merger, pursuant to which May will merge with Milan Acquisition LLC, on the terms and subject to the conditions contained in the merger agreement, and each outstanding share of May common stock would be converted into the right to receive \$17.75 in cash and 0.3115 shares of Federated common stock. A copy of the merger agreement is attached as Annex A to the accompanying joint proxy statement/ prospectus;

2. To elect four members of May's board of directors;

3. To adopt an amendment to May's amended and restated certificate of incorporation to provide for the annual election of directors;

4. To ratify the appointment of Deloitte & Touche LLP as May's independent registered public accounting firm for the fiscal year ending January 28, 2006;

5. To approve adjournments or postponements of the May annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the May annual meeting to approve the above proposals; and

6. To consider and take action upon any other business that may properly come before the May annual meeting or any reconvened meeting following an adjournment or postponement of the May annual meeting.

These items of business are described in the accompanying joint proxy statement/ prospectus. Only stockholders of record at the close of business on May 20, 2005, are entitled to notice of the May annual meeting and to vote at the May annual meeting and any adjournments or postponements of the May annual meeting.

**May's board of directors approved the merger agreement and the transactions contemplated by the merger agreement, including the merger, on February 27, 2005, and determined that the transactions contemplated by the merger agreement are advisable and fair to, and in the best interests of, May and its stockholders. May's board of directors recommends that you vote FOR the adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger.**

**May's board of directors also recommends that you vote FOR the other May annual meeting proposals, all of which are described in detail in the accompanying joint proxy statement/ prospectus. Approval of the other May annual meeting proposals is not a condition to the merger.**

Under Delaware law, appraisal rights will be available to May stockholders of record who vote against approval and adoption of the merger agreement. To exercise your appraisal rights, you must strictly follow the procedures prescribed by Delaware law. These procedures are summarized in the accompanying joint proxy statement/ prospectus.

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*Your vote is very important.* Whether or not you plan to attend the May annual meeting in person, please complete, sign and date the enclosed proxy card(s) or voting instruction card(s) as soon as possible and return it in the postage-prepaid envelope provided, or vote your shares by telephone or over the Internet as described in the accompanying joint proxy statement/ prospectus. Completing a proxy now will not prevent you from being able to vote at the annual meeting by attending in person and casting a vote. **However, if you do not return or submit the proxy or vote in person at the annual meeting, the effect will be the same as a vote against the proposal to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger.**

By order of the board of directors,

Richard A. Brickson  
Secretary and Senior Counsel

**Please vote your shares promptly. You can find instructions for voting on the enclosed proxy card or voting instruction card.**

If you have questions, contact:  
The May Department Stores Company  
611 Olive Street  
St. Louis, Missouri 63101  
Attention: Investor Relations  
(314) 342-6300

St. Louis, Missouri, May 31, 2005

**Your vote is important. Please complete, date, sign and return your proxy card(s) or voting instruction card(s), or, if available, vote your shares by telephone or over the Internet at your earliest convenience so that your shares are represented at the meeting.**

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**FEDERATED DEPARTMENT STORES, INC.**  
**7 West Seventh Street**  
**Cincinnati, Ohio 45202**  
**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD ON JULY 13, 2005**

To our fellow Stockholders of Federated Department Stores, Inc.:

The annual meeting of stockholders of Federated Department Stores, Inc. ( Federated ) will be held at 11:00 a.m., Eastern Daylight Savings Time, on July 13, 2005, at Federated s corporate offices located at 7 West Seventh Street, Cincinnati, Ohio 45202, unless postponed or adjourned to a later date. The Federated annual meeting will be held for the following purposes:

1. To authorize the issuance of Federated common stock pursuant to the terms of the Agreement and Plan of Merger, dated as of February 27, 2005, by and among The May Department Stores Company, Federated and Milan Acquisition LLC, a wholly owned subsidiary of Federated, pursuant to which May will merge with Milan Acquisition LLC on the terms and subject to the conditions contained in the merger agreement. A copy of the merger agreement is attached as Annex A to the accompanying joint proxy statement/ prospectus;

2. To elect three Class II members of Federated s board of directors;

3. To adopt an amendment to Federated s certificate of incorporation to provide for the annual election of directors;

4. To ratify the appointment of KPMG LLP as Federated s independent registered public accounting firm for the fiscal year ending January 28, 2006;

5. To approve adjournments or postponements of the Federated annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Federated annual meeting to approve the above proposals; and

6. To consider and take action upon any other business that may properly come before the Federated annual meeting or any reconvened meeting following an adjournment or postponement of the Federated annual meeting.

These items of business are described in the accompanying joint proxy statement/ prospectus. Only stockholders of record at the close of business on May 20, 2005, are entitled to notice of the Federated annual meeting and to vote at the Federated annual meeting and any adjournments or postponements of the Federated annual meeting.

**Federated s board of directors approved the merger agreement and the transactions contemplated by the merger agreement, including the merger, on February 27, 2005, and determined that the transactions contemplated by the merger agreement are advisable and fair to, and in the best interests of, Federated and its stockholders. Federated s board of directors recommends that you vote FOR the issuance of Federated common stock pursuant to the merger agreement.**

**Federated s board of directors also recommends that you vote FOR the other Federated annual meeting proposals, all of which are described in detail in the accompanying joint proxy statement/ prospectus. Approval of the other Federated annual meeting proposals is not a condition to the merger.**

*Your vote is very important.* Whether or not you plan to attend the Federated annual meeting in person, please complete, sign and date the enclosed proxy card(s) or voting instruction card(s) as soon as possible and return it in the postage-prepaid envelope provided, or vote your shares by telephone or over the Internet as described in the accompanying joint proxy statement/ prospectus. Completing a proxy now will not prevent you from being able to vote at the annual meeting by attending in person and casting a vote. **However, if you**

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**do not return or submit the proxy or vote in person at the annual meeting you could negatively effect the outcome of the proposal to approve the issuance of Federated common stock in the merger.**

By order of the board of directors,

Dennis J. Broderick  
Senior Vice President, General Counsel and Secretary

**Please vote your shares promptly. You can find instructions for voting on the enclosed proxy card or voting instruction card.**

If you have questions, contact:  
Federated Department Stores, Inc.  
7 West Seventh Street  
Cincinnati, Ohio 45202  
Attention: Investor Relations  
(513) 579-7780  
Call Toll-Free: (800) 261-5385

Cincinnati, Ohio, May 31, 2005

**Your vote is important. Please complete, date, sign and return your proxy card(s) or voting instruction card(s) or, if available, vote your shares by telephone or over the Internet at your earliest convenience so that your shares are represented at the meeting.**

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**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETINGS AND THE MERGER**

*The following questions and answers briefly address some commonly asked questions about the annual meetings and the merger. They may not include all the information that is important to you. Federated and May urge you to read carefully this entire joint proxy statement/prospectus, including the annexes and the other documents to which we have referred you. We have included page references in certain parts of this summary to direct you to a more detailed description of each topic presented elsewhere in this joint proxy statement/prospectus.*

**The Merger**

**Q: Why am I receiving this joint proxy statement/prospectus?**

A: May and Federated have agreed to the acquisition of May by Federated under the terms of a merger agreement that is described in this joint proxy statement/prospectus. A copy of the merger agreement is attached to this joint proxy statement/prospectus as Annex A.

In order to complete the merger, Federated stockholders must vote to approve the issuance of shares of Federated common stock in the merger and May stockholders must approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger. May and Federated will hold separate meetings of their respective stockholders to obtain these approvals, as well as to consider various other proposals unrelated to the transaction.

This joint proxy statement/prospectus contains important information about the merger, the merger agreement and the annual meetings of the respective stockholders of May and Federated, which you should read carefully. The enclosed voting materials allow you to vote your shares without attending your respective company's annual meeting.

Your vote is very important. We encourage you to vote as soon as possible.

**Q: What is the proposed transaction for which I am being asked to vote?**

A: May stockholders are being asked to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger. The approval of this proposal by May stockholders is a condition to the effectiveness of the merger. See The Merger Agreement – Conditions to Completion of the Merger beginning on page 111.

Federated stockholders are being asked to authorize the issuance of Federated common stock pursuant to the terms of the merger agreement at the Federated annual meeting. The approval of this proposal by the Federated stockholders is a condition to the effectiveness of the merger. See The Merger Agreement – Conditions to Completion of the Merger beginning on page 111.

**Q: What are the positions of the May and Federated boards of directors regarding the merger?**

A: Both boards of directors have approved the merger agreement and the transactions contemplated by the merger agreement, including the merger, and determined that the transactions contemplated by the merger agreement are advisable and fair to, and in the best interests of, their respective company and stockholders. The May board of directors recommends that the May stockholders vote FOR the proposal to adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger, at the May annual meeting. The Federated board of directors recommends that the Federated stockholders vote FOR the proposal to authorize the issuance of Federated common stock pursuant to the terms of the merger agreement at the Federated annual meeting. See The Merger – Federated's Reasons for the Merger and Recommendation of Federated's Board of Directors beginning on page 55 and The Merger – May's Reasons for the Merger and Recommendation of May's



Board of Directors beginning on page 51.

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**Q: What vote is needed by May stockholders to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger, at the May annual meeting?**

A: The approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger, requires the approval of a majority of the outstanding shares of May common stock and May Employee Stock Ownership Plan preference stock, which are referred to as ESOP preference shares, entitled to vote, voting together as one class. If a May stockholder does not vote, it will have the same effect as a vote against the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger. See *The May Annual Meeting Quorum and Voting Rights* beginning on page 29.

**Q: What vote is needed by Federated stockholders to authorize the issuance of Federated common stock pursuant to the terms of the merger agreement at the Federated annual meeting?**

A: The authorization of the issuance of Federated common stock pursuant to the terms of the merger agreement requires the affirmative vote of at least a majority of the votes cast by the holders of outstanding shares of Federated common stock present (in person or by proxy) at the Federated annual meeting, where the holders of at least a majority of all outstanding shares of Federated common stock vote on the proposal. If a Federated stockholder does not vote, it will not have the same effect as a vote against the merger agreement. However, it can negatively affect the vote on such proposal if their failure to be counted results in less than a majority in interest of all outstanding shares of Federated common stock being voted on such proposal. See *The Federated Annual Meeting Quorum and Voting Rights* beginning on page 37.

**Q: Where does Federated common stock trade?**

A: Shares of Federated common stock trade on the New York Stock Exchange under the symbol *FD*.

**Q: When do you expect to complete the merger?**

A: If the merger agreement and the transactions contemplated by the merger agreement, including the merger, are approved and adopted at the May annual meeting and the issuance of Federated common stock is authorized at the Federated annual meeting, we expect to complete the merger as soon as possible after the satisfaction of the other conditions to the merger. There may be a substantial period of time between the approval of the proposals by stockholders at the annual meetings of May's and Federated's stockholders and the effectiveness of the merger. We currently anticipate that the merger will be completed in the third quarter of 2005. See *The Merger Agreement The Merger; Closing* on page 96.

**Q: Should I send in my stock certificates now?**

A: No. If the merger is completed, Federated will send May stockholders written instructions for sending in their stock certificates. See *The May Annual Meeting Proxy Solicitations* on page 35 and *The Merger Agreement Exchange of Shares* on page 99. Federated stockholders will not need to send in their stock certificates.

**Q: Who can answer my questions about the merger?**

A: If you have any questions about the merger or your annual meeting, need assistance in voting your shares, or need additional copies of this joint proxy statement/ prospectus or the enclosed proxy card(s) or voting instructions, you should contact:  
Federated Department Stores, Inc.

7 West Seventh Street  
Cincinnati, Ohio 45202  
Attention: Investor Relations  
Telephone: (513) 579-7780

or

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The May Department Stores Company  
611 Olive Street  
St. Louis, Missouri 63101  
Attention: Investor Relations  
Telephone: (314) 342-6300

**Other Federated Annual Meeting Proposals**

**Q: On what other proposals am I being asked to vote at the Federated annual meeting?**

A: At Federated's annual meeting, in addition to voting upon the issuance of Federated stock pursuant to the merger agreement, Federated stockholders will be asked:

To elect three Class II members of Federated's board of directors;

To adopt an amendment to Federated's Certificate of Incorporation to provide for the annual election of directors;

To ratify the appointment of KPMG LLP as Federated's independent registered public accounting firm for the fiscal year ending January 28, 2006;

To approve adjournments or postponements of the Federated annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Federated annual meeting to approve the above proposals; and

To consider and take action upon any other business that may properly come before the Federated annual meeting (or any reconvened meeting) following an adjournment or postponement of the Federated annual meeting.

See "The Federated Annual Meeting" Purposes of the Federated Annual Meeting beginning on page 36.

**Q: What vote is necessary to approve the other proposals at the Federated annual meeting?**

A: The election of three Class II members of Federated's board of directors requires the affirmative vote of a plurality of the shares of Federated common stock present in person or represented by proxy at the Federated annual meeting and entitled to vote.

The proposal to amend Federated's certificate of incorporation to adopt a system for the annual election of all Federated directors requires the affirmative vote of a majority of all outstanding shares of Federated common stock to take effect in accordance with the schedule more fully described in the proposal.

The ratification of the appointment of KPMG LLP as Federated's independent registered public accounting firm for the fiscal year ending January 28, 2006, requires the affirmative vote of the holders of a majority of Federated common stock present in person or represented by proxy entitled to vote and actually voted at the Federated annual meeting.

A proposal to approve adjournments or postponements of the Federated annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Federated annual meeting to approve the above proposals requires the affirmative vote of the holders of a majority of Federated common stock present in person or represented by proxy entitled to vote and actually voted at the Federated annual meeting.

**Other May Annual Meeting Proposals**

**Q: On what other proposals am I being asked to vote at the May annual meeting?**

A: At May's annual meeting, in addition to voting upon the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger. May stockholders will be asked:

To elect four members of May's board of directors;

To adopt an amendment to May's amended and restated certificate of incorporation to provide for the annual election of directors;

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To ratify the appointment of Deloitte & Touche LLP as May's independent registered public accounting firm for the fiscal year ending January 28, 2006;

To approve adjournments or postponements of the May annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the May annual meeting to approve the above proposals; and

To consider and take action upon any other business that may properly come before the May annual meeting (or any reconvened meeting) following an adjournment or postponement of the May annual meeting.

See "The May Annual Meeting" "Purposes of the May Annual Meeting" on page 29.

**Q: What vote is necessary to approve the other proposals at the May annual meeting?**

A: The election of the four members of May's board of directors requires the affirmative vote of a plurality of the shares of May common stock and ESOP preference shares, voting together as one class, present in person or represented by proxy at the May annual meeting and entitled to vote.

The proposal to amend May's amended and restated certificate of incorporation requires the affirmative vote of a majority of the outstanding shares of May common stock and ESOP preference shares, voting together as one class.

Ratification of the appointment of Deloitte & Touche LLP as May's independent registered public accounting firm for the fiscal year ending January 28, 2006, requires the affirmative vote of the holders of a majority of the shares of May common stock and ESOP preference shares, voting together as one class, present in person or represented by proxy and entitled to vote at the May annual meeting.

A proposal to approve adjournments or postponements of the May annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the May annual meeting to approve the above proposals requires the affirmative vote of a majority of the shares of May common stock and ESOP preference shares, voting together as one class, present in person or represented by proxy and entitled to vote at the May annual meeting.

**Procedures**

**Q: When and where are the annual meetings?**

A: The May annual meeting will be held at The Pierre-New York, 2 East 61st Street, New York, New York 10021, on July 13, 2005.

The Federated annual meeting will be held at Federated's corporate offices, 7 West Seventh Street, Cincinnati, Ohio 45202, on July 13, 2005.

**Q: What should I do now?**

A: You should read this joint proxy statement/ prospectus carefully, including the annexes, and return your completed, signed and dated proxy card(s) or voting instruction card(s) by mail in the enclosed postage-paid envelope or, if available, by submitting your proxy by telephone or over the Internet as soon as possible so that your shares will be represented and voted at your annual meeting.

**Q: If I am going to attend my annual meeting, should I return my proxy card(s) or voting instruction card(s)?**

A: Yes. Returning your signed and dated proxy card(s) or voting instruction card(s) or voting by telephone or over the Internet, if available, ensures that your shares will be represented and voted at your annual meeting. See Summary Voting; Proxies beginning on page 9, The May Annual Meeting How to Vote on page 34 and The Federated Annual Meeting How to Vote beginning on page 42.

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**Q: What does it mean if I receive multiple proxy cards?**

A: Your shares may be registered in more than one account, such as brokerage accounts and 401(k) accounts. It is important that you complete, sign, date and return each proxy card or voting instruction card you receive, or, if available, vote using the telephone or the Internet as described in the instructions included with your proxy card(s) or voting instruction card(s).

**Q: Where can I find more information about Federated and May?**

A: You can find more information about Federated and May from various sources described under **Where You Can Find More Information** beginning on page 185.



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**SUMMARY**

*This summary of the material information contained in this joint proxy statement/prospectus may not include all the information that is important to you. To understand fully the proposed merger, and for a more detailed description of the terms and conditions of the merger and certain other matters being considered at your annual meeting, you should read this entire joint proxy statement/prospectus and the documents to which we have referred you. See*

*Where You Can Find More Information beginning on page 185. We have included page references parenthetically in this summary to direct you to a more detailed description of each topic presented in this summary.*

**Information about Federated (beginning on page 117)**

Federated, a Delaware corporation, through its subsidiaries, operates 394 department stores and 65 furniture galleries and specialty stores. In addition, through its subsidiaries, Federated conducts direct-to-customer mail catalog and electronic commerce businesses. The stores are located in 34 states, Puerto Rico and Guam. Federated is headquartered in New York, New York and Cincinnati, Ohio and employs approximately 112,000 full-time and part-time employees.

Federated Department Stores, Inc.  
7 West Seventh Street  
Cincinnati, Ohio 45202  
Attention: Investor Relations  
Telephone: (513) 579-7780

**Information about May (beginning on page 144)**

May, a Delaware corporation, through its subsidiaries, operates seven regional department store divisions nationwide under 12 trade names and a bridal group that includes some of the most recognized names in the wedding industry. At January 29, 2005, May operated 491 department stores in 39 states and the District of Columbia, 239 David's Bridal Stores in 45 states and Puerto Rico, 449 After Hours Formalwear stores in 31 states and 11 Priscilla of Boston stores in nine states. May is headquartered in St. Louis, Missouri and employs approximately 132,000 full-time and part-time employees.

The May Department Stores Company  
611 Olive Street  
St. Louis, Missouri 63101  
Attention: Investor Relations  
Telephone: (314) 342-6300

**The Merger (beginning on page 44)**

***General***

On February 27, 2005, the boards of directors of May and Federated each approved the merger of May with a newly formed and wholly owned subsidiary of Federated, which is referred to as Merger Sub, upon the terms and subject to the conditions contained in the merger agreement. The surviving company of the merger will become a wholly owned subsidiary of Federated.

May and Federated both believe that the merger will provide substantial strategic and financial benefits to the stockholders of both companies by creating one of the largest retail chains in the United States. In addition, May is also proposing the merger to provide its stockholders with the opportunity to receive a premium for their shares (0.42% over the closing price of May common stock on February 25, 2005, the last full trading day before the announcement of the merger, and 27.5% over the closing price of May common stock on January 14, 2005, the last full trading day before reports in the press regarding a potential transaction between May and Federated), and to offer May stockholders the opportunity to participate in the growth and opportunities of the combined companies by receiving Federated common stock in the merger. To review the reasons for the merger in greater detail, see *The Merger Federated's Reasons for the Merger and*

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Recommendation of Federated's Board of Directors beginning on page 55 and The Merger May's Reasons for the Merger and Recommendation of May's Board of Directors beginning on page 51.

We encourage you to read the merger agreement, which governs the merger and is attached as Annex A to this joint proxy statement/ prospectus, because it sets forth the terms of the merger of May with Merger Sub.

***Merger Consideration***

Holders of May common stock (other than May, Federated and dissenting May stockholders who properly exercise their appraisal rights) will be entitled to receive for each share of May common stock:

\$17.75 in cash, without interest; and

0.3115 fully paid, nonassessable shares of Federated common stock.

As a result, Federated will issue approximately 97 million shares of Federated common stock and approximately \$5.5 billion in cash in the merger based upon the number of shares of May common stock outstanding on the record date of the May annual meeting and assuming full conversion of the ESOP preference shares as of such date. We refer to the stock and cash consideration to be paid to May stockholders by Federated as the merger consideration.

The total value of the merger consideration that a May stockholder receives in the merger may vary. The value of the cash portion of the merger consideration is fixed at \$17.75 for each share of May common stock. The value of the stock portion of the merger consideration is not fixed and will depend upon the value of 0.3115 shares of Federated common stock. This value may be ascertained by multiplying the trading price of Federated common stock by 0.3115.

If the total value of the Federated common stock to be received in the merger falls below 40% of the total consideration paid on the closing date, the merger may be taxable for federal income tax purposes. In that event, Federated may elect to pay more in Federated common stock to maintain the nontaxable status of the merger or, if Federated does not so elect, May may elect to increase the cash consideration received in the merger for each share of May common stock to \$18.75. Under the merger agreement, there are no other circumstances in which the exchange ratio or the cash consideration increases. Federated and May will issue a joint press release if either the exchange ratio or the cash consideration increases. See **Risk Factors** If the total value of the Federated common stock to be received falls below 40% of the total consideration, May stockholders could be required to accept \$18.75 per share in cash and 0.3115 shares of Federated common stock in a transaction that is currently taxable to such May stockholders beginning on page 24.

Federated will fund the cash portion of the merger consideration from cash on hand, cash from operations, borrowings under existing or new credit facilities, the issuance of long-term debt or other securities or a combination of the foregoing. Federated may also sell a portion of its or May's credit card related assets and proceeds from such a transaction may be used to fund the cash portion, or to repay debt incurred to fund the cash portion, of the merger consideration.

***May Equity Awards***

In general, upon completion of the merger, options to purchase shares of May common stock granted by May to its employees will be assumed by Federated and converted into options to purchase shares of Federated common stock. Federated has agreed to assume each of May's stock option plans at the effective time of the merger. Each unvested May stock option outstanding under any May stock option plan will become fully vested and exercisable in connection with the merger, as described herein.

Restricted shares of May common stock granted by May to its employees and directors will become fully vested in connection with the merger and the holders of those shares will be entitled to receive the merger consideration with respect to those shares upon completion of the merger.

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For a full description of the treatment of May equity awards, see *The Merger* *Interests of May Directors and Executive Officers in the Merger* *Equity-Based Awards* beginning on page 84.

***May ESOP Preference Shares***

In connection with the merger and in accordance with the terms and conditions of the May ESOP preference shares, each issued and outstanding May ESOP preference share will be converted immediately prior to the effectiveness of the merger into shares of May common stock, and such shares of May common stock will be converted into the merger consideration upon completion of the merger, as described herein.

**Opinions of our Financial Advisors (beginning on page 57 for May and 75 for Federated)**

*Opinions of May's Financial Advisors.* In deciding to approve the merger agreement, the May board of directors considered the opinion of May's financial advisor, Morgan Stanley & Co. Incorporated, which is referred to as Morgan Stanley. The May board of directors received a written opinion from Morgan Stanley to the effect that, as of February 27, 2005, and based upon and subject to the various considerations, assumptions and limitations described in its opinion, the merger consideration to be received by holders of shares of May common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders. The full text of Morgan Stanley's written opinion is attached to this joint proxy statement/ prospectus as Annex B. May encourages you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. Morgan Stanley's opinion is addressed to the May board of directors and is one of many factors considered by the May board of directors in deciding to approve the merger. Morgan Stanley's opinion does not constitute a recommendation to any stockholder as to how such stockholder should vote or whether such stockholders should take any other action relating to the transaction. For its services, Morgan Stanley will be entitled to receive a transaction fee, the principal portion of which is payable upon the completion of the transaction.

In deciding to approve the merger agreement, the May board of directors also considered the opinion of May's financial advisor, Peter J. Solomon Company, L.P., which is referred to as Peter J. Solomon Company or PJSC. The May board of directors received a written opinion from Peter J. Solomon Company to the effect that, as of February 27, 2005, and based upon and subject to the various assumptions made, matters considered and limitations described in its opinion, the consideration proposed to be received by holders of May common stock in connection with the merger was fair from a financial point of view to such holders. The full text of Peter J. Solomon Company's written opinion is attached to this joint proxy statement/ prospectus as Annex C. May encourages you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. Peter J. Solomon Company's opinion is addressed to the May board of directors and is one of many factors considered by the May board of directors in deciding to approve the merger. Peter J. Solomon Company's opinion does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matter relating to the merger. Under the terms of its engagement with May, Peter J. Solomon Company received a customary fee for its financial advisory services in connection with the merger, all of which was payable upon the delivery of Peter J. Solomon Company's opinion.

*Opinion of Federated's Financial Advisor.* Goldman, Sachs & Co., which is referred to as Goldman Sachs, acted as financial advisor to Federated in connection with the transaction. Goldman Sachs delivered an oral opinion to Federated's board of directors, subsequently confirmed in writing, to the effect that, as of February 27, 2005, and based upon and subject to the factors and assumptions set forth in the opinion, the \$17.75 in cash and 0.3115 shares of Federated common stock to be paid by Federated for each outstanding share of May common stock pursuant to the merger agreement was fair, from a financial point of view, to Federated. The full text of the written opinion of Goldman Sachs, dated February 27, 2005, which sets forth the assumptions made, procedures followed, matters considered, and limitations on the review undertaken in connection with the opinion, is attached as Annex D to this joint proxy statement/ prospectus. Goldman Sachs provided its opinion for the information and assistance of Federated's board of directors in connection with its consideration of the merger. Goldman Sachs' opinion is not a recommendation as to how any holder of Federated common stock should vote with respect to the merger. For its services, Goldman Sachs will be



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entitled to receive a transaction fee, the principal portion of which is payable upon the completion of the transaction.  
**Record Date; Outstanding Shares; Shares Entitled to Vote (beginning on page 29 for May and 37 for Federated)**

*Federated Stockholders.* The record date for the meeting for Federated stockholders was May 20, 2005. This means that you must have been a stockholder of record of Federated's common stock at the close of business on May 20, 2005, in order to vote at the annual meeting. You are entitled to one vote for each share of common stock you own. On Federated's record date, 170,112,496 shares of common stock were outstanding. This number excludes shares held in the treasury of Federated or by subsidiaries of Federated, which carry no votes.

*May Stockholders.* The record date for the meeting for May stockholders was May 20, 2005. This means that you must have been a stockholder of record of May's common stock or of May's ESOP preference shares at the close of business on May 20, 2005, in order to vote at the annual meeting. You are entitled to one vote for each share of common stock you own. On May's record date, May's voting securities carried 311,993,938 votes, which consisted of 299,443,318 shares of common stock (excluding 21,012,176 shares of treasury stock) and 371,457 ESOP preference shares, which carry 12,550,620 votes.

**Voting; Proxies (beginning on page 32 for May and 41 for Federated)**

***General***

You may vote your shares by signing, dating and mailing the enclosed proxy card(s) or voting instruction card(s), or, if available, by voting by telephone or over the Internet. A number of banks and brokerage firms participate in a program that also permits stockholders whose shares are held in street name to direct their vote by the Internet or telephone. This option, if available, will be reflected in the voting instructions from the bank or brokerage firm that accompany this joint proxy statement/prospectus. If your shares are held in an account at a bank or brokerage firm that participates in such a program, you may direct the vote of these shares by the Internet or telephone by following the voting instructions enclosed with the proxy form from the bank or brokerage firm.

If you participate in May's profit sharing plan, you will receive a voting instruction card for the May common stock and ESOP preference shares allocated to your accounts in that plan. Under the terms of the plan, the plan trustee must receive your voting instructions by 11:59 p.m., Eastern Daylight Savings Time on July 8, 2005.

If you participate in Federated's Profit Sharing 401(k) Investment Plan, you will receive a voting instruction card for your proportional interest in any Federated shares in that plan. Under the terms of the plan, the plan trustee must receive your voting instructions by 5:00 p.m., Eastern Daylight Savings Time on July 11, 2005.

***How Proxies Will Be Voted***

If you complete, sign and date your proxy card(s) or voting instruction card(s), or, if available, vote by telephone or the Internet, your proxy will be voted in accordance with your instructions. If you sign and date your proxy card(s) or voting instruction card(s) but do not indicate how you want to vote at your annual meeting, your proxy will be voted FOR each of the proposals presented at your annual meeting.

***Changing Your Vote***

If you are a record holder of May common stock, May ESOP preference shares or Federated common stock, you can change your vote by:

    sending a written notice to the corporate secretary of the company in which you hold shares that is received prior to your annual meeting and states that you revoke your proxy;

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signing and delivering a new proxy card(s) or voting instruction card(s) bearing a later date;

if available, voting again by telephone or over the Internet and submitting your proxy so that it is received prior to your annual meeting; or

attending your annual meeting and voting in person, although your attendance alone will not revoke your proxy.

If your shares are held in a street name account, you must contact your broker, bank or other nominee to change your vote.

### ***Voting Shares Held in Street Name***

If a broker, bank or other nominee holds your common stock for your benefit but not in your own name, your shares are in street name. In that case, your broker, bank or other nominee will send you a voting instruction form to use in voting your shares. The availability of Internet and telephone voting depends on the voting procedures of your broker, bank or other nominee. Please follow the instructions on the voting instruction form they send you. If your shares are held in street name and you wish to vote in person at your annual meeting, you must contact your broker, bank or other nominee and request a document called a legal proxy. You must bring this legal proxy to your respective annual meeting in order to vote in person.

Generally, a broker, bank or other nominee may only vote the common stock that it holds in street name for you in accordance with your instructions. However, if your broker, bank or other nominee has not received your instructions, your broker, bank or other nominee has the discretion to vote on certain matters that are considered routine. A broker non-vote occurs if your broker, bank or other nominee cannot vote on a particular matter because your broker, bank or other nominee has not received instructions from you and because the proposal is not routine. See *The May Annual Meeting Voting; Proxies Voting Shares Held in Street Name* beginning on page 33 and *The Federated Annual Meeting Voting; Proxies Voting Shares Held in Street Name* beginning on page 41.

### ***Abstaining from Voting***

Depending upon the nature of the proposal, abstentions will either not be counted and therefore have no effect on the proposal or will have the same effect as a vote against the proposal. See *The May Annual Meeting Voting; Proxies Abstaining from Voting* on page 34 and *The Federated Annual Meeting Voting; Proxies Abstaining from Voting* on page 42.

### **Stock Ownership of Directors and Executive Officers (beginning on page 144 for Federated and 170 for May)**

*May.* At the close of business on the record date for the May annual meeting, directors and executive officers of May and their affiliates beneficially owned and were entitled to vote approximately 1,067,940 shares of May common stock, collectively representing less than 1% of the shares of May common stock outstanding on that date.

*Federated.* At the close of business on the record date for the Federated annual meeting, directors and executive officers of Federated and their affiliates beneficially owned and were entitled to vote approximately 422,587 shares of Federated common stock, collectively representing less than 1% of the shares of Federated common stock outstanding on that date.

### **Ownership of Federated After the Merger**

Based on the number of shares of Federated and May common stock outstanding on their respective record dates, after completion of the merger, Federated expects to issue approximately 97 million shares of Federated common stock and former May stockholders will own approximately 36% of the then-outstanding shares of Federated common stock.

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**Interests of May Directors and Executive Officers in the Merger (beginning on page 83)**

When considering the recommendation of its board of directors with respect to the merger agreement and the transactions contemplated by the merger agreement, including the merger, May stockholders should be aware that some directors and executive officers of May have interests in the transactions contemplated by the merger agreement that are different from, or in addition to, their interests as stockholders and the interests of May stockholders generally. The May board of directors was aware of these interests during its deliberations on the merits of the merger and in deciding to recommend that you vote for the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger, at the May annual meeting. For a more detailed discussion of these interests, see *Risk Factors* Certain directors and executive officers of May have interests and arrangements that are different from, or in addition to, May stockholders beginning on page 22 and *The Merger Interests of May Directors and Executive Officers in the Merger* beginning on page 83.

**Federated Board of Directors After the Merger (beginning on page 83)**

The members of the Federated board of directors who are in office immediately prior to the merger are expected to remain as members of the Federated board of directors after the completion of the merger. Federated will also select two individuals who were directors of May as of the date of the merger agreement and who are recommended by the Nominating and Corporate Governance Committee of Federated's board of directors, and, if those individuals are willing to serve, Federated shall use its reasonable best efforts to appoint those individuals, at the effective time of the merger, to the Federated board of directors.

**Listing of Federated Common Stock and Delisting of May Common Stock**

Application will be made to have the shares of Federated common stock issued in the merger approved for listing on the NYSE, where Federated common stock currently is traded under the symbol FD. If the merger is completed, May common stock will no longer be listed on the NYSE and will be deregistered under the Securities Exchange Act of 1934, as amended, which is referred to as the Exchange Act, and May will no longer file periodic reports with the SEC.

**Appraisal Rights (beginning on page 88)**

*Federated.* Under Delaware law, holders of Federated common stock are not entitled to appraisal rights in connection with the issuance of Federated common stock in the merger or in connection with any other proposal to be voted on at the Federated annual meeting.

*May.* Holders of May common stock who do not wish to accept the consideration payable pursuant to the merger may seek, under Section 262 of the DGCL, judicial appraisal of the fair value of their shares by the Delaware Court of Chancery. This value could be more than, less than or the same as the merger consideration for the May common stock. Failure to strictly comply with all the procedures required by Section 262 of the DGCL will result in a loss of the right to appraisal.

Merely voting against the merger will not preserve the right of May stockholders to appraisal under Delaware law. Also, because a submitted proxy not marked *against* or *abstain* will be voted for the proposal to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger, the submission of a proxy not marked *against* or *abstain* will result in the waiver of appraisal rights. May stockholders who hold shares in the name of a broker or other nominee must instruct their nominee to take the steps necessary to enable them to demand appraisal for their shares.

Holders of May common stock are not entitled to appraisal rights in connection with any other proposals to be voted on at the May annual meeting.

Annex E to this joint proxy statement/ prospectus contains the full text of Section 262 of the DGCL, which relates to the rights of appraisal. We encourage you to read these provisions carefully and in their entirety.

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**Conditions to Completion of the Merger (beginning on page 111)**

Completion of the merger depends on a number of conditions being satisfied or waived. See The Merger Agreement Conditions to Completion of the Merger beginning on page 111.

***Antitrust Clearance***

The completion of the merger is subject to compliance with the HSR Act. The notifications required under the HSR Act to the U.S. Federal Trade Commission, or the FTC, and the Antitrust Division of the U.S. Department of Justice, or the Antitrust Division, were filed on March 8, 2005. On April 7, 2005, Federated and May received from the FTC requests for additional information with respect to the proposed merger. As a result of the requests for additional information, the waiting period under United States federal antitrust law will be extended until 11:59 P.M. Eastern Daylight Savings Time on the 30th day after both Federated and May have substantially complied with the requests for additional information or such later time as is agreed among the parties and the FTC, unless the waiting period is earlier terminated because the FTC determines to close its review. In addition, Federated and May have agreed to provide the same information they are providing to the FTC to State Attorneys General that request, and agree to maintain the confidentiality of, such information.

Federated and May have agreed to use their reasonable best efforts to take, or cause to be taken, all actions necessary, proper or advisable under applicable law and regulations, including the HSR Act, to complete the merger as promptly as practicable, but in no event later than October 3, 2005, which date may be extended to August 31, 2006, in circumstances described below, in The Merger Agreement Termination of the Merger Agreement beginning on page 113. We refer to this October 3, 2005 date, as it may be extended, as the outside date.

Among other things, Federated and its subsidiaries have agreed to take any and all actions necessary to ensure that:

no requirement for non-action, a waiver, consent or approval of the FTC, the Antitrust Division, any State Attorney General or other governmental entity;

no decree, judgment, injunction, temporary restraining order or any other order in any suit or proceeding; and

no other matter relating to any antitrust or competition law or regulation, would preclude completion of the merger by the outside date under the merger agreement, provided that in no event shall Federated be required to dispose of, or hold separate, assets of May, Federated or their respective subsidiaries which, in the aggregate, accounted for annual net sales for the most recently completed fiscal year exceeding \$4 billion.

**Termination of the Merger Agreement and Termination Fees (beginning on page 113)**

Before the effective time of the merger, the merger agreement may be terminated by the mutual written consent of Federated and May, or by either Federated or May under certain specified circumstances, including uncured material breaches of the merger agreement. Upon the termination of the merger agreement under certain circumstances, May or Federated may be required to pay a termination fee of up to \$350 million to the other party. See The Merger Agreement Termination of the Merger Agreement beginning on page 113 and The Merger Agreement Termination Fees beginning on page 114.

**No Solicitation by May (beginning on page 104)**

The merger agreement restricts the ability of May to solicit or engage in discussions or negotiations with a third party regarding a proposal to acquire a significant interest in May. However, if May receives an acquisition proposal from a third party that May's board of directors determines in good faith (after consultation with its outside counsel and its financial advisor) constitutes a superior proposal or would reasonably be expected to lead to a superior proposal, May may furnish nonpublic information to that third



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party and engage in negotiations regarding an acquisition proposal with that third party, subject to specified conditions.

### **Material United States Federal Income Tax Consequences (beginning on page 92)**

Federated and May intend that the merger, as currently contemplated, qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

Assuming that the merger is completed as currently contemplated, we expect that the May stockholders will not recognize gain or loss in respect of the stock portion of the merger consideration, except for gain or loss resulting from the receipt of cash in lieu of a fractional share of Federated common stock. In addition, we expect that the May stockholders generally will recognize capital gain, but not loss, in an amount equal to the lesser of (i) the cash they receive in the merger (excluding cash in lieu of a fractional share of Federated common stock) and (ii) the excess of the sum of the fair market value of the Federated common stock and cash they receive (again excluding cash received in lieu of a fractional share of Federated common stock) over their adjusted tax basis in their May common stock.

If the merger is taxable under the circumstances described in The Merger Merger Consideration beginning on page 7, each May stockholder generally will recognize capital gain or loss equal to the difference, if any, between the amount by which the sum of the amount of cash received and the fair market value of the shares of Federated common stock received as of the effective time of the merger exceeds the stockholder's adjusted tax basis in the stockholder's shares of May common stock.

We anticipate that the merger will have no material U.S. federal income tax consequences to Federated stockholders.

Tax matters are very complicated. You should be aware that the tax consequences to you of the merger may depend upon your own situation. In addition, you may be subject to state, local or foreign tax laws that are not discussed in this joint proxy statement/ prospectus. You should therefore consult with your own tax advisor for a full understanding of the tax consequences to you of the merger.

### **Accounting Treatment**

The merger will be accounted for as a business combination using the purchase method of accounting. Federated will be the acquirer for financial accounting purposes.

### **Risks**

In evaluating the merger, the merger agreement or the issuance of shares of Federated common stock in the merger, you should carefully read this joint proxy statement/ prospectus and especially consider the factors discussed in the section entitled Risk Factors beginning on page 22.

### **Litigation Related to the Merger**

As of the date of this joint proxy statement/ prospectus, May and Federated are aware of one purported class action lawsuit that has been filed against May and its board of directors in connection with the merger. Among other things, the complaint in the lawsuit requests an order to prevent the closing of the merger. May believes that the lawsuit is without merit and intends to contest it vigorously. See The Merger Certain Events on page 92.

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**Transition Leadership Team**

In connection with the merger, Federated and May have established a Transition Leadership Team, effective April 1, 2005, to plan for the integration of Federated and May. The team is comprised of the following individuals from both Federated and May:

<b>Federated</b>	<b>May</b>
Tom Cole, Vice Chair	John Dunham, Chairman, President and Chief Executive Officer
Dennis Broderick, Senior Vice President, General Counsel and Secretary	Alan Charlson, Senior Vice President and General Counsel
David Clark, Senior Vice President, Human Resources	John Danahy, Chairman, May Merchandising Company and May Department Stores International
Jim Gray, President and Chief Operating Officer, Macy's East	Tom Fingleton, Executive Vice President and Chief Financial Officer
Karen Hoguet, Senior Vice President and Chief Financial Officer	Brian Keck, Senior Vice President, Human Resources
Len Marcus, President and Chief Operating Officer, Macy's Merchandising Group	
Peter Sachse, President and Chief Marketing Officer, Macy's Corporate Marketing	

**Comparison of Rights of Stockholders (beginning on page 177)**

As a result of the merger, the holders of May common stock will become holders of Federated common stock. Following the merger, May stockholders will have different rights as stockholders of Federated than as stockholders of May due to differences between the certificates of incorporation and by-laws of Federated and May. Federated stockholders will retain their shares of Federated common stock and their rights will continue to be governed by Federated's certificate of incorporation and by-laws. For a copy of Federated's or May's certificate of incorporation or by-laws, see "Where You Can Find More Information" beginning on page 185.

**Table of Contents****FINANCIAL SUMMARY****Federated Market Price Data and Dividends**

Federated common stock is traded on the New York Stock Exchange under the symbol FD. The following table shows for the periods indicated the high and low sales prices for Federated common stock as reported on the New York Stock Exchange.

<b>Fiscal Year Ended</b>	<b>Price Range of Common Stock</b>	
	<b>High</b>	<b>Low</b>
<b>February 1, 2003:</b>		
First Quarter	\$ 44.26	\$ 36.83
Second Quarter	44.10	31.39
Third Quarter	38.13	23.59
Fourth Quarter	34.75	25.50
<b>January 31, 2004:</b>		
First Quarter	30.91	23.51
Second Quarter	40.90	29.93
Third Quarter	47.93	38.50
Fourth Quarter	50.60	42.54
<b>January 29, 2005:</b>		
First Quarter	55.06	46.95
Second Quarter	51.07	44.07
Third Quarter	51.10	42.80
Fourth Quarter	59.40	49.33
<b>January 28, 2006:</b>		
First Quarter	65.08	54.90
Second Quarter (through May 20, 2005)	69.05	57.69

The last reported sales prices of Federated common stock on the New York Stock Exchange on February 25, 2005, and May 20, 2005, were \$56.79 and \$68.86, respectively. February 25, 2005, was the last full trading day prior to the public announcement of the merger. May 20, 2005, was the most recent practicable date prior to the mailing of this joint proxy statement/prospectus to Federated's and May's stockholders.

The Federated board of directors has the power to determine the amount and frequency of the payment of dividends. Decisions regarding whether or not to pay dividends and the amount of any dividends are based on compliance with the DGCL, compliance with agreements governing Federated's indebtedness, earnings, cash requirements, results of operations, cash flows, financial condition and other factors that the board of directors considers important. Federated initiated a quarterly dividend of \$0.125 per share in the second quarter of 2003, and increased that dividend to \$0.135 per share in the second quarter of 2004. Under the merger agreement, Federated is permitted to issue a quarterly dividend not to exceed \$0.14 per share during the period before the effective date of the merger. In addition, Federated has agreed to increase its quarterly dividend to \$0.25 per share, beginning with the first quarterly dividend with a record date on or after the effective date of the merger. While Federated intends to maintain dividends at this level for the foreseeable future, it cannot assure that it will continue to pay dividends at this level, or at all.

**Table of Contents****May Market Price Data and Dividends**

May common stock is traded on the New York Stock Exchange under the symbol MAY. The following table shows for the periods indicated the high and low sales prices for May common stock on the New York Stock Exchange.

<b>Fiscal Year Ended</b>	<b>Price Range of Common Stock</b>	
	<b>High</b>	<b>Low</b>
<b>February 1, 2003:</b>		
First Quarter	\$ 37.75	\$ 33.04
Second Quarter	37.08	25.74
Third Quarter	30.50	20.10
Fourth Quarter	26.10	20.08
<b>January 31, 2004:</b>		
First Quarter	21.72	17.81
Second Quarter	25.34	20.02
Third Quarter	28.20	23.70
Fourth Quarter	34.06	26.37
<b>January 29, 2005:</b>		
First Quarter	36.48	29.84
Second Quarter	30.80	24.62
Third Quarter	26.79	23.04
Fourth Quarter	36.45	25.63
<b>January 28, 2006:</b>		
First Quarter	37.46	30.55
Second Quarter (through May 20, 2005)	38.66	35.15

The last reported sales prices of May common stock on the New York Stock Exchange on February 25, 2005, and May 20, 2005, were \$35.35 and \$38.50, respectively. February 25, 2005, was the last full trading day prior to the public announcement of the merger. May 20, 2005, was the most recent practicable date prior to the mailing of this joint proxy statement/prospectus to Federated's and May's stockholders.

The May board of directors has the power to determine the amount and frequency of the payment of dividends. Decisions regarding whether or not to pay dividends and the amount of any dividends are based on compliance with the DGCL, compliance with agreements governing May's indebtedness, earnings, cash requirements, results of operations, cash flows, financial condition and other factors that the board of directors considers important. May paid an annual dividend of \$0.97 per share in 2004. Under the merger agreement, May is permitted to issue a quarterly dividend not to exceed \$0.245 per share during the period before the effective date of the merger. May has consistently paid dividends over the past five years, with dividends increasing one cent per share in each of the last four years. While May anticipates that if the merger were not consummated it would continue to pay dividends at the current level, it cannot assure that it would continue to pay dividends at this level, or at all.

**Table of Contents****Selected Historical Financial Data of Federated**

The following table shows selected historical financial data for Federated. The data as of and for each of the five years ended January 29, 2005, were derived from Federated's audited consolidated financial statements.

Detailed historical financial information is included in the audited consolidated balance sheets as of January 29, 2005, and January 31, 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended January 29, 2005 included in Federated's Annual Report on Form 10-K for the fiscal year ended January 29, 2005, filed on March 28, 2005. You should read the following selected financial data together with Federated's historical consolidated financial statements, including the related notes, and the other information contained or incorporated by reference in this joint proxy statement/ prospectus. See *Where You Can Find More Information* beginning on page 185.

	<b>Year Ended,</b>				
	<b>January 29, 2005</b>	<b>January 31, 2004</b>	<b>February 1, 2003</b>	<b>February 2, 2002</b>	<b>February 3, 2001</b>
<b>(In millions, except per share data)</b>					
<b>Consolidated Statement of Operations Data:</b>					
Net Sales	\$ 15,630	\$ 15,264	\$ 15,435	\$ 15,651	\$ 16,638
Cost of sales	9,297	9,099	9,255	9,584	9,955
Gross margin	6,333	6,165	6,180	6,067	6,683
Selling, general and administrative expenses	4,933	4,824	4,837	4,801	4,912
Asset impairment and restructuring charges				162	80
Operating income	1,400	1,341	1,343	1,104	1,691
Interest expense	(299)	(266)	(311)	(347)	(327)
Interest income	15	9	16	7	6
Income from continuing operations before income taxes	1,116	1,084	1,048	764	1,370
Federal, state and local income tax expense	(427)	(391)	(410)	(256)	(549)
Income from continuing operations	689	693	638	508	821
Discontinued operations			180	(784)	(1,005)
Net income (loss)	\$ 689	\$ 693	\$ 818	\$ (276)	\$ (184)
<b>Basic earnings (loss) per share:</b>					
Income from continuing operations	\$ 3.93	\$ 3.76	\$ 3.23	\$ 2.60	\$ 4.01
Net income (loss)	3.93	3.76	4.15	(1.41)	(.90)

Diluted earnings (loss) per share:

Income from continuing operations	\$ 3.86	\$ 3.71	\$ 3.21	\$ 2.54	\$ 3.97
Net income (loss)	3.86	3.71	4.12	(1.38)	(.89)
Average number of diluted shares outstanding	174.5	183.8	196.6	195.1	204.3
Cash dividends paid per share	\$ .53	\$ .375	\$	\$	\$
Depreciation and amortization	\$ 737	\$ 710	\$ 680	\$ 689	\$ 651
Capital expenditures	\$ 548	\$ 568	\$ 627	\$ 651	\$ 786
Balance Sheet Data (at year end):					
Cash and cash equivalents	\$ 868	\$ 925	\$ 716	\$ 636	\$ 222
Total assets	14,885	14,550	14,441	16,112	17,012
Short-term debt	1,242	908	946	1,012	1,117
Long-term debt	2,637	3,151	3,408	3,859	3,845
Shareholders equity	6,167	5,940	5,762	5,564	5,822

**Table of Contents****Selected Historical Financial Data of May**

The following table shows selected historical financial data for May. The data as of and for each of the five years ended January 29, 2005, were derived from May's audited consolidated financial statements.

Detailed historical financial information is included in the audited consolidated balance sheets as of January 29, 2005, and January 31, 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended January 29, 2005 included in May's Annual Report on Form 10-K/A for the fiscal year ended January 29, 2005, filed on May 10, 2005. You should read the following selected financial data together with May's historical consolidated financial statements, including the related notes, and the other information contained or incorporated by reference in this joint proxy statement/prospectus. See "Where You Can Find More Information" beginning on page 185.

	<b>Year Ended,</b>				
	<b>January 29, 2005</b>	<b>January 31, 2004</b>	<b>February 1, 2003</b>	<b>February 2, 2002</b>	<b>February 3, 2001</b>
<b>(In millions, except per share data)</b>					
<b>Statement of Operations</b>					
<b>Data:</b>					
Net sales	\$ 14,441	\$ 13,343	\$ 13,491	\$ 13,883	\$ 14,210
Net Earnings	524	434	542	703	858
<b>Balance Sheet Data:</b>					
Total assets	\$ 15,163	\$ 12,122	\$ 12,030	\$ 11,964	\$ 11,574
Long-term debt and preference stock	5,873	4,032	4,300	4,689	4,833
Shareowners' equity	4,475	4,191	4,035	3,841	3,855
<b>Other Data:</b>					
<b>Earnings per share - diluted:</b>					
Net earnings per share diluted	\$ 1.70	\$ 1.41	\$ 1.76	\$ 2.21	\$ 2.62
<b>Dividends per common share</b>	<b>\$ .97</b>	<b>\$ .96</b>	<b>\$ .95</b>	<b>\$ .94</b>	<b>\$ .93</b>

**Table of Contents****Selected Unaudited Pro Forma Financial Data of Federated**

The following selected unaudited pro forma financial data of Federated give effect to the merger as if the merger had been completed as of February 1, 2004, with respect to the pro forma results of operations data, and as of January 29, 2005, with respect to the pro forma balance sheet data.

The following selected unaudited pro forma financial data should be read in conjunction with the historical consolidated financial statements and notes thereto of Federated and May, which are incorporated by reference in this joint proxy statement/ prospectus, and the other information contained or incorporated by reference in this joint proxy statement/ prospectus. See *Where You Can Find More Information* beginning on page 185.

The following selected unaudited pro forma financial data reflect adjustments, which are based upon preliminary estimates, to allocate the purchase price to May's net assets. The purchase price allocation reflected herein is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the actual assets and liabilities of May as of the date of the completion of the merger. Accordingly, the actual purchase accounting adjustments may differ from the pro forma adjustments reflected herein.

The following selected unaudited pro forma financial data are presented for illustrative purposes only and are not necessarily indicative of what Federated's actual financial position or results of operations would have been had the merger been completed on the dates indicated above. The following selected unaudited pro forma financial data do not give effect to (1) Federated's or May's results of operations or other transactions or developments since January 29, 2005, (2) the synergies, cost savings and one-time charges expected to result from the merger, or (3) the effects of transactions or developments, including sales of stores or other assets, which may occur subsequent to the merger. In addition, the following selected unaudited pro forma financial data assume the absence of any adjustment to the purchase price provided for in the merger agreement. The foregoing matters, and the possible sale by Federated of its or May's credit card related assets and use of the proceeds from such a transaction to fund the cash portion, or to repay debt incurred to fund the cash portion, of the purchase price payable in the merger, could cause both Federated's pro forma historical financial position and results of operations, and Federated's actual future financial position and results of operations, to differ materially from those presented in the following selected unaudited pro forma financial data. See *Risk Factors*. The unaudited pro forma financial data included in this joint proxy statement/ prospectus are preliminary and Federated's actual financial position and results of operations may differ materially from the unaudited pro forma financial data included in this joint proxy statement/ prospectus beginning on page 23.

	<b>Year Ended January 29, 2005</b>
	<b>(In millions, except per share data)</b>
<b>Results of Operations Data:</b>	
Net sales	\$ 31,064
Net income	1,018
Diluted earnings per share	3.66
	<b>At January 29, 2005</b>
	<b>(In millions)</b>
<b>Balance Sheet Data:</b>	
Total assets	\$ 37,181
Short-term debt	3,520



Long-term debt	12,289
Total debt	15,809
Total shareholders equity	12,151

**Table of Contents****COMPARATIVE PER SHARE INFORMATION**

The following table presents income from continuing operations, cash dividends declared and book value per common share data separately for Federated and May on a historical basis, on an unaudited pro forma combined basis per Federated common share and on an unaudited pro forma combined basis per May equivalent common share. The following unaudited pro forma data give effect to the merger as if the merger had been completed as of February 1, 2004, with respect to the pro forma income from continuing operations per common share data, and as of January 29, 2005, with respect to the pro forma book value per common share data. The following selected unaudited pro forma financial data should be read in conjunction with the historical consolidated financial statements and notes thereto of Federated and May, which are incorporated by reference in this joint proxy statement/ prospectus, and the other information contained or incorporated by reference in this joint proxy statement/ prospectus. See *Where You Can Find More Information* beginning on page 185.

The unaudited pro forma combined data per Federated common share are (1) based upon the historical weighted average number of Federated common shares outstanding, adjusted to include the estimated number of Federated common shares to be issued in the merger, and (2) in the case of cash dividends paid per common share, reflect Federated's agreement to increase its quarterly dividend to \$0.25 per share following the merger. See *Pro Forma Financial Data* beginning on page 169. We have based the unaudited pro forma combined data per May equivalent common share on the unaudited pro forma combined per Federated common share amounts, multiplied by the exchange ratio of 0.3115.

The following unaudited pro forma data reflect adjustments, which are based upon preliminary estimates, to allocate the purchase price to May's net assets. The purchase price allocation reflected herein is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the actual assets and liabilities of May as of the date of the completion of the merger. Accordingly, the actual purchase accounting adjustments may differ from the pro forma adjustments reflected herein.

The following unaudited pro forma data are presented for illustrative purposes only and are not necessarily indicative of what Federated's actual financial position or results of operations would have been had the merger been completed on the dates indicated above. The following unaudited pro forma data do not give effect to (1) Federated's or May's results of operations or other transactions or developments since January 29, 2005, (2) the synergies, cost savings and one-time charges expected to result from the merger, or (3) the effects of transactions or developments, including sales of stores or other assets, which may occur subsequent to the merger. In addition, the following unaudited pro forma data assume the absence of any adjustment to the purchase price provided for in the merger agreement. The foregoing matters, and the possible sale by Federated of its or May's credit card related assets and use of the proceeds from such a transaction to fund the cash portion, or to repay debt incurred to fund the cash portion, of the purchase price payable in the merger, could cause both Federated's pro forma historical financial position and results of operations, and Federated's actual future financial position and results of operations, to differ materially from those presented in the following selected unaudited pro forma financial data. See *Risk Factors* The unaudited pro forma financial data included in this joint proxy statement/ prospectus are preliminary and Federated's actual financial position and results of operations may differ materially from the unaudited pro forma financial data included in this joint proxy statement/ prospectus beginning on page 23.

<b>Federated</b>		<b>Pro Forma</b>	<b>Pro Forma</b>
<b>Historical</b>	<b>May</b>	<b>Combined</b>	<b>Combined</b>
<b>per</b>	<b>Historical</b>	<b>Data per</b>	<b>Data per May</b>
<b>Share</b>	<b>per Share</b>	<b>Federated</b>	<b>Equivalent</b>
<b>Data</b>	<b>Data</b>	<b>Common</b>	<b>Common Share</b>
<b>Data</b>	<b>Data</b>	<b>Share</b>	

**At or for the Year Ended  
January 29, 2005:**

Income from continuing  
operations per common  
share:

Basic	\$	3.93	\$	1.74	\$	3.74	\$	1.17
Diluted		3.86		1.70		3.66		1.14
Cash dividends declared per common share		.53		.97		1.00		.31
Book value per common share		36.89		15.27		45.89		14.29

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**Table of Contents****COMPARATIVE MARKET VALUE INFORMATION**

The following table presents:

the closing prices per share and aggregate market value of Federated common stock and May common stock, in each case based on closing prices for those shares on the New York Stock Exchange, on February 25, 2005, the last trading day prior to the public announcement of the proposed merger, and May 20, 2005, the last trading day for which this information could be calculated prior to the date of this joint proxy statement/ prospectus; and

the equivalent price per share and equivalent market value of shares of May common stock, based on the exchange ratio of 0.3115 and the closing price for Federated common stock on the New York Stock Exchange on May 20, 2005.

	<b>Federated Historical</b>	<b>May Historical</b>	<b>May Equivalent(1)</b>
<b>February 25, 2005</b>			
Closing price per common share	\$ 56.79	\$ 35.35	\$ 35.44
Market value of common shares (in billions)(2)	\$ 9.52	\$ 10.88	
<b>May 20, 2005</b>			
Closing price per common share	\$ 68.86	\$ 38.50	\$ 39.20
Market value of common shares (in billions)(3)	\$ 11.71	\$ 12.01	

- (1) The May equivalent price per share reflects the fluctuating value of Federated common stock that May stockholders would receive for each share of May common stock if the merger was completed on either February 25, 2005, or May 20, 2005. The May equivalent price per share is equal to the sum of (i) \$17.75 and (ii) the closing price of Federated common stock on the applicable date multiplied by 0.3115.
- (2) Based on 167,598,278 shares of Federated common stock and 293,834,196 shares of May common stock outstanding and May ESOP preference shares convertible into 14,036,843 shares of May common stock as of February 25, 2005.
- (3) Based on 170,112,496 shares of Federated common stock and 299,443,318 shares of May common stock outstanding and May ESOP preference shares convertible into 12,550,620 shares of May common stock as of May 20, 2005.

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**RISK FACTORS**

In deciding whether to vote for approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger, in the case of May stockholders, or for approval of the issuance of Federated common stock, in the case of Federated stockholders, we urge you to carefully consider all of the information we have included and incorporated by reference in this joint proxy statement/ prospectus. See *Where You Can Find More Information* beginning on page 185. You should also read and consider the risks associated with each of the businesses of Federated and May because these risks will also affect the combined company. These risks can be found in the Federated and May Annual Reports on Form 10-K and Form 10-K/A, respectively, for the year ended January 29, 2005, which are filed with the SEC and incorporated by reference into this joint proxy statement/ prospectus. In addition, we urge you to carefully consider the following material risks relating to the merger and the business of the combined company.

**Risks Relating to the Merger**

***The merger is subject to certain closing conditions that, if not satisfied or waived, will result in the merger not being completed, which may cause the market price of Federated common stock or May common stock to decline.***

The merger is subject to customary conditions to closing, including the receipt of required approvals of the stockholders of May and Federated. If any condition to the merger is not satisfied or, if permissible, waived, the merger will not be completed. In addition, Federated and May may terminate the merger agreement in certain circumstances. If Federated and May do not complete the merger, the market price of Federated common stock or May common stock may fluctuate to the extent that the current market prices of those shares reflect a market assumption that the merger will be completed. Federated and May will also be obligated to pay certain investment banking, financing, legal and accounting fees and related expenses in connection with the merger, whether or not the merger is completed. In addition, Federated and May have each diverted significant management resources in an effort to complete the merger and are each subject to restrictions contained in the merger agreement on the conduct of its business. If the merger is not completed, each of Federated and May will have incurred significant costs, including the diversion of management resources, for which it will have received little or no benefit. Further, in specified circumstances, May and Federated may be required to pay to the other a termination fee of up to \$350 million if the merger agreement is terminated. For a detailed description of the circumstances in which such termination fee will be paid, see *The Merger Agreement Termination Fees* beginning on page 116.

***Whether or not the merger is completed, the announcement and pendency of the merger could cause disruptions in the businesses of Federated and May, which could have an adverse effect on their business and financial results.***

Whether or not the merger is completed, the announcement and pendency of the merger could cause disruptions in the businesses of Federated and May. Specifically:

current and prospective employees may experience uncertainty about their future roles with the combined company, which might adversely affect Federated and May's ability to retain key managers and other employees; and

the attention of management of each of Federated and May may be directed toward the completion of the merger. ***Certain directors and executive officers of May have interests and arrangements that are different from, or in addition to, May stockholders.***

When considering the recommendation of the May board of directors with respect to the merger, May stockholders should be aware that some directors and executive officers of May have interests in the merger

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that are different from, or in addition to, their interests as stockholders and the interests of stockholders generally. These interests include:

payments under employment agreements and severance agreements which, in either case, may be triggered if the executive officer's employment is terminated under certain circumstances following the merger for May's 13 current executive officers, the aggregate of these payments could be up to approximately \$46.8 million;

potential appointment of two members of May's board of directors to the Federated board of directors following the merger;

potentially becoming executive officers, employees or consultants of Federated after the transaction;

accelerated vesting and exercisability of May stock options and restricted stock issued under May's equity compensation plans. May's 13 current executive officers and 8 current non-management directors currently hold, in the aggregate, 511,805 and 49,990 shares of restricted stock, respectively, and May's 13 current executive officers hold 828,450 unvested stock options with a weighted average exercise price of \$30.988 per share;

continued benefits under May plans for one year following the effective date of the merger, as well as continued compensation and benefits from one year following the effective date of the merger through the third year following the effective date of the merger that are in the aggregate substantially comparable to that provided by May immediately prior to the effective time of the merger;

accelerated payment of previously vested amounts credited under May's deferred compensation programs. May's 13 current executive officers currently have credited to their accounts an aggregate of approximately \$5.82 million and 217,055 stock units and May's 8 non-management directors currently have credited to their accounts an aggregate of approximately \$300,000 and 187,965 stock units; and

Federated's agreement to indemnify each present and former May officer and director against liabilities arising out of that person's services as an officer or director, and maintain directors' and officers' liability insurance for a period of six years after closing to cover May directors and officers, subject to certain limitations.

As a result of these interests, these directors and executive officers may be more likely to support and to vote to adopt the merger agreement than if they did not have these interests. Stockholders should consider whether these interests may have influenced those directors and officers to support or recommend adoption of the merger agreement. As of the close of business on the record date for the May annual meeting, May directors and executive officers were entitled to vote less than 1% of the then-outstanding shares of May common stock. See *The Merger - Interests of May Directors and Executive Officers in the Merger* beginning on page 83.

***The unaudited pro forma financial data included in this joint proxy statement/prospectus are preliminary and Federated's actual financial position and results of operations may differ materially from the unaudited pro forma financial data included in this joint proxy statement/prospectus.***

The unaudited pro forma financial data in this joint proxy statement/prospectus reflect adjustments, which are based upon preliminary estimates, to allocate the purchase price to May's net assets. The purchase price allocation reflected in this joint proxy statement/prospectus is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the actual assets and liabilities of May as of the date of the completion of the merger. Federated may need to revise materially its current estimates of those assets and liabilities as the valuation process and accounting policy review are finalized. Accordingly, the actual purchase accounting adjustments may differ materially from the pro forma adjustments reflected in this joint proxy statement/prospectus.

The unaudited pro forma financial data in this joint proxy statement/prospectus are presented for illustrative purposes only and are not necessarily indicative of what Federated's actual financial position or



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results of operations would have been had the merger been completed on the dates indicated. The unaudited pro forma financial data in this joint proxy statement/ prospectus do not give effect to (1) Federated or May's results of operations or other transactions or developments since January 29, 2005, (2) the synergies, cost savings and one-time charges expected to result from the merger or (3) the effects of transactions or developments, including sales of stores or other assets, which may occur after the merger. In addition, the unaudited pro forma financial data in this joint proxy statement/ prospectus assume the absence of any adjustment to the purchase price provided for in the merger agreement. The foregoing matters, Federated's possible sale of its or May's credit card related assets and use of the proceeds from such a transaction to fund the cash portion, or to repay debt incurred to fund the cash portion, of the purchase price payable in the merger, and other factors could cause both Federated's pro forma historical financial position and results of operations, and Federated's actual future financial position and results of operations, to differ materially from those presented in the unaudited pro forma financial data in this joint proxy statement/ prospectus.

***The value of the Federated common stock that May stockholders receive in the merger may be less than the value of such Federated common stock when the merger was publicly announced. Further, at the May annual meeting, May stockholders will not know the exact value of Federated common stock that will be issued in the merger.***

The exchange ratio for Federated common stock to be issued in the merger has been fixed. The price of Federated common stock will fluctuate until May's stockholders receive their shares. Federated and May are working to complete the merger as quickly as possible. However, the time period between the stockholder votes taken at the annual meetings and the completion of the merger will depend upon the status of antitrust clearance that must be obtained prior to the completion of the merger and the satisfaction or waiver of the other conditions described in this joint proxy statement/ prospectus, and there is currently no way to predict how long it will take to obtain these approvals. Because the date when the merger is completed may be later than the date of the annual meetings, Federated and May stockholders will not know the exact value of the Federated common stock that will be issued in the merger at the time they vote on the merger proposals. As a result, if the market price of Federated common stock at the completion of the merger is higher or lower than the market price on the date of the May annual meeting, the value of the Federated common stock received by May stockholders in the merger will be higher or lower, respectively, than the value of such Federated common stock on the date of the May annual meeting.

***If the total value of the Federated common stock to be received falls below 40% of the total consideration, May stockholders could be required to accept \$18.75 per share in cash and 0.3115 shares of Federated common stock in a transaction that is currently taxable to such May stockholders.***

Generally, in order to preserve the tax-deferral feature of the merger sought by qualifying it as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, the market value of the Federated common stock portion of the total consideration paid in the merger, as of the closing, must represent a sufficiently high proportion of the total consideration to satisfy the so-called "continuity of interest" requirement for such reorganizations. The "continuity of interest" requirement would begin to be in doubt if the per share market price of Federated common stock were to deteriorate so substantially that the total common stock portion of the total consideration constituted less than 40% of the total consideration. If the opinions described under the caption "Material United States Federal Income Tax Consequences" were not able to be delivered by reason of such a price deterioration in Federated common stock, Federated would then have the option to increase the number of shares of Federated common stock issuable in the merger to maintain qualification as a reorganization. If Federated were to decline to make such an election, May would then have the right to require Federated to increase the cash portion of the consideration payable by \$1.00 to \$18.75 and to complete the merger, notwithstanding that the merger would be fully taxable to May stockholders. May would also have the right to decline to complete the merger. See the Risk Factor immediately above generally describing the risk relating to the value of the Federated common stock that May stockholders receive in the merger, as well as "The Merger Agreement - Merger Consideration" beginning on page 97 and "The Merger Agreement - Conditions to Completion of the Merger" beginning on page 111. May does not currently anticipate requesting updated fairness opinions from its financial advisors in the event





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the consideration to be received by May stockholders will differ as described above as a result of a significant decline in the value of Federated common stock.

***Federated may be required under the merger agreement to dispose of assets that account for up to \$4 billion in annual net sales if required by governmental entities to obtain antitrust clearance for the merger.***

Each of Federated and May has agreed to use its reasonable best efforts to obtain all governmental clearances or approvals under federal, state or foreign antitrust laws. In connection with obtaining antitrust clearance for the proposed merger, Federated may be required under the merger agreement to dispose of any assets required by governmental entities, but only to the extent such assets do not account for more than \$4 billion in net sales for the most recently completed fiscal year. It is uncertain whether asset dispositions will be required and in what amount, whether Federated will be able to dispose of such assets or, if those assets are sold, at what price they may be sold and the impact that such dispositions may have on Federated's profitability.

**Risks Relating to Federated's Operations After the Consummation of the Merger**

***Federated's failure to integrate May successfully and on a timely basis into Federated's operations could reduce Federated's profitability.***

Federated expects that the acquisition of May will result in certain synergies, business opportunities and growth prospects. Federated, however, may never realize these expected synergies, business opportunities and growth prospects. Federated may experience increased competition that limits its ability to expand its business, Federated may not be able to capitalize on expected business opportunities, including retaining May's current retail customers, assumptions underlying estimates of expected cost savings may be inaccurate, or general industry and business conditions may deteriorate. In addition, there can be no assurance that Federated's execution of its post-merger strategy to rebrand certain May stores will improve its operating performance. Integrating operations will require significant efforts and expenses on the part of both Federated and May. Personnel may leave or be terminated because of the merger. Federated's management may have its attention diverted while trying to integrate May. If these factors limit Federated's ability to integrate the operations of May successfully or on a timely basis, Federated's expectations of future results of operations, including certain cost savings and synergies expected to result from the merger, may not be met. In addition, Federated's growth and operating strategies for May's business, including the possibility of rebranding certain May stores, may be different from the strategies that May currently is pursuing. If Federated's strategies are not the proper strategies for May, it could have a material adverse effect on the business, financial condition and results of operations of Federated.

***The results of Federated's operations after the merger may be affected by factors different from, or in addition to, those currently affecting the results of May's operations, and the market value of Federated common stock may decrease after the closing date of the merger.***

Upon completion of the merger, the holders of May common stock will become holders of Federated common stock. Federated is involved in different geographic areas than May and the results of Federated's operations after the merger may be affected by factors different from or in addition to those currently affecting the results of May's operations. The market value of the shares of Federated common stock that May stockholders receive in the merger could decrease following the closing date of the merger. For a discussion of the businesses of Federated and May and factors to consider in connection with those businesses, please see the documents incorporated by reference into this joint proxy statement/prospectus and listed under the section captioned "Where You Can Find More Information" beginning on page 185.

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***The price of Federated common stock has been volatile and may continue to fluctuate significantly, which may cause you to lose a significant portion of your investment.***

The market price of Federated common stock has been and may continue to be volatile. From February 1, 2002, to May 20, 2005, the sale price of Federated common stock ranged from a low of \$23.51 per share to a high of \$69.05 per share. Federated common stock may continue to be subject to fluctuations as a result of a variety of factors, including factors beyond its control. These include:

competitive conditions in retail and related services industries;

changes in consumer confidence, tastes, preferences, fashion trends and spending;

the availability and level of consumer debt;

anticipated cash flow and the ability of Federated to maintain sufficient operating cash flow and liquidity;

the possibility that new business and strategic options for one or more business segments will be identified, potentially including selective acquisitions, dispositions, restructurings, joint ventures and partnerships;

trade restrictions, tariffs and other factors potentially affecting the ability to find qualified vendors and access products in an efficient manner;

the ability to successfully implement initiatives to improve inventory management capabilities;

changes in interest rates;

social and political conditions such as war, political unrest and terrorism or natural disasters;

volatility in financial markets;

changes in debt ratings, credit spreads and cost of funds;

the possibility of interruptions in systematically accessing the public debt markets;

the impact of seasonal buying patterns, which are difficult to forecast with certainty; and

general economic conditions and normal business uncertainty.

Federated may fail to meet expectations of its stockholders or of analysts at some time in the future, and its stock price could decline as a result. In addition, sales of a substantial number of shares of Federated common stock in the public market or the appearance that these shares are available for sale could adversely affect the market price for Federated common stock.

***Anti-takeover provisions could delay, deter or prevent a change in control of Federated even if the change in control would be beneficial to Federated stockholders.***

Federated is a Delaware corporation subject to Delaware state law. Some provisions of Delaware law could interfere with or restrict takeover bids or other change in control events affecting Federated. Also, provisions in Federated's certificate of incorporation and other agreements to which Federated is a party could delay, deter or prevent a change in control of Federated, even if a change in control would be beneficial to stockholders. One statutory provision prohibits, except under specified circumstances, Federated from engaging in any business combination with any stockholder who owns 15% or more of Federated's common stock (which stockholder, under the statute, would be considered an interested stockholder) for a period of three years following the time that such stockholder became an interested stockholder. Federated's certificate of incorporation contains a similar prohibition. In

addition, Federated may be required to make payments to certain officers of Federated under severance agreements in connection with a change in control of Federated, which may make Federated a less attractive target to a potential acquirer.

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***Federated faces significant competition in the retail industry.***

Federated conducts its retail merchandising business under highly competitive conditions. Although Federated is one of the nation's largest retailers, it has numerous and varied competitors at the national and local levels, including conventional and specialty department stores, other specialty stores, category killers, mass merchants, value retailers, discounters, and Internet and mail-order retailers. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, reputation and credit availability. If Federated does not compete effectively with regard to these factors, its results of operations could be materially and adversely affected.

***Federated's sales and operating results depend on consumer preferences and fashion trends.***

Federated's sales and operating results depend in part on its ability to predict or respond to changes in fashion trends and consumer preferences in a timely manner. Federated develops new retail concepts and continuously adjusts its industry position in certain major and private-label brands and product categories in an effort to satisfy customers. Any sustained failure to identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse affect on Federated's business. Consumer spending may be affected by many factors outside of Federated's control, including competition from store-based retailers, mail-order and Internet companies, consumer confidence and preferences, weather that affects consumer traffic, and general economic conditions.

***Federated is subject to global economic and political conditions.***

Global economic and political factors that are beyond Federated's control influence its forecasts and directly affect performance. These factors include interest rates, rates of economic growth, fiscal and monetary policies of governments, inflation, deflation, consumer credit availability, consumer debt levels, tax rates and policy, unemployment trends, terrorist threats and activities, worldwide military and domestic disturbances and conflicts, and other matters that influence consumer confidence, spending and tourism. Increasing volatility in financial markets may cause these factors to change with a greater degree of frequency and magnitude. Increases in interest rates may increase our financing costs.

***Federated depends upon the success of its advertising and marketing programs.***

Federated's advertising and promotional costs, net of cooperative advertising allowances, amounted to \$716 million for the fiscal year ended January 29, 2005. Its business depends on high customer traffic in its stores and effective marketing. Federated has many initiatives in this area, and it often changes its advertising and marketing programs. If its advertising and marketing efforts are not effective, this could negatively affect its results.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This joint proxy statement/prospectus, including information and other documents incorporated by reference into this joint proxy statement/prospectus, contains or may contain forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995 that relate to the businesses of Federated and May. These forward-looking statements are found at various places throughout this joint proxy statement/prospectus and the other documents incorporated by reference in this joint proxy statement/prospectus. These forward-looking statements include, without limitation, those relating to projected financial and operating results, earnings and cash flows, future actions, new projects, strategies and the outcome of contingencies such as legal proceedings, in each case relating to Federated or May, respectively. Those forward looking statements, wherever they occur in this joint proxy statement/prospectus or the other documents incorporated by reference in this joint proxy statement/prospectus, are necessarily estimates or projections reflecting the judgment of the respective management of Federated and May and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from any future results, performance or achievements expressed or implied by those forward-looking statements.

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You should understand that the risks, uncertainties, factors and assumptions listed and discussed in this joint proxy statement/ prospectus, including those set forth under the heading "Risk Factors" beginning on page 22; the risks discussed in May's Annual Report on Form 10-K/A for the fiscal year ended January 29, 2005, in Item 7A "Qualitative and Quantitative Disclosures about Market Risk"; the risks discussed in Federated's Annual Report on Form 10-K for the fiscal year ended January 29, 2005, in Item 7A "Qualitative and Quantitative Disclosures about Market Risk"; and the following important factors and assumptions, could affect the future results of Federated following the merger, or the future results of Federated and May if the merger does not occur, and could cause actual results to differ materially from those expressed in any forward-looking statements:

the ability of Federated to integrate the May businesses with Federated's businesses and achieve the expected synergies from the merger;

the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger, at the May annual meeting;

the approval of the issuance of Federated common stock in connection with the merger at the Federated annual meeting;

the timing of the completion of the merger;

the actual financial position and results of operations of Federated following the merger, which may differ significantly from the pro forma financial data contained in this joint proxy statement/ prospectus;

the impact of competitive products and pricing;

general market conditions in the retail industry;

the level of capital resources required for future acquisitions and operations; and

changes in laws and regulations.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of the joint proxy statement/ prospectus or, in the case of documents incorporated by reference, as of the date of those documents. Neither Federated nor May undertakes any obligation to publicly update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this joint proxy statement/ prospectus or to reflect the occurrence of unanticipated events, except as required by law.

### **THE MAY ANNUAL MEETING**

#### **General**

This joint proxy statement/ prospectus is being provided to May stockholders as part of a solicitation of proxies by the May board of directors for use at the annual meeting of May stockholders and at any adjournment or postponement thereof. This joint proxy statement/ prospectus is first being furnished to stockholders of May on or about May 31, 2005. In addition, this joint proxy statement/ prospectus is being furnished to May stockholders as a prospectus for Federated in connection with the issuance by Federated of shares of Federated common stock to May stockholders in connection with the merger. This joint proxy statement/ prospectus provides May stockholders with the information they need to know to be able to vote or instruct their vote to be cast at the annual meeting of May stockholders.

#### **Date, Time and Place of the May Annual Meeting**

The annual meeting of May stockholders will be held at 10:00 a.m., Eastern Daylight Savings Time, on July 13, 2005, at The Pierre-New York, 2 East 61st Street, New York, New York 10021.



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### **Purposes of the May Annual Meeting**

At the May annual meeting, May's stockholders will be asked:

To approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger;

To elect four members of May's board of directors;

To adopt an amendment to May's amended and restated certificate of incorporation to provide for the annual election of directors;

To ratify the appointment of Deloitte & Touche LLP as May's independent registered public accounting firm for the fiscal year ending January 28, 2006;

To approve adjournments or postponements of the May annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the May annual meeting to approve the above proposals; and

To consider and take action upon any other business that may properly come before the May annual meeting, or any reconvened meeting, following an adjournment or postponement of the May annual meeting.

### **Record Date; Outstanding Shares; Shares Entitled to Vote**

The record date for the meeting for May stockholders was May 20, 2005. This means that you must have been a stockholder of record of May's common stock or of May's ESOP preference shares at the close of business on May 20, 2005, in order to vote at the annual meeting. You are entitled to one vote for each share of common stock you own (or in the case of ESOP preference shares, one vote for each whole share of May common stock represented by such ESOP preference share). On May's record date, May's voting securities carried 311,993,938 votes, which consisted of 299,443,318 shares of common stock (excluding 21,012,176 shares of treasury stock) and 371,457 ESOP preference shares, which carry 12,550,620 votes.

A complete list of May stockholders entitled to vote at the May annual meeting will be available for inspection at the executive offices of May during regular business hours for a period of no less than ten days before the annual meeting.

### **Quorum and Voting Rights**

A quorum of stockholders is necessary to hold a valid annual meeting of May. The required quorum for the transaction of business at the annual meeting is a majority of the outstanding shares of May common stock entitled to vote and present at the annual meeting, whether in person or by proxy. All shares of May common stock represented at the May annual meeting, including abstentions and broker non-votes, will be treated as shares that are present for purposes of determining the presence of a quorum. Broker non-votes are shares held by a broker, bank or other nominee that are represented at the meeting, but with respect to which such broker, bank or nominee is not instructed by the beneficial owner of such shares to vote on the particular proposal and the broker, bank or other nominee does not have discretionary voting power on such proposal. For purposes of voting on each of the proposals set forth below, the owners of shares of common stock and ESOP preference shares vote together as one class.

The votes required to approve the respective proposals at the May annual meeting are:

Approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger, requires the approval of a majority of the outstanding shares of May common stock and ESOP preference shares entitled to vote, voting together as one class.



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The election of four members of May's board of directors requires the affirmative vote of a plurality of the shares of May common stock and ESOP preference shares, voting together as one class, present in person or represented by proxy at the May annual meeting and entitled to vote.

Approval of the amendment to May's amended and restated certificate of incorporation to provide for the annual election of directors requires the affirmative vote of a majority of the outstanding shares of May common stock and ESOP preference shares, voting together as one class.

Ratification of the appointment of Deloitte & Touche LLP as May's independent registered public accounting firm for fiscal year ending January 28, 2006, requires the affirmative vote of the holders of a majority of the shares of May common stock and ESOP preference shares, voting together as one class, present in person or represented by proxy and entitled to vote at the May annual meeting.

Approval of adjournments or postponements of the May annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the May annual meeting to approve the above proposals, requires the affirmative vote of a majority of the shares of May common stock and ESOP preference shares, voting together as one class, present in person or represented by proxy and entitled to vote at the May annual meeting.

For a discussion of how broker non-votes and abstentions will affect the outcome of the vote on these proposals, see Voting; Proxies Voting Shares Held in Street Name beginning on page 33 and Voting; Proxies Abstaining from Voting on page 34.

**Recommendation of the Board of Directors**

**As discussed elsewhere in this joint proxy statement/ prospectus, May's board of directors has approved the merger agreement and the transactions contemplated by the merger agreement, including the merger, and has determined that the transactions contemplated by the merger agreement are advisable and fair to and in the best interests of May and its stockholders. The May board of directors recommends that May stockholders vote:**

**FOR the proposal to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger, at the May annual meeting. See May's Reasons for the Merger and Recommendation of May's Board of Directors beginning on page 51; and**

**FOR each of the other proposals presented at the May annual meeting.**

**ITEM 1 THE MERGER**

As discussed elsewhere in this joint proxy statement/ prospectus, May stockholders are considering and voting on a proposal to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger. You should read carefully this joint proxy statement/ prospectus in its entirety for more detailed information concerning the merger agreement and the merger. In particular, you are directed to the merger agreement, which is attached as Annex A to this joint proxy statement/ prospectus.

**The May board of directors recommends that May stockholders vote FOR the merger, and your proxy will be so voted unless you specify otherwise.**

**ITEM 2 ELECTION OF DIRECTORS**

Four directors are to be elected by stockholders at the May annual meeting. In accordance with the recommendation of the nominating and governance committee of the board of directors, the May board of directors has nominated Marsha J. Evans, David B. Rickard, Joyce M. Roché and R. Dean Wolfe, each of whom is currently a member of the board, for election. Each non-management nominee (Mrs. Evans, Mr. Rickard and Ms. Roché) and May's other non-management directors are independent directors under May's independence standards described on page 148.

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The board of directors is currently divided into three classes and the terms of the remaining directors expire in 2006 or 2007. If you approve the proposal to amend the amended and restated certificate of incorporation to provide for the annual election of directors, as more fully described in the following item, all four nominees will serve for one year terms expiring at the 2006 annual meeting of stockholders. If you do not approve the proposal to amend the amended and restated certificate of incorporation, the four nominees will serve three-year terms expiring in 2008.

The May board of directors has no reason to believe that any of the nominees will not serve if elected. However, if any nominee should subsequently become unavailable to serve as a director, the May board may designate a substitute nominee and the persons named as proxies may, in their discretion, vote for such substitute nominee designated by the May board. Alternatively, the May board may reduce the number of directors to be elected at the May annual meeting.

For information regarding the four nominees and regarding the May board of directors as a whole, see Information about May Directors of May beginning on page 145.

**The May board of directors recommends that May stockholders vote FOR the election of the nominees named above, and your proxy will be so voted unless you specify otherwise.**

**ITEM 3 AMENDMENT TO THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO PROVIDE FOR THE ANNUAL ELECTION OF DIRECTORS**

Article Thirteenth of May's amended and restated certificate of incorporation currently provides that the May board is to be divided into three classes of approximately equal size that have staggered three-year terms. The May board is submitting for a stockholder vote a proposal to amend May's certificate of incorporation to phase out the classification of the board and to provide instead for the annual election of all directors.

May stockholders have considered a proposal submitted by Mrs. Evelyn Y. Davis, Editor, Highlights and Lowlights, to declassify the May board of directors at each annual stockholder meeting since 1988. At each of the last five annual meetings, the proposal received a favorable vote of a majority of the votes cast. At each of the last two annual meetings, the proposal received a favorable vote of a majority of the shares outstanding. Mrs. Davis submitted again a similar proposal for consideration at the 2005 May annual meeting.

The nominating and governance committee and the full board regularly have considered the advantages, disadvantages and appropriateness of annually elected and staggered boards, taking a variety of perspectives into account. In light of the increasing sentiment among May's stockholders to support declassifying the board, the board's decision to approve the merger with Federated and Federated's board's decision to recommend the declassification of its board, May's board of directors, upon recommendation of the nominating and governance committee, has decided that it is an appropriate time to recommend that the stockholders declassify the May board. May's board has authorized May's management to reach an agreement with Mrs. Davis providing for the withdrawal of Mrs. Davis' proposal in return for the May board's submission of this proposal.

If you approve the amendment to the certificate of incorporation, all directors standing for election would be elected for one-year terms, as described below:

All directors elected at the 2005 annual meeting or thereafter would be elected for one-year terms;

Directors assigned to the class of 2006, who were previously elected at earlier annual meetings, would stand for election in 2006 and would be elected for one-year terms thereafter;

Directors assigned to the class of 2007, who were previously elected at an earlier annual meeting, would stand for election in 2007 and would be elected for one-year terms thereafter; and

Vacancies that occur during the year would continue to be filled by the board of directors to serve only until the next annual meeting.

If you do not approve the proposed amendment to May's amended and restated certificate of incorporation at this meeting, the board will remain classified and the directors elected at this meeting will serve for a term ending at May's 2008 annual meeting.



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The proposed amendment to May's amended and restated certificate of incorporation is attached to this joint proxy statement/prospectus as Annex G.

**The May board of directors recommends that May stockholders vote FOR the amendment to May's amended and restated certificate of incorporation, and your proxy will be so voted unless you specify otherwise.**

**ITEM 4 RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The audit committee appointed Deloitte & Touche LLP, an independent registered public accounting firm, as auditors for May and its subsidiaries for the fiscal year ending January 28, 2006. This appointment is subject to ratification by May stockholders at the annual meeting. Unless you direct otherwise, the proxies will vote your shares for the ratification of this appointment. A representative of Deloitte & Touche LLP will attend the meeting to respond to appropriate questions and to make a statement if he so desires.

For fiscal 2004 and 2003, May paid to Deloitte & Touche LLP the following fees (dollars in millions):

	2004	2003
Audit Fees	\$ 4.3	\$ 2.6
Audit-Related Fees(1)	0.3	0.3
Tax Fees(2)	0.2	0.2
All Other Fees(3)	0.3	0.0
<b>Total fees</b>	<b>\$ 5.1</b>	<b>\$ 3.1</b>

(1) Audit-Related Fees include fees related to benefit plans, foundation and trust audits.

(2) Tax Fees consist of tax compliance services.

(3) All Other Fees include acquisition financial due diligence and purchase accounting services.

**The May board of directors recommends that May stockholders vote FOR the ratification of the appointment of Deloitte & Touche LLP, and your proxy will be so voted unless you specify otherwise.**

**ITEM 5 APPROVE ADJOURNMENTS OR POSTPONEMENTS OF THE ANNUAL MEETING, IF NECESSARY, TO PERMIT FURTHER SOLICITATION OF PROXIES**

Stockholders may be asked to vote on a proposal to adjourn or postpone the annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the annual meeting to approve the other proposals. See the discussion regarding adjournments and postponements below in Other Business; Adjournments and Postponements on page 36.

**The May board of directors recommends that May stockholders, if necessary or appropriate, vote FOR the proposal to adjourn or postpone the May annual meeting, and your proxy will be so voted unless you specify otherwise.**

**Voting by May's Directors and Executive Officers**

As of the record date for the May annual meeting, May's directors and executive officers had the right to vote approximately 1,067,940 shares of the then outstanding May voting stock at the May annual meeting. As of the record date of the May annual meeting, these shares represented less than 1% of the May common stock outstanding and entitled to vote at the meeting.

**Voting; Proxies**

You may vote in person at the May annual meeting or by proxy. We recommend you vote by proxy even if you plan to attend the annual meeting. If you vote by proxy, you may change your vote if you attend the annual meeting.



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If you own common stock in your own name, you are an owner of record. This means that you may use the enclosed proxy card(s) to tell the persons named as proxies how to vote your shares. If you properly complete, sign and date your proxy card(s), or, if available, vote by telephone or over the Internet, your proxy will be voted in accordance with your instructions. If you participate in May's dividend reinvestment plan, the enclosed proxy card(s) includes the shares in your dividend reinvestment plan account. The named proxies will vote all shares at the meeting that have been properly voted (whether by Internet, telephone or mail) and not revoked. If you sign and return your proxy card(s) but do not mark your card(s) to tell the proxies how to vote your shares on each proposal, your proxy will be voted FOR each of the proposals presented.

If you hold shares of May common stock in a stock brokerage account or through a bank, broker or other nominee, or, in other words, in street name, please follow the voting instructions provided by that entity. Also, see *Voting Shares Held in Street Name* beginning on page 33.

If you participate in May's profit sharing plan, you will receive a voting instruction card for the common stock and ESOP preference shares allocated to your accounts in that plan. You may instruct the plan trustee on how to vote your shares by signing, dating and mailing the enclosed voting instruction card(s), or by submitting your voting instructions by telephone or over the Internet. The plan trustee will vote your shares in accordance with your instructions and the terms of the plan. If you fail to vote, the trustee, subject to its fiduciary obligations under the Employee Retirement Income Security Act of 1974, as amended, which is referred to as ERISA, will vote your shares in the same proportion as it votes the shares for which it receives instructions from other plan participants. Under the terms of the plan, the trustee must receive your voting instructions by 11:59 p.m., Eastern Daylight Savings Time on July 8, 2005.

***Voting Shares Held in Street Name***

Generally, a broker, bank or other nominee may only vote the common stock that it holds in street name for you in accordance with your instructions. However, if your broker, bank or other nominee has not received your instructions, your broker, bank or other nominee has the discretion to vote on certain matters that are considered routine. A broker non-vote occurs if your broker, bank or other nominee cannot vote on a particular matter because your broker, bank or other nominee has not received instructions from you and because the proposal is not routine.

If you wish to vote on the proposal to adopt and approve the merger, you must provide instructions to your broker, bank or other nominee because this proposal is not routine. If you do not provide your broker, bank or other nominee with instructions, your broker, bank or other nominee will not be authorized to vote with respect to adopting and approving the merger, and a broker non-vote will occur. This will have the same effect as a vote against the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger.

If you wish to vote on the proposal to amend May's amended and restated certificate of incorporation, you must provide instructions to your broker, bank or other nominee because this proposal is not routine. If you do not provide your broker, bank or other nominee with instructions, your broker, bank or other nominee will not be authorized to vote with respect to amending the amended and restated certificate of incorporation and a broker non-vote will occur. This will have the same effect as a vote against the amendment of the amended and restated certificate of incorporation.

If you wish to vote on the proposals to elect the four directors, to ratify the appointment of May's independent registered public accounting firm or to act upon any other routine business that may properly come before the May annual meeting, you should provide instructions to your broker, bank or other nominee. If you do not provide instructions to your broker, bank or other nominee, your broker, bank or other nominee generally will have the authority to vote on the election of directors, the ratification of the appointment of the independent registered public accounting firm and other routine matters.

If you wish to vote on any proposal to approve adjournments or postponements of the May annual meeting, you should provide instructions to your broker, bank or other nominee. If you do not provide instructions to your broker, bank or other nominee, your broker, bank or other nominee generally will have the

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authority to vote on proposals such as the adjournment or postponement of meetings. However, your broker, bank or other nominee will not be authorized to vote on any proposal to adjourn or postpone the meeting solely relating to the solicitation of proxies to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger.

### ***Abstaining from Voting***

Your abstention from voting will have the following effects:

Abstentions will have the same effect as a vote against the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger.

Abstentions will have the same effect as a vote against the approval of the amendment to May's amended and restated certificate of incorporation.

Abstentions will not be counted for determining the election of the board of directors. As a result, abstentions will not have an effect on the outcome of the election of the board of directors.

Abstentions will have the same effect as a vote against the ratification of the appointment of the independent registered public accounting firm.

Abstentions will have the same effect as a vote against the approval of adjournments or postponements of the May annual meeting.

## **How to Vote**

You have three voting options:

***Internet:*** You can vote over the Internet at the Web address shown on your proxy card or voting instruction card ([www.proxyvote.com](http://www.proxyvote.com)). Internet voting is available 24 hours a day. If you vote over the Internet, do not return your proxy card(s) or voting instruction card(s).

***Telephone:*** You can vote by telephone by calling the toll-free number on your proxy card(s) or voting instruction card(s). Telephone voting is available 24 hours a day. Easy-to-follow voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded. If you vote by telephone, do not return your proxy card(s) or voting instruction card(s).

***Mail:*** You can vote by mail by simply signing, dating and mailing your proxy card(s) or voting instruction card(s) in the postage-paid envelope included with this joint proxy statement/ prospectus.

A number of banks and brokerage firms participate in a program that also permits stockholders whose shares are held in street name to direct their vote over the Internet or by telephone. This option, if available, will be reflected in the voting instructions from the bank or brokerage firm that accompany this joint proxy statement/ prospectus. If your shares are held in an account at a bank or brokerage firm that participates in such a program, you may direct the vote of these shares by the Internet or telephone by following the voting instructions enclosed with the proxy form from the bank or brokerage firm. The Internet and telephone proxy procedures are designed to authenticate stockholders identities, to allow stockholders to give their proxy voting instructions and to confirm that those instructions have been properly recorded. Votes directed by the Internet or telephone through such a program must be received by 11:59 p.m., Eastern Daylight Savings Time, on July 12, 2005. Requesting a legal proxy prior to the deadline described above will automatically cancel any voting directions you have previously given by the Internet or by telephone with respect to your shares. Directing the voting of your shares will not affect your right to vote in person if you decide to attend the May annual meeting; however, you must first obtain a signed and properly executed legal proxy from your bank, broker or other nominee to vote your shares held in street name at the annual meeting.

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### **Revoking Your Proxy**

You can revoke your proxy at any time before its exercise by:

sending a written notice to the Corporate Secretary of May, at 611 Olive Street, St. Louis, Missouri 63101, bearing a date later than the date of the proxy, that is received prior to the May annual meeting and states that you revoke your proxy;

voting again over the Internet or by telephone;

signing another proxy card(s) or voting instruction card(s) bearing a later date and mailing it so that it is received prior to the annual meeting; or

attending the annual meeting and voting in person, although attendance at the annual meeting will not, by itself, revoke a proxy.

If your shares are held in street name by your broker, you will need to contact your broker to revoke your proxy.

### **Other Voting Matters**

#### ***Voting in Person***

If you plan to attend the May annual meeting and wish to vote in person, we will give you a ballot at the annual meeting. However, if your shares are held in street name, you must first obtain a legal proxy authorizing you to vote the shares in person, which you must bring with you to the annual meeting.

#### ***Electronic Access to Proxy Materials***

This joint proxy statement/ prospectus and May's 2004 Form 10-K/A for the fiscal year ending January 29, 2005, are available on our Internet site at [www.mayco.com](http://www.mayco.com).

#### ***People with Disabilities***

We can provide reasonable assistance to help you participate in the annual meeting if you tell us about your disability and how you plan to attend. Please call or write to May's Corporate Secretary at 611 Olive Street, St. Louis, Missouri 63101, (314) 342-6300.

### **Proxy Solicitations**

May is soliciting proxies for the May annual meeting from May stockholders. May will bear the entire cost of soliciting proxies from May stockholders, except that Federated and May will share equally the expenses incurred in connection with the filing of the registration statement of which this joint proxy statement/ prospectus forms a part with the SEC and the printing and mailing of this joint proxy statement/ prospectus. In addition to this mailing, May's directors, officers and employees (who will not receive any additional compensation for their services) may solicit proxies personally, electronically or by telephone. May has also engaged D.F. King & Co., Inc., for a fee of \$19,500 plus reimbursement of expenses to assist in the solicitation of proxies. May and its proxy solicitors will also request that banks, brokerage houses and other custodians, nominees and fiduciaries send proxy materials to the beneficial owners of May common stock and will, if requested, reimburse the record holders for their reasonable out-of-pocket expenses in doing so. The extent to which these proxy-soliciting efforts will be necessary depends upon how promptly proxies are submitted. You should promptly vote by telephone or over the Internet or submit your completed proxy card(s) without delay by mail.

**Stockholders should not submit any stock certificates with their proxy cards.**



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### **Other Business; Adjournment and Postponements**

We are not aware of any other business to be acted upon at the annual meeting. If, however, other matters are properly brought before the annual meeting, your proxies will have discretion to vote or act on those matters according to their best judgment.

**Any adjournment may be made from time to time by approval of the stockholders holding a majority of the voting power present in person or by proxy at the annual meeting, whether or not a quorum exists, without further notice other than by an announcement made at the annual meeting. In addition, if the adjournment of the annual meeting is for more than 30 days or if after the adjournment a new record date is fixed for an adjourned meeting, notice of the adjourned meeting must be given to each stockholder of record entitled to vote at such annual meeting. If a quorum is not present at the annual meeting, stockholders may be asked to vote on a proposal to adjourn or postpone the annual meeting to solicit additional proxies. If a quorum is not present at the annual meeting, the holders of a majority of the shares entitled to vote who are present in person or by proxy may adjourn or postpone the annual meeting. If a quorum is present at the annual meeting but there are not sufficient votes at the time of the annual meeting to approve the other proposal(s), holders of common stock may also be asked to vote on a proposal to approve the adjournment or postponement of the annual meeting to permit further solicitation of proxies.**

### **Assistance**

If you need assistance in completing your proxy card or have questions regarding May's annual meeting, please contact May's Investor Relations at (314) 342-6300 or write to The May Department Stores Company, 611 Olive Street, St. Louis, Missouri 63101, Attention: Investor Relations.

## **THE FEDERATED ANNUAL MEETING**

### **General**

This joint proxy statement/ prospectus is being provided to Federated stockholders as part of a solicitation of proxies by the Federated board of directors for use at the annual meeting of Federated stockholders and at any adjournment or postponement thereof. This joint proxy statement/ prospectus is first being furnished to stockholders of Federated on or about May 31, 2005. This joint proxy statement/ prospectus provides Federated stockholders with the information they need to know to be able to vote or instruct their vote to be cast at the annual meeting of Federated stockholders.

### **Date, Time and Place of the Federated Annual Meeting**

The annual meeting of Federated stockholders will be held at 11:00 a.m., Eastern Daylight Savings Time, on July 13, 2005, at Federated's corporate offices located at 7 West Seventh Street, Cincinnati, Ohio 45202.

### **Purposes of the Federated Annual Meeting**

At the Federated annual meeting, Federated stockholders will be asked:

to authorize the issuance of Federated common stock pursuant to the terms of the merger agreement;

to elect three Class II members of Federated's board of directors;

to amend Federated's certificate of incorporation to adopt a system for the annual election of all of Federated's directors;

to ratify the appointment of KPMG LLP as Federated's independent registered public accounting firm for the fiscal year ending January 28, 2006;

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to approve adjournments or postponements of the Federated annual meeting, if necessary to permit further solicitation of proxies if at the time of the Federated annual meeting to approve the above proposals; and

to consider and take action upon any other business that may properly come before the Federated annual meeting or any reconvened meeting following an adjournment or postponement of the Federated annual meeting.

### **Record Date; Outstanding Shares; Shares Entitled to Vote**

The record date for the meeting for Federated stockholders was May 20, 2005. This means that you must have been a stockholder of record of Federated's common stock at the close of business on May 20, 2005, in order to vote at the annual meeting. You are entitled to one vote for each share of common stock you own. On Federated's record date, 170,112,496 shares of common stock were outstanding. This number excludes shares held in the treasury of Federated or by subsidiaries of Federated, which carry no votes.

A complete list of Federated stockholders entitled to vote at the Federated annual meeting will be available for inspection at the executive offices of Federated during regular business hours for a period of no less than ten days before the annual meeting.

The Federated board of directors has adopted a policy under which all voting materials that identify the votes of specific stockholders will be kept confidential and will not be disclosed to officers, directors or employees of Federated or third parties except as described below. Voting materials may be disclosed in any of the following circumstances:

if required by applicable law;

to persons engaged in the receipt, counting, tabulation or solicitation of proxies who have agreed to maintain stockholder confidentiality as provided in the policy;

in those instances in which stockholders write comments on their proxy cards or otherwise consent to the disclosure of their vote to Federated's management;

in the event of a proxy contest or a solicitation of proxies in opposition to the voting recommendations of the board;

in respect of a stockholder proposal that Federated's Nominating and Corporate Governance Committee, after having allowed the proponent of the proposal an opportunity to present its views, determines is not in the best interests of Federated and its stockholders; and

in the event that representatives of Federated determine in good faith that a bona fide dispute exists as to the authenticity or tabulation of voting materials.

The policy described above will apply to the Federated annual meeting.

### **Quorum and Voting Rights**

A quorum of stockholders is necessary to hold a valid annual meeting of Federated. The holders of a majority of the stock issued and outstanding and entitled to vote at the annual meeting, present in person or represented by proxy, will constitute a quorum at the annual meeting of the stockholders for the transaction of business at the meeting. All shares of Federated common stock represented at the Federated annual meeting, including abstentions and broker non-votes, will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum. Broker non-votes are shares held by a broker, bank or other nominee that are represented at the meeting, but with respect to which such broker, bank or nominee is not instructed by the beneficial owner of such shares to vote on the particular proposal and the broker, bank or nominee does not have discretionary voting power on such proposal.

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The votes required to approve the respective proposals at the Federated annual meeting are:

The authorization of the issuance of Federated common stock pursuant to the terms of the merger agreement requires the approval of at least a majority of the votes cast by the holders of outstanding shares of Federated common stock present (in person or by proxy) at the Federated annual meeting, where the holders of at least a majority of all outstanding shares of Federated common stock vote on the proposal.

The election of three Class II members of Federated's board of directors requires the affirmative vote of a plurality of the shares of Federated common stock present in person or represented by proxy at the Federated annual meeting and entitled to vote.

In order to take effect in accordance with the schedule more fully described in the proposal, the proposal to amend Federated's certificate of incorporation to adopt a system for the annual election of all Federated directors requires the affirmative vote of a majority of all outstanding shares of Federated common stock.

Ratification of the appointment of KPMG LLP as Federated's independent registered public accounting firm for the fiscal year ending January 28, 2006, requires the affirmative vote of the holders of a majority of Federated common stock present in person or represented by proxy entitled to vote and actually voted at the Federated annual meeting.

Approval of adjournments or postponements of the Federated annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Federated annual meeting to approve the above proposals, requires the affirmative vote of the holders of a majority of Federated common stock present in person or represented by proxy entitled to vote and actually voted at the Federated annual meeting.

For a discussion of how broker non-votes and abstentions will affect the outcome of the vote on these proposals, see Voting; Proxies Voting Shares Held in Street Name beginning on page 41 and Voting; Proxies Abstaining from Voting on page 42.

**Recommendation of the Board of Directors**

**As discussed elsewhere in this joint proxy statement/ prospectus, Federated's board of directors has approved the merger agreement and the transactions contemplated by the merger agreement, including the merger, and has determined that the transactions contemplated by the merger agreement are advisable and fair to and in the best interests of Federated and its stockholders. The Federated board of directors recommends that Federated stockholders vote:**

**FOR the issuance of Federated common stock pursuant to the merger agreement.**

**FOR the other proposals presented at the Federated annual meeting.**

**ITEM 1 THE ISSUANCE OF FEDERATED COMMON STOCK PURSUANT TO THE MERGER AGREEMENT**

As discussed elsewhere in this joint proxy statement/ prospectus, Federated stockholders are considering and voting on a proposal to approve the issuance of shares of Federated common stock pursuant to the terms of the merger agreement. Federated stockholders should read carefully this joint proxy statement/ prospectus in its entirety for more detailed information concerning the merger agreement and the merger. In particular, Federated stockholders are directed to the merger agreement, which is attached as Annex A to this joint proxy statement/ prospectus.

**The Federated board of directors recommends that Federated stockholders vote FOR the issuance of common stock pursuant to the merger, and your proxy will be so voted unless you specify otherwise.**

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**ITEM 2 ELECTION OF DIRECTORS**

Federated's certificate of incorporation and by-laws provide that the directors of Federated are to be classified into three classes, with the directors in each class serving for three-year terms and until their successors are elected. Mr. Earl G. Graves, Sr., a Class III director, will retire at the Federated annual meeting in accordance with the mandatory retirement policy set forth in Federated's Corporate Governance Principles.

In accordance with the recommendation of the Nominating and Corporate Governance Committee, referred to herein as the NCG Committee, the Federated board of directors has nominated Meyer Feldberg, Terry J. Lundgren and Marna C. Whittington, each of whom is currently a member of the board, for election as Class II Directors. If elected, such nominees will serve for a three-year term to expire at Federated's annual meeting of stockholders in 2008 or until their successors are duly elected and qualified.

The Federated board of directors has no reason to believe that any of the nominees will not serve if elected. However, if any nominee should subsequently become unavailable to serve as a director, the Federated board may designate a substitute nominee and the persons named as proxies may, in their discretion, vote for such substitute nominee designated by the Federated board. Alternatively, the Federated board may reduce the number of directors to be elected at the Federated annual meeting.

For information regarding the Class II directors nominated for reelection, and regarding the Federated board of directors as a whole, see Information about Federated Directors of Federated beginning on page 118.

**The Federated board of directors recommends that Federated stockholders vote FOR the election of the nominees named above, and your proxy will be so voted unless you specify otherwise.**

**ITEM 3 AMENDMENT TO THE CERTIFICATE OF INCORPORATION SEEKING THE ANNUAL ELECTION OF ALL DIRECTORS**

Federated's certificate of incorporation presently provides that the Federated board is to be divided into three classes that have staggered three-year terms. The Federated board is submitting for a stockholder vote a proposal to amend Federated's certificate of incorporation to declassify its board of directors. If this proposal is approved, Federated's amended certificate of incorporation will provide that beginning at the annual meeting in 2006, as current terms expire, directors will be elected at each annual meeting of Federated stockholders for a one-year term. Thus, if this proposal is approved, present directors, including the directors elected at the 2005 Federated annual meeting, would continue to serve for their elected terms. By 2008, all directors would be elected annually and would be serving one year terms.

The proposed amendment to Federated's certificate of incorporation is attached to this joint proxy statement/prospectus as Annex F and this discussion is qualified in its entirety by such Annex. If the proposed amendment is adopted, references to the existence of a classified board will be deleted from Article Seventh of Federated's certificate of incorporation. Article Seventh of Federated's certificate of incorporation will be further amended to set forth the procedure to phase in the annual election of directors.

Federated stockholders have considered a proposal submitted by Mrs. Evelyn Y. Davis, Editor, Highlights and Lowlights, to declassify the Federated board of directors at six of the seven most recent Federated annual meetings. At the 2004 annual meeting, the proposal received a favorable vote of 87% of the votes cast. Mrs. Davis submitted again a similar proposal for consideration at the 2005 Federated annual meeting. Over the past several years, Federated's board of directors, management and outside advisors have, on numerous occasions, considered the advantages, disadvantages and appropriateness of having a classified board of directors. Federated's board recognizes that Federated stockholders have consistently provided majority support for proposals to declassify Federated's board and that, in general, classified director terms are opposed by a number of stockholder groups. In light of the support for prior Federated declassification proposals, the Federated board has determined to submit the proposal to a binding vote and authorized Federated's management to reach an agreement with Mrs. Davis providing for the withdrawal of Mrs. Davis' proposal in return for the Federated board's submission of this proposal.

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Under the provisions of Federated's certificate of incorporation the proposal to amend its certificate of incorporation will require the affirmative vote of the holders of at least a majority of the voting stock of Federated to take effect in accordance with the schedule more fully described in the proposal.

**The Federated board of directors recommends that Federated stockholders vote FOR the amendment to Federated's certificate of incorporation, and your proxy will be so voted unless you specify otherwise.**

**ITEM 4 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has appointed the firm of KPMG LLP, an independent registered public accounting firm, to audit the books, records and accounts of Federated for the fiscal year ending January 28, 2006. The Audit Committee's appointment is subject to ratification by Federated's stockholders. KPMG LLP and its predecessors have served as the independent registered public accounting firm for Federated since 1988, and are considered well qualified. Representatives of KPMG LLP are expected to be present at the Federated annual meeting and will have the opportunity to make a statement if they desire to do so. It is also expected that they will be available to respond to appropriate questions.

***Fees Paid to Independent Registered Public Accounting Firm***

The table below summarizes the fees paid to KPMG LLP during fiscal 2004 and fiscal year 2003:

Year	Audit (\$)	Audit-Related (\$)	Tax (\$)	All Other (\$)	Total (\$)
2004	3,723,000	830,500	309,747	0	4,863,247
2003	2,325,650	787,400	162,000	69,000	3,344,050

Audit fees represent fees for professional services rendered for the audit of Federated's annual financial statements, the audit of Federated's internal control over financial reporting and the reviews of the interim financial statements included in Federated's Forms 10-Q.

Audit-related fees represent professional services principally related to the audits of financial statements of employee benefit plans, audits of financial statements of certain subsidiaries and certain agreed upon procedures reports.

Tax fees represent professional services related to tax compliance and consulting services, provided, however, that such tax consulting services did not involve the provision of advice regarding tax strategy or planning.

All other fees represent professional services other than those covered above. Included in this are fees related to consulting services specifically on one project in fiscal year 2003.

**The Federated board of directors recommends that Federated stockholders vote FOR the ratification of the appointment of KPMG LLP, and your proxy will be so voted unless you specify otherwise.**

**ITEM 5 APPROVE ADJOURNMENTS OR POSTPONEMENTS OF THE ANNUAL MEETING, IF NECESSARY, TO PERMIT FURTHER SOLICITATION OF PROXIES**

Stockholders may be asked to vote on a proposal to adjourn or postpone the annual meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the annual meeting to approve the other proposals. See the discussion regarding adjournments and postponements below in Other Business; Adjournments and Postponements on page 44.

**The Federated board of directors recommends that Federated stockholders, if necessary or appropriate, vote FOR the proposal to adjourn or postpone the Federated annual meeting, and your proxy will be so voted unless you specify otherwise.**

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**Voting by Federated's Directors and Executive Officers**

As of the record date for the Federated annual meeting, Federated's directors and executive officers had the right to vote approximately 422,587 shares of the then outstanding Federated common stock at the Federated annual meeting. As of the record date of the Federated annual meeting, these shares represented less than 1% of the Federated common stock outstanding and entitled to vote at the meeting.

**Voting; Proxies**

You may vote in person at the Federated annual meeting or by proxy. We recommend you vote by proxy even if you plan to attend the annual meeting. If you vote by proxy, you may change your vote if you attend the annual meeting.

If you own common stock in your own name, you are an owner of record. This means that you may use the enclosed proxy card(s) to tell the persons named as proxies how to vote your shares. If you properly complete, sign and date your proxy card(s), or, if available, vote by telephone or over the Internet, your proxy will be voted in accordance with your instructions. The named proxies will vote all shares at the meeting that have been properly voted (whether by Internet, telephone or mail) and not revoked. If you sign and return your proxy card(s) but do not mark your card(s) to tell the proxies how to vote your shares on each proposal, your proxy will be voted FOR each of the proposals presented.

If you hold shares of Federated common stock in a stock brokerage account or through a bank, broker or other nominee, or, in other words, in street name, please follow the voting instructions provided by that entity. Also, see Voting Shares Held in Street Name beginning on page 41.

If you participate in Federated's Profit Sharing 401(k) Investment Plan, you will receive a voting instruction card for the common stock allocated to your accounts in that plan. You may instruct the plan trustee on how to vote your proportional interest in any Federated shares by signing, dating and mailing the enclosed voting instruction card(s), or by submitting your voting instructions by telephone or over the Internet. The plan trustee will vote your proportional interest in accordance with your instructions and the terms of the plan. If you fail to vote, the trustee, subject to its fiduciary obligations under ERISA, will vote your proportional interest in the same proportion as it votes the proportional interests for which it receives instructions from other plan participants. Under the terms of the plan, the trustee must receive your voting instructions by 5:00 p.m., Eastern Daylight Savings Time on July 11, 2005.

***Voting Shares Held in Street Name***

Generally, a broker, bank or other nominee may only vote the common stock that it holds in street name for you in accordance with your instructions. However, if your broker, bank or other nominee has not received your instructions, your broker, bank or other nominee has the discretion to vote on certain matters that are considered routine. A broker non-vote occurs if your broker, bank or other nominee cannot vote on a particular matter because your broker, bank or other nominee has not received instructions from you and because the proposal is not routine.

If you wish to vote on the proposal to issue Federated common stock pursuant to the merger agreement, you must provide instructions to your broker, bank or other nominee because this proposal is not routine. If you do not provide your broker, bank or other nominee with instructions, your broker, bank or other nominee will not be authorized to vote with respect to the issuance of Federated common stock, and a broker non-vote will occur. Such a broker non-vote will not be counted for determining whether the share issuance proposal has been approved. However, broker non-votes can negatively affect the vote on the Federated share issuance proposal if their failure to be counted results in less than a majority of all outstanding shares of Federated common stock being voted.

If you wish to vote on the proposal to amend Federated's certificate of incorporation, you must provide instructions to your broker, bank or other nominee because this proposal is not routine. If you do not provide your broker, bank or other nominee with instructions, your broker, bank or other nominee will not be

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authorized to vote with respect to amending the certificate of incorporation, and a broker non-vote will occur. This will have the same effect as a vote against the amendment of the certificate of incorporation.

If you wish to vote on the proposals to elect the three Class II directors, to ratify the appointment of Federated's independent registered public accounting firm or to act upon any other routine business that may properly come before the Federated annual meeting, you should provide instructions to your broker, bank or other nominee. If you do not provide your broker, bank or other nominee with instructions, your broker, bank or other nominee generally will have the authority to vote on the election of directors, the ratification of the appointment of the independent registered public accounting firm and other routine matters.

If you wish to vote on any proposal to approve adjournments or postponements of the Federated annual meeting, you should provide instructions to your broker, bank or other nominee. If you do not provide instructions to your broker, bank or other nominee, your broker, bank or other nominee generally will have the authority to vote on proposals such as the adjournment or postponement of meetings. However, your broker, bank or other nominee will not be authorized to vote on any proposal to adjourn or postpone the meeting solely relating to the solicitation of proxies to approve the proposal to issue Federated common stock pursuant to the merger agreement.

### ***Abstaining from Voting***

Your abstention from voting will have the following effects:

Abstentions will not be counted for determining whether the share issuance proposal has been approved.

However, an abstention can negatively affect the vote on the Federated share issuance proposal if their failure to be counted results in less than a majority of all outstanding shares of Federated common stock being voted.

Abstentions will have the same effect as a vote against the approval of the amendment to Federated's certificate of incorporation.

Abstentions will not be counted for determining the election of the board of directors. As a result, abstentions will not have an effect on the outcome of the election of the board of directors.

Abstentions will not be counted for the ratification of the appointment of the independent registered public accounting firm.

Abstentions will not be counted for the approval of adjournments or postponements of the Federated annual meeting.

### **How to Vote**

You have three voting options:

***Internet:*** You can vote over the Internet at the Web address shown on your proxy card(s). Internet voting is available 24 hours a day. If you vote over the Internet, do not return your proxy card(s) or voting instruction card(s).

***Telephone:*** You can vote by telephone by calling the toll-free number on your proxy card(s) or voting instruction card(s). Telephone voting is available 24 hours a day. Easy-to-follow voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded. If you vote by telephone, do not return your proxy card(s) or voting instruction card(s).

***Mail:*** You can vote by mail by simply signing, dating and mailing your proxy card(s) or voting instruction card(s) in the postage-paid envelope included with this joint proxy statement/ prospectus.

A number of banks and brokerage firms participate in a program that also permits stockholders whose shares are held in street name to direct their vote over the Internet or by telephone. This option, if available, will be reflected in the voting instructions from the bank or brokerage firm that accompany this joint proxy statement/ prospectus. If your shares are held in an account at a bank or brokerage firm that participates in





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such a program, you may direct the vote of these shares by the Internet or telephone by following the voting instructions enclosed with the proxy form from the bank or brokerage firm. The Internet and telephone proxy procedures are designed to authenticate stockholders' identities, to allow stockholders to give their proxy voting instructions and to confirm that those instructions have been properly recorded. Votes directed by the Internet or telephone through such a program must be received by 5:00 p.m., Eastern Daylight Savings Time, on July 12, 2005. Requesting a legal proxy prior to the deadline described above will automatically cancel any voting directions you have previously given by the Internet or by telephone with respect to your shares. Directing the voting of your shares will not affect your right to vote in person if you decide to attend the Federated annual meeting; however, you must first obtain a signed and properly executed legal proxy from your bank, broker or other nominee to vote your shares held in street name at your annual meeting.

### **Revoking Your Proxy**

You can revoke your proxy at any time before its exercise by:

sending a written notice to the Corporate Secretary of Federated, at 7 West Seventh Street, Cincinnati, Ohio 45202, bearing a date later than the date of the proxy that is received prior to the Federated annual meeting and states that you revoke your proxy;

voting again over the Internet or by telephone;

signing another proxy card(s) or voting instruction card(s) bearing a later date and mailing it so that it is received prior to the annual meeting; or

attending the annual meeting and voting in person, although attendance at the annual meeting will not, by itself, revoke a proxy.

If your shares are held in street name by your broker, you will need to contact your broker to revoke your proxy.

### **Other Voting Matters**

#### ***Voting in Person***

If you plan to attend the Federated annual meeting and wish to vote in person, we will give you a ballot at the annual meeting. However, if your shares are held in street name, you must first obtain a legal proxy authorizing you to vote the shares in person, which you must bring with you to the annual meeting.

#### ***Electronic Access to Proxy Material***

This joint proxy statement/ prospectus and Federated's 2004 Form 10-K for the fiscal year ending January 29, 2005, are available on our Internet site at [www.fds.com/corporategovernance](http://www.fds.com/corporategovernance).

#### ***People with Disabilities***

We can provide you with reasonable assistance to help you participate in the annual meeting if you tell us about your disability and how you plan to attend. Please call or write to Federated's Corporate Secretary at 7 West Seventh Street, Cincinnati, Ohio 45202, (513) 579-7000, at least two weeks before your annual meeting.

### **Proxy Solicitations**

Federated is soliciting proxies for the Federated annual meeting from Federated stockholders. Federated will bear the entire cost of soliciting proxies from Federated stockholders, except that Federated and May will share equally the expenses incurred in connection with the filing of the registration statement of which this joint proxy statement/ prospectus forms a part with the SEC and the printing and mailing of this joint proxy statement/ prospectus. In addition to this mailing, Federated's directors, officers and employees (who will not receive any additional compensation for their services) may solicit proxies personally, electronically or by

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telephone. Federated has also engaged Georgeson Shareholder Communications, Inc. for a fee of approximately \$25,000 plus reimbursement of expenses to assist in the solicitation of proxies. Federated and its proxy solicitors will also request that banks, brokerage houses and other custodians, nominees and fiduciaries send proxy materials to the beneficial owners of Federated common stock and will, if requested, reimburse the record holders for their reasonable out-of-pocket expenses in doing so. The extent to which these proxy-soliciting efforts will be necessary depends upon how promptly proxies are submitted. You should promptly vote by telephone or over the Internet or submit your completed proxy card(s) without delay by mail.

### **Other Business; Adjournments or Postponements**

We are not aware of any other business to be acted upon at the annual meeting. If, however, other matters are properly brought before the annual meeting, your proxies will have discretion to vote or act on those matters according to their best judgment.

**Any adjournment may be made from time to time by approval of the stockholders holding a majority of the voting power present in person or by proxy at the annual meeting, whether or not a quorum exists, without further notice other than by an announcement made at the annual meeting. In addition, if the adjournment of the annual meeting is for more than 30 days or if after the adjournment a new record date is fixed for an adjourned meeting, notice of the adjourned meeting must be given to each stockholder of record entitled to vote at such annual meeting. If a quorum is not present at the annual meeting, stockholders may be asked to vote on a proposal to adjourn or postpone the annual meeting to solicit additional proxies. If a quorum is not present at the annual meeting, the holders of a majority of the shares entitled to vote who are present in person or by proxy may adjourn or postpone the annual meeting. If a quorum is present at the annual meeting but there are not sufficient votes at the time of the annual meeting to approve the other proposal(s), holders of common stock may also be asked to vote on a proposal to approve the adjournment or postponement of the annual meeting to permit further solicitation of proxies.**

### **Assistance**

If you need assistance in completing your proxy card or have questions regarding Federated's annual meeting, please contact Federated's Investor Relations at (513) 579-7780 or write to Federated Department Stores, Inc., 7 West Seventh Street Cincinnati, Ohio 45202, Attention: Investor Relations.

## **THE MERGER**

### **Background of the Merger**

Growth through acquisitions has been one of the hallmarks of Federated's business strategy since Federated was born through the combination of Abraham & Straus of Brooklyn, Filene's of Boston, F&R Lazarus & Co. of Columbus, Ohio and Bloomingdale's of New York on March 6, 1929. Since that time, Federated has considered a number of possible acquisition candidates, including, periodically over the past two decades, May.

In 1988, May and Federated discussed the possibility of May's acquiring Federated, but did not reach agreement on a transaction. However, in conjunction with another transaction by Federated that year, May did acquire two divisions then owned by Federated - Foley's and Filene's.

In the more recent past, the two companies have twice discussed the possibility of a stock-for-stock merger of equals - once in 1999 and again in 2002. In each case, the two companies entered into a confidentiality agreement, provided one another with the opportunity for due diligence and discussed how such a transaction might be structured. Neither discussion reached the stage of a possible agreement either on the economics of an exchange ratio or the structure of a transaction and the post-transaction governance arrangements.

On December 9, 2004, Federated's management and Goldman Sachs, financial advisors to Federated, met with Federated's board to discuss its options in response to industry trends facing Federated, which

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included a possible business combination with May, and structural governance and other issues to be considered in an acquisition of May. During the course of the December 9, 2004 meeting, Federated's management indicated to Federated's board that it intended to perform additional reviews and analyses regarding a possible business combination with May. On January 11, 2005, Federated's management updated Federated's board telephonically and reported on the results of the additional analytical work undertaken by Federated's management regarding a possible business combination with May. At the close of management's presentation, Federated's board authorized management to approach May regarding a possible business combination with May.

Later in the day on January 11, 2005, Terry J. Lundgren, chairman of the board, president and chief executive officer of Federated, called Eugene S. Kahn, then chairman of the board and chief executive officer of May, to propose discussion of a business combination between Federated and May in which Federated would be the surviving company. No specifics were discussed on this call. Mr. Lundgren and Mr. Kahn agreed to meet shortly thereafter to explore the possibility of such a business combination in detail.

On January 14, 2005, May announced Mr. Kahn's resignation as chairman and chief executive officer of May, which Mr. Kahn had tendered earlier that day. May also said John L. Dunham, president of May, had been named by the board of directors as acting chairman and chief executive officer in addition to his duties as president, and that the board would immediately begin a search to fill the chief executive officer position. At its meeting that day the board elected Russell E. Palmer as lead director and designated James M. Kilts as the chairman of the CEO search committee. The board noted the pending appointment between Mr. Kahn and Mr. Lundgren and suggested Mr. Dunham should let Mr. Lundgren call again to renew his request for a meeting. The board authorized Mr. Dunham to meet with Mr. Lundgren if Mr. Lundgren asked, and generally authorized management under Mr. Dunham's leadership to discuss a possible business combination with Federated if the occasion arose. The board also designated Mr. William Stiritz to participate in such discussions on behalf of the board, as appropriate, if they were to occur.

On January 17, 2005, Mr. Lundgren telephoned Mr. Dunham and suggested they meet so that Mr. Lundgren could share with Mr. Dunham his vision of a combined Federated-May. They also discussed whether to include their respective financial advisors in the meeting.

On January 18, 2005, Mr. Lundgren called Mr. Dunham and proposed that he and Mr. Ronald W. Tysoe, vice chair, finance and real estate of Federated, would come to St. Louis the next Tuesday or Wednesday (January 25 or 26). Mr. Dunham said he would consider this proposal and call Mr. Lundgren back with an answer.

On January 20, 2005, Mr. Dunham called Mr. Lundgren. He described generally what kinds of things May was working on and specifically said the board was pursuing a search for a new CEO. He said May's board and its management were extremely concerned with the rumors in the market regarding a potential transaction between the two companies that were distracting for everyone and a disruption for May's business. He informed Mr. Lundgren of the special role conferred on Mr. Stiritz in connection with any business combination discussions. Acknowledging the pendency of the meeting request on behalf of Mr. Lundgren, Mr. Dunham suggested that Morgan Stanley and Goldman Sachs should meet before the company representatives did. Mr. Lundgren agreed to this suggestion.

The following day a representative of Morgan Stanley met with a representative of Goldman Sachs. They discussed shareholder value, the fact that Federated considered this transaction an acquisition of May rather than a merger-of-equals and that Federated could move very quickly to a definitive agreement. In addition, Goldman Sachs reiterated Mr. Lundgren's request for a meeting of senior executives of both companies in St. Louis and specifically suggested it occur on Wednesday, January 26. The meeting took place on January 26, 2005. May was represented by Mr. Dunham and Mr. William P. McNamara, vice chairman. Federated was represented by Mr. Lundgren, Mr. Thomas G. Cody, vice chair, and Mr. Tysoe. Morgan Stanley and Goldman Sachs also attended. Mr. Lundgren described his vision for a combined Federated-May, namely creating the premier fashion retailer in the United States. Mr. Lundgren expressed his interest in retaining May's associates, having a divisional headquarters in St. Louis as well as a regional corporate presence and incorporating best practices from both companies. He said Federated was willing to move



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quickly toward executing a definitive agreement and would make a strong contractual commitment to complete the deal. Mr. Lundgren did not discuss price, but said Federated wished to acquire all outstanding shares of May in exchange for a combination of cash and Federated common stock. Mr. Dunham emphasized he was not in a position to negotiate a transaction or to discuss price. He said he and May's management would discuss the matter with the board, and if there were interest in pursuing a transaction, the two companies would need to enter into an appropriate confidentiality agreement. Concurrently on January 26, Morgan Stanley met separately with Goldman Sachs. They discussed in general terms the structure of a possible transaction, Federated's willingness to undertake a strong contractual commitment to close the transaction, Federated's intention to increase the post-closing annual dividend to \$1.00 per share and the possibility of May designating two of its board members to the Federated board. In addition, Goldman Sachs conveyed Federated's belief that due diligence could be completed very quickly.

On the morning of January 31, 2005, May held a previously scheduled board meeting. Management gave the board a general update on January sales and a status report on the integration of Marshall Field's. Following that discussion, representatives of Morgan Stanley joined the meeting. They and May management reported to the board on the prior week's meeting with Federated and informed the board that Mr. Lundgren had called Mr. Dunham to tell him Federated's board would be meeting later in the day and he would then be sending a letter to the attention of Mr. Stiritz and Mr. Dunham.

On the afternoon of January 31, 2005, the Federated board met to receive an update from management and Goldman Sachs on the discussions with May, and authorized management to make a formal offer to May. Following the board meeting, Federated delivered a letter to the board of directors of May communicating Federated's proposal to acquire May. Quoting directly from the letter, the specific elements of the proposal consisted of the following:

Based on the information currently available to us, Federated is prepared to offer \$33.25 per share for all the outstanding common stock of May. This price represents a premium of approximately 20% to both the closing price of May's stock on January 13, 2005 and to the 3-year average price prior to that date. We are contemplating a cash and stock transaction involving 40% cash and 60% stock, assuming a fixed number of Federated shares.

Our projected financial plan anticipates raising the current Federated dividend significantly to \$1.00 per share after closing.

The capital structure of the new company contemplates that there will be significant share repurchases in the future, while at the same time preserving the company's investment grade rating.

In order to ensure that there is some continuity of the May perspective in the boardroom, we are willing to discuss adding two existing May directors to the Federated Board should there be an interest in doing so.

The Federated Board of Directors has been fully briefed on this proposal and is very excited about the prospect of putting our two companies together. We are prepared to act quickly to execute a definitive agreement and consummate a transaction as soon as possible. Our team and advisors are available to complete our due diligence immediately. As we explained to [Mr. Dunham and Mr. McNamara] last week, we do not anticipate any delays in our ability to expeditiously complete a transaction and we are prepared to provide your Board with a strong contractual commitment to close the acquisition.

This proposal should be considered non-binding and is subject to, among other things, the satisfactory completion of our due diligence and the negotiation and execution of a mutually satisfactory merger agreement. We would expect the definitive documentation to contain customary representations and warranties, closing conditions and no-shop and deal protection provisions.

The May board met briefly in the afternoon on February 1, 2005, to review and discuss the proposal letter from Federated and to consider whether and how best to proceed with further discussions with Federated. The May board reconvened on February 2, 2005, and again on February 3, 2005, to discuss Federated's proposal to acquire May, as

well as whether and how to proceed. Among other considerations, the board believed it was

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necessary to reinstate a version of the confidentiality agreement that May and Federated had had in place for the 2002 merger of equals discussions, which had expired. Particular consideration was given to the question whether such agreement should as had been the case in the 2002 agreement include a mutual standstill agreement preventing unsolicited tender offers or acquisition proposals by either side. At the conclusion of the February 3 meeting the board authorized May management and legal counsel to negotiate a confidentiality agreement, appropriate in the circumstances, to permit the companies to exchange confidential financial information as part of a bilateral due diligence. The board also authorized Morgan Stanley to communicate to Goldman Sachs on behalf of Federated that the board had rejected Federated's proposal. On the evening of February 3, 2005, legal counsel for May and Federated discussed, negotiated and agreed on the form of confidentiality agreement they could recommend respectively to May and Federated.

On Friday, February 4, 2005, Federated and May signed a confidentiality agreement which contained standstill obligations on the parties for a period of 18 months, subject to certain specified exceptions. Also on February 4, 2005, May and Federated convened a due diligence conference call that included Mr. Dunham and Mr. Thomas D. Fingleton, May's executive vice president and chief financial officer, Mr. Thomas G. Cody, Mr. Tysoe and Ms. Karen M. Hoguet, Federated's chief financial officer, as well as representatives of Morgan Stanley and Goldman Sachs.

The Federated board met on February 5, 2005. At this board meeting, Goldman Sachs presented a preliminary analysis of a Federated-May combination. In addition, legal counsel to Federated discussed the board's fiduciary duties in the context of an acquisition transaction.

Between February 5, 2005, and February 7, 2005, representatives of Goldman Sachs and Morgan Stanley were in frequent communication, discussing a variety of issues relating to how a possible transaction might be structured, what type of additional information and due diligence was needed to make progress and how to price the transaction. In the latter regard, Morgan Stanley informed Goldman Sachs the May board had rejected the proposal in Federated's January 31 letter because, among other reasons, the price was not high enough and needed to be increased substantially.

On February 7, 2005, Federated delivered a second letter to the May board communicating a revised proposal. The operative paragraphs of that letter read as follows:

Federated is prepared to increase its offer by \$1.00 to \$34.25 per share. In an effort to pay our best price, we are also shifting the mix of consideration to 50% cash and 50% stock. In light of Morgan Stanley's clear guidance that the upfront purchase price is a priority for May directors, this change was necessary to deliver maximum value to your shareholders. As we indicated in our letter of January 31, 2005, we are contemplating offering a unit to May's shareholders made up of cash and stock and the number of Federated shares will be fixed upon acceptance of this proposal.

I want to emphasize to you that in formulating this revised offer we are putting our best foot forward. The price of 34.25 per share represents a premium in excess of 23% to the closing price of May's stock on January 13, 2005 and it represents an attractive premium to May's one, three and five year average stock price. In addition, I want to reiterate that we are prepared to enter into a definitive merger agreement quickly, and we are willing to provide your Board with a strong contractual commitment to close.

On February 9, 2005, the May board met to consider Federated's revised proposal. Management presented a comparison of expected performance and related results in two basic scenarios—one scenario contemplating May's continuing as an independent company and the second scenario contemplating Federated's acquisition of May. After considering management's presentation and receipt of advice from its independent advisors, the board concluded the acquisition proposal from Federated would be unlikely to produce value for stockholders superior to the value expected in the independent company scenario, taking into account the risks and uncertainties associated with each scenario. Accordingly, the board rejected the Federated proposal and authorized management and Mr. Stiritz to seek a higher price.

On February 10, 2005, Messrs. Stiritz and Dunham called Messrs. Lundgren and Tysoe to convey the May board's message that the \$34.25 price per share was not adequate and had been rejected by the board.





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Messrs. Stirtz and Dunham also informed Messrs. Lundgren and Tysoe that the May board had authorized them to state that the May board would be willing to entertain favorably, subject to contract terms and conditions, a proposal from Federated that would equal or exceed a value of \$36 per May share, keeping the consideration split at 50% cash and 50% Federated common stock. Mr. Lundgren replied that Federated would not pay \$36 per share for May's outstanding common stock and that, in view of the May board's position, there would be no further discussions because they could serve no purpose.

On February 14, 2005, the May board met for an update concerning discussions with Federated. The board was informed that Federated had rejected May's \$36.00 per share proposal and had said the negotiations were over. The board reconsidered and reconfirmed the position it had adopted at its February 9 meeting and instructed Morgan Stanley to refrain from further discussions with Goldman Sachs or Federated. The board also instructed management to pursue the strategic plan for remaining independent presented to the board at the February 9 meeting and advised that the search for a new CEO would continue.

On February 16, 2005, the Federated board met telephonically to receive an update from management and Goldman Sachs on discussions with May, and authorized management to increase the offer price for May.

On February 17, 2005, Federated sent a letter to the May board proposing to reconvene the discussions between the two companies on a revised basis. The text of the letter was as follows:

I am writing to convey the terms of a revised and final proposal whereby Federated would acquire all of the common stock of May.

Federated is prepared to increase its offer by \$1.00 to \$35.25 per share in a transaction comprised of 50% cash and 50% stock. As indicated in our letter of February 7, 2005, we are offering May shareholders consideration in the form of a unit made up of cash and stock where the number of Federated shares will be fixed based on our closing price of \$57.39 on February 16, 2005.(1)

I believe both our companies need to promptly resolve the matter of the potential merger. The leaks and rumors about a possible transaction have been damaging to both Federated and May. Under the circumstances, we are prepared to immediately commence our due diligence and simultaneously negotiate a definitive merger agreement. If at all possible, it would be our intention to announce a transaction concurrent with the release of our year end financials on Tuesday, February 22, 2005. Therefore, in the spirit of trying to bring our respective efforts to negotiate a transaction to a swift conclusion, this proposal will remain open until 12:00 noon (EST) on Friday, February 18, 2005.

I look forward to hearing back from you as soon as possible.

Later on February 17, 2005, after consultation with Morgan Stanley and Skadden Arps, legal counsel to May, on the subject of the letter, Mr. Stirtz and Mr. Dunham called Mr. Lundgren. They told him May would not be able to meet the one-day deadline set in the letter, among other reasons because it would be necessary to convene an in-person board meeting to respond. They also told him May was prepared to begin working on a draft merger agreement but that the May board would only negotiate price if the parties could agree on a mutually acceptable form of merger agreement and could complete all their due diligence inquiries. They specifically expressed doubt that the \$35.25 price proposed would be acceptable to the May board. Finally, they said they did not think the February 22 target for an announcement was realistic. On February 18, 2005, Mr. Tysoe called Mr. Dunham to tell him May would shortly receive a draft merger agreement which he thought could be fully negotiated to the parties' mutual satisfaction in a very short time. Later the same day Federated's legal counsel distributed a draft merger agreement to May and its legal counsel.

Between February 19, 2005 and February 23, 2005, Federated and May, together with their legal and financial advisors, conducted reciprocal business and legal due diligence. On February 23, 2005, May retained

(1) The computation implied by this proposal ( $50\% \times \$35.25 = \$17.63$  and  $\$17.63/\$57.39 = 0.3072$ ) resulted in a price of \$17.63 in cash and 0.3072 shares of Federated common stock for each share of May common stock.

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Peter J. Solomon Company as an additional financial advisor in connection with the possible business combination transaction with Federated. May retained Peter J. Solomon Company because of its qualifications, reputation and experience, particularly its expertise as a financial advisor in the retail sector, and because, in light of the extraordinary nature and significance of the proposed transaction to May and the size and complexity of the proposed transaction, the May board of directors believed May and its stockholders would benefit from Peter J. Solomon Company's advice. That day, counsel to May distributed a revised draft of the merger agreement to Federated and its counsel.

During the week of February 21, 2005, Mr. Lundgren called Mr. Stiritz on one or two occasions and they discussed the progress of the negotiations.

On February 24, 2005, representatives of May and its legal counsel held a telephonic meeting with representatives of Federated and its legal counsel to discuss May's comments on the draft merger agreement. Many issues were resolved as a result of that conversation. Issues that remained open included the language regarding the parties' obligations to obtain governmental approvals, conditions, termination events and related termination fee triggers, various issues relating to how all May associates would be treated in the merger and thereafter and how the merger would affect various May employee benefit programs. The principal focus of these discussions for May was minimizing the risk of non-consummation of the merger because of regulatory or other obstacles.

Between February 24, 2005, and February 27, 2005, representatives of May and its legal counsel continued to negotiate with representatives of Federated and its legal counsel over the remaining issues to the merger agreement. The significant open issues that remained were the size of the break up fees each party would pay to the other and the language regarding the parties' obligations to obtain governmental approvals and the consequences attendant upon a failure to do so. Concurrently with such negotiations, the parties continued their respective due diligence reviews.

On February 25, 2005, the Federated board convened a regularly scheduled meeting. At this meeting, the Federated board reviewed with Federated's management and legal and financial advisors the status of negotiations with May and the proposed terms and conditions of the merger. During this meeting, Federated's management also reviewed the results of its due diligence investigation. Federated's outside legal counsel reviewed the material terms and conditions of the merger agreement, as reflected in the then current draft, the legal duties and responsibilities of the Federated board in connection with the proposed merger, and the legal risk profile of a combination with May. Federated's financial advisor reviewed its financial analysis of the proposed merger and indicated that it was prepared to deliver to the Federated board an opinion to the effect that, as of that date and based upon and subject to the factors and assumptions set forth in its opinion, the consideration to be paid for each share of May was fair, from a financial point of view, to Federated. The Federated board carefully considered the benefits and risks of a merger with May to Federated and its stockholders, and following a thorough discussion, authorized management to continue negotiations with May on the terms discussed at the meeting.

On the morning of February 26, 2005, May convened its board. At the meeting, the May board reviewed with May's management and legal and financial advisors the status of negotiations with Federated and the proposed terms and conditions of the merger. During this meeting, May's management also reviewed the results of its due diligence investigation. May's outside accountants, Deloitte & Touche, made a presentation and answered questions concerning their due diligence investigation of Federated. May's outside legal counsel reviewed the material terms and conditions of the merger agreement, as reflected in the then current draft. Substantial discussion was devoted to the provisions relating to the risk of non-consummation of the merger once it had been agreed and announced and to the provisions still at issue including circumstances in which May could negotiate with a competing bidder, circumstances in which May could terminate the agreement to accept a better offer, the terms applicable to such circumstances, including payment of termination fees and the amounts thereof, and provisions governing the circumstances if the merger were the subject of opposition from state or federal antitrust regulators and the amount of a reverse termination fee that would be payable if Federated terminated the merger agreement by reason of such opposition. The May board also received and discussed both financial and tactical advice from Morgan Stanley, and tactical advice from Skadden Arps,



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concerning whether and how to attempt to negotiate an improvement in Federated's proposed merger price. The May board carefully considered the benefits and risks potentially accruing to May and its stockholders as a result of a merger with Federated and following a thorough discussion, gave negotiating instructions with respect to the open issues in the merger agreement and authorized Morgan Stanley to communicate with Goldman Sachs seeking an increase in the merger consideration.

Later on February 26, 2005, Morgan Stanley informed Goldman Sachs that the board was divided on the question of price and that if Federated did not increase its price to a current value of \$36 per share there was no assurance of a favorable May response and a unanimously favorable board response could be unlikely. The question of current value was based on whether the computation of the 50% Federated common stock portion of the consideration would be calculated on the Friday, February 25<sup>th</sup> closing market price of \$56.79 or would remain fixed at the February 16<sup>th</sup> closing price of 57.39 which, because of the decline in stock price, diminished the current value of the common stock portion of the consideration. Morgan Stanley also communicated certain other information about the board's position on other contractual issues. Later that evening (February 26), R. Dean Wolfe, executive vice president of May, and Alan E. Charlson, senior vice president and general counsel of May, spoke with Mr. Tysoe and Dennis R. Broderick, senior vice president, general counsel and secretary of Federated, on the subject of Federated's contractual obligations relating to obtaining antitrust clearance and the consequences attendant upon a failure to receive such clearance. As a result of that conversation, legal counsel for Federated and legal counsel for May worked out mutually acceptable contractual language to implement the principles discussed in the earlier conversation.

On the morning of February 27, 2005, Mr. Stiritz called Mr. Lundgren to reiterate that the May board was divided on the question of price. He encouraged Mr. Lundgren to increase Federated's price to \$36 per May share and to compute the 50% common stock portion of the consideration using Federated's February 25<sup>th</sup> closing price of \$56.79. He also stressed the importance of Federated's making the strongest possible contractual commitment to obtain the necessary antitrust clearance and the related importance of the termination fee payable if the merger did not close because such clearance was not received.

Later in the morning of February 27, 2005, Federated reconvened its directors meeting to consider May's request to increase Federated's offer to \$36 per May share. At this meeting, management of Federated asked the Federated board for authority to offer up to \$35.50 per May share, comprised of \$17.75 in cash and 0.3115 shares of Federated common stock per May share, the stock component of which was equal to \$17.75 based on the average of the closing prices for Federated's common stock for the ten trading days ended Friday, February 25, 2005 (which was \$56.99 per Federated share). Management also asked for authority to pay up to a \$350 million termination fee to May in certain circumstances and to make certain commitments with respect to obtaining government approval of the transaction. Legal counsel to Federated then reviewed again with the Federated board the legal risk profile of the proposed combination and the changes that had been made to the merger agreement since the board's February 25, 2005 meeting. Representatives of Goldman Sachs then recapped the negotiations that had taken place with their counterparts at Morgan Stanley since May's board meeting had adjourned the day before and delivered its opinion that, as of February 27, 2005, and based on and subject to the factors and assumptions set forth in its opinion, the consideration to be paid for each share of May was fair, from a financial point of view, to Federated. Following a thorough discussion, the Federated board determined that the merger was in the best interests of the stockholders of Federated and, subject to May's approval and the satisfactory negotiation of all open issues, approved the merger and the merger agreement, resolved to recommend that stockholders of Federated vote to approve the issuance of Federated common stock in the merger, and authorized its executive officers to execute and deliver the merger agreement.

On the afternoon on February 27, 2005, May reconvened its board to consider Federated's latest proposal. The May board received a report of the final negotiations of the form of the merger agreement from its legal counsel, including in particular the contractual obligations, conditions and termination rights relating to obtaining regulatory approvals, payment of a reverse termination fee by Federated if the merger was not consummated due to antitrust regulatory opposition, as well as the provisions and termination fees applicable in situations in which the transaction were made the subject of competitive bids from third parties or in which either board withdrew its recommendation of the merger. The board also received the opinions of Mor-



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gan Stanley and Peter J. Solomon Company with respect to the fairness from a financial point of view of the consideration to be paid by Federated in the merger to May stockholders, as well as presentations explaining the assumptions, methodologies and bases for such opinions. Following a thorough discussion, the May board unanimously (with one abstention) determined that the merger was in the best interests of the May stockholders and approved the merger and the merger agreement, resolved to recommend that May stockholders vote to approve the merger, and authorized its executive officers to execute and deliver the merger agreement.

On the evening of February 27, 2005, the parties executed and delivered the merger agreement. Prior to the commencement of trading on February 28, 2005, Federated and May issued a joint press release announcing the execution and delivery of the merger agreement.

**May's Reasons for the Merger and Recommendation of May's Board of Directors**

The May board of directors believes that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable and fair to and in the best interests of May and its stockholders. Accordingly, the May board of directors has approved the merger agreement and the transactions contemplated by the merger agreement, including the merger, and recommends that May stockholders vote **FOR** approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger.

As described above under Background of the Merger, the May board of directors, prior to and in reaching its decision at its meeting on February 27, 2005, to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger, consulted on numerous occasions with May's senior executive officers and May's financial and legal advisors and considered a variety of factors weighing positively in favor of the merger, including, without limitation, the following:

the strategic nature of the transaction, which will combine May's and Federated's respective businesses to create one of the largest national retail store chains in the United States, with pro forma combined sales expected to exceed \$30 billion, all of which should provide the combined company with a strong foundation for improved performance;

the May board of directors' analysis and understanding of management's stand-alone plans for May in the context of the increasingly competitive conditions in the retail industry generally, including pressures from both discount and high-end retailers, and the board's analysis of the business, operations, financial performance, financial condition, earnings and prospects of May on a stand-alone basis, particularly in view of May's recent financial performance in comparison to May's peers, and the board's belief, based on its analysis and understanding, that the combined company, with its greater size and scale, would be better positioned to succeed in light of the risks and potential rewards associated with May continuing to operate on a stand-alone basis and other alternatives reasonably available to May, including growth through acquisition of assets or other companies and disposition of non-strategic assets;

the value to be received by holders of May common stock in the merger, including the fact that, based on the closing price of May's common stock on January 14, 2005 (the last full trading day before the announcement of the resignation of Chairman and CEO Gene Kahn and rumors of a possible business combination transaction between May and Federated were reported by several national news organizations), the value of the merger consideration represented:

a premium of approximately 27.5% over the closing price of May common stock on the NYSE on January 14, 2005;

a premium of approximately 23.7%, 35.5% and 24.3% over the median closing price of May common stock on the NYSE for the thirty-day, six-month and twelve-month trading periods, respectively, ending with January 14, 2005;

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the fact that the initial 50/50 split of stock and cash in the merger consideration affords May stockholders both the opportunity to participate in the growth and opportunities of the combined company through the stock component of the merger consideration and to receive cash for the value of their shares through the cash component of the merger consideration;

the fact that May stockholders as a group will own, on a fully-diluted basis, approximately 35% of the outstanding Federated common stock immediately following the merger;

because the stock portion of the merger consideration is a fixed number of shares of Federated common stock, the opportunity for May stockholders to benefit from any increase in the trading price of Federated common stock between the announcement of the merger and the completion of the merger, as well as any increase after completion of the merger;

the fact the Federated agreed to increase its quarterly dividend to \$0.25 following completion of the merger;

the May board of directors' understanding of the historical information concerning May's and Federated's respective businesses, financial performance and condition, operations, management, competitive positions, prospects and stock performance, including the report of May's management on the results of May's due diligence review of Federated and its assets, liabilities, financial condition, business and prospects, which confirmed the otherwise publicly available information regarding Federated, confirmed the positive view of Federated's business, was consistent with the board's expectations regarding potential operating efficiencies and cost savings reasonably available as a result of the merger and supported the board's determination that the combined company should have a strong foundation for growth and improved performance;

anticipated cost savings and operating synergies available to the combined company from the merger through consolidation of central functions, division integrations and the continuation across the combined company of the best practices and traditions of May and Federated following completion of the merger which is expected to positively enhance the combined company's earnings and create value for stockholders;

the potential ability of the combined company to maintain and strengthen relationships with a broader base of suppliers and mall operators through improved operational efficiencies in such areas as marketing and supply chain management;

the fact that the business combination with Federated provides the combined company with additional unique and differentiated products that should enable the combined company to better differentiate itself from other retailers and expand the points of distribution for its private labels in key geographic areas;

Morgan Stanley's opinion described in the section entitled "Opinions of May's Financial Advisors" beginning on page 57, including its analysis rendered orally on and confirmed in writing as of February 27, 2005, to the effect that, as of February 27, 2005, and based on and subject to various assumptions made, matters considered and limitations described in its written opinion, the consideration proposed to be received by holders of May common stock in the merger agreement was fair, from a financial point of view, to such holders;

Peter J. Solomon Company's opinion described in the section entitled "Opinions of May's Financial Advisors" beginning on page 57, including its analysis rendered orally on and confirmed in writing as of February 27, 2005, to the effect that, as of February 27, 2005, and based on and subject to various assumptions made, matters considered and limitations described in its written opinion, the consideration proposed to be received by holders of May common stock in the merger was fair, from a financial point of view, to such holders;



the fact that the May board of directors had not received any indications of interest from other parties regarding a potential business combination despite public speculation and commentary regarding a potential business combination transaction involving May;

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the fact that May stockholders who dissent from the merger will have appraisal rights, as described in the section entitled Appraisal Rights of May Stockholders beginning on page 88;

the expected qualification of the merger as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, resulting in the common stock portion of the merger consideration to be received by May stockholders not being subject to federal income tax, as described in the section entitled Material United States Federal Income Tax Consequences beginning on page 92;

the May board's belief, in light of the commitments made by Federated in the merger agreement, that, based on available information, the transaction should not present an unacceptable risk of non-consummation due to antitrust concerns; and

the terms and conditions of the merger agreement, including:

the fact that the terms of the merger agreement provide that, under certain circumstances, and subject to certain conditions more fully described in the section entitled The Merger Agreement Covenants and Agreements Solicitation by May beginning on page 104, May can furnish information to and conduct negotiations with a third party in connection with an unsolicited proposal for a business combination or acquisition of May that is likely to lead to a superior proposal and the May board of directors can terminate the merger agreement for a superior proposal or change its recommendation prior to stockholder approval of the merger agreement; No

the fact that there are limited circumstances in which the board of directors of Federated may change or modify its recommendation to its stockholders to approve the issuance of shares of Federated common stock in the merger, and that Federated agreed to pay a termination fee of \$350 million to May in the event that the board of directors of Federated changes or modifies its recommendation, as described in the section entitled The Merger Agreement Termination Fees beginning on page 114;

the fact that Federated agreed to pay a termination fee to May ranging from \$150 million to \$350 million in the event that the merger agreement is terminated due to a failure to obtain necessary antitrust clearance;

the fact that the completion of the merger is not conditioned on Federated's obtaining financing;

the fact that the conditions required to be satisfied prior to completion of the merger are customary and can be expected to be fulfilled in the ordinary course and the corresponding likelihood that the merger will be consummated;

the fact that two members of the May board of directors are expected to be appointed to the Federated board of directors, which is expected to provide a degree of continuity and involvement by May directors in the combined company following the merger;

the fact that Federated agreed to continue all of May's employee benefit plans in accordance with their terms in effect immediately prior to the effective time of the merger for one year after the merger and, for the second and third years after the merger, Federated agreed to provide a substantially comparable level of compensation and employee benefits (excluding equity-based awards) to all continuing May employees (other than those subject to collective bargaining obligations or agreements);

the fact that Federated agreed to maintain a major division headquarters, as well as certain regional corporate support functions, in St. Louis, which the May board of directors considered important in light of May's importance to the St. Louis area and the effect on employees; and

the fact that Federated agreed to honor May's existing charitable contribution commitments and fund future charitable contributions (subject to certain agreed parameters).

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In addition to these factors, the May board of directors also considered the potential adverse impact of other factors weighing negatively against the proposed transaction, including, without limitation, the following:

the risk that, notwithstanding the likelihood of the merger's being completed, the merger might not be completed, including the effect of the pendency of the merger and such failure to be completed may have on:

the trading price of May common stock;

May's operating results, including the costs incurred in connection with the transaction;

May's ability to attract and retain key personnel; and

May's ability to retain customers and maintain sales;  
the possibility of significant costs and delays resulting from seeking antitrust clearance necessary for completion of the proposed merger;

because the stock portion of the merger consideration is a fixed number of shares of Federated common stock, May stockholders could be adversely affected by a decrease in the trading price of Federated common stock after the date of execution of the merger agreement, and the merger agreement does not provide May with a price-based termination right or other similar protection for May or its stockholders (other than in order to protect the tax-free nature of the transaction to the extent of the stock consideration to be received by May stockholders in the merger, as discussed in *The Merger Agreement – Merger Consideration* beginning on page 97);

the limitations imposed in the merger agreement that restrict, among other things, May's ability prior to the completion of the merger to solicit or enter into any agreement relating to an alternative business combination, or enter into any discussions of any proposals that may lead to an alternative business combination, as more fully described in the section entitled *The Merger Agreement – Covenants and Agreements – No Solicitation by May* beginning on page 104;

the requirement that May must pay to Federated a termination fee of \$350 million if the merger agreement is terminated under circumstances specified in the merger agreement, as described in the section entitled *The Merger Agreement – Termination Fees* beginning on page 114;

the challenges inherent in combining the businesses, operations and workforces of two large companies, including the possibility that management may be distracted from regular business concerns by (1) unforeseen difficulties in integrating operations and systems and (2) possible employee uncertainty in the face of potential workforce reductions and difficulties in assimilating employees;

the likelihood of realizing and the risks of not realizing the expected operating synergies and cost savings; and

the risks described in the section entitled *Risk Factors* beginning on page 22.

The May board of directors also considered the interests that certain executive officers and directors of May may have with respect to the merger in addition to their interests as stockholders of May generally, as described in the Section entitled *Interests of May's Directors and Executive Officers in the Merger* on page 83, which the May board of directors considered as being neutral in its evaluation of the proposed transaction.

The May board of directors concluded that the positive factors significantly outweighed the negative and neutral factors described above. This discussion of the information and factors considered by the May board of directors includes material positive, negative and neutral factors considered by the May board of directors, but it is not intended to be exhaustive and may not include all of the factors considered by the May board of directors. In reaching its determination to approve and recommend the merger agreement and the transactions contemplated by the merger

agreement, including the merger, the May board of directors did not find it useful to and did not quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination that the merger agreement and the transactions contemplated by the merger

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agreement, including the merger, are advisable and fair to and in the best interests of May and its stockholders. Rather, the May board of directors viewed its position and recommendation as being based on an overall analysis and on the totality of the information presented to and factors considered by it. In addition, in considering the factors described above, individual members of the May board of directors may have given differing weights to different factors.

After considering this information, the May board of directors approved the merger agreement and the transactions contemplated by the merger agreement, including the merger, and recommended that May stockholders approve and adopt the merger agreement and the transactions contemplated by the merger agreement, including the merger.

### **Federated's Reasons for the Merger and Recommendation of Federated's Board of Directors**

**Federated's board of directors has approved the merger agreement and determined that the transactions contemplated by the merger agreement are advisable and in the best interests of Federated and its stockholders. Federated's board of directors recommends that Federated stockholders vote FOR the proposal to authorize the issuance of Federated common stock pursuant to the terms of the merger agreement at the Federated annual meeting.**

In reaching its conclusion to approve the merger and the related transactions and to recommend that Federated stockholders authorize the issuance of Federated common stock in connection with the merger, the Federated board considered the following factors as generally supporting its decision to enter into the merger agreement.

*Strategic Considerations.* Federated's board believes that the merger with May will provide a number of significant strategic opportunities and benefits, including the following, all of which it viewed as generally supporting its decision to approve the merger with May:

The merger is expected to create a more efficient, competitive national retailer, with approximately \$30 billion in annual revenues and significantly broader geographic coverage, with a total of approximately 1,650 stores (including approximately 700 bridal and formalwear stores) in 49 states, Guam, Puerto Rico and the District of Columbia. The combined companies will own and operate stores in 64 of the nation's top 65 geographic areas with relatively little overlap.

The merger with May will provide the combined companies with an opportunity to compete more effectively in the highly competitive, broad-based retail environment, including with national retailers such as Sears/ K-Mart, J.C. Penney's, Target, Wal-Mart, The Limited, Linens n Things, Bed, Bath & Beyond, Nordstrom's, Kohl's, Neiman Marcus, Saks Fifth Avenue and others.

Federated's board of directors also considered management's view that the combined companies should produce cost synergies of approximately \$175 million in 2006 and approximately \$450 million in 2007, resulting from purchasing efficiencies, the ability to advertise nationally, the consolidation of corporate services and headquarters functions, reductions in distribution and marketing costs, and the adoption of best practices across the combined companies, all of which will increase competition and benefit consumers. These benefits are expected to be realized by the end of 2007, and the merger is expected to be accretive to Federated's per share earnings in 2007. While these synergies reflect management's estimates, the Federated board recognized there could be no assurance that they would be achieved. In addition, the potential to realize greater synergies represents an additional factor considered by Federated's board.

Federated's board also considered the possibility of achieving higher comparable store sales growth as a result of leveraging the combined companies' best people, products and practices and enhanced ability to compete in the retail industry on a national scale.

Federated's board considered the opportunities and benefits of extending its business into additional geographic areas as a result of the merger. May has a strong list of retail store assets located in the midwest and elsewhere, including Famous-Barr, Filene's, Foley's, Hecht's, Kaufmann's,



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Lord & Taylor, L.S. Ayers, Marshall Field's, Meier & Frank, Robinsons-May, Strawbridge's and The Jones Store, which complement Federated's current geographic footprint.

Federated's board considered that Federated will be able to augment its talent pool with the most capable managers from May.

*Other Factors Considered by the Federated Board.* In addition to considering the strategic factors outlined above, the Federated board considered the following additional factors, all of which it viewed as generally supporting its decision to approve the merger with May:

historical information concerning May's and Federated's respective businesses, financial performance and condition, operations, management, competitive positions and stock performance, including the results of the due diligence review of May's assets, liabilities, financial condition, businesses and operations, which indicated that there were no material risks associated with acquiring May, and which were consistent with the expectations of the board as to potential operating efficiencies and cost savings as well as other strategic and financial benefits reasonably anticipated as a result of the merger, and which comparisons and review generally informed the board's determination as to the relative values of Federated, May and the combined companies, enabling Federated to increase the value of the merger consideration;

management's strategy of potentially re-branding many May stores as Macy's, which re-branding strategy management believes will be successful based on the success of the co-branding strategy with respect to Federated's regional stores;

management's assessment that the proposed merger was likely to meet certain criteria they deemed necessary for a successful merger—strategic fit, acceptable execution risk, and financial benefits to Federated and Federated's stockholders;

the financial analyses and presentations of Federated's financial advisor and its opinion that, as of February 27, 2005, the consideration to be paid to the May stockholders in the merger was fair, from a financial point of view, to Federated (the written opinion of Goldman Sachs is attached as Annex D to this joint proxy statement/prospectus and discussed in detail under "Opinion of Federated's Financial Advisor" beginning on page 75);

the terms and conditions of the merger agreement, including:

the limited number and nature of the conditions to May's obligation to consummate the merger and the limited risk of non-satisfaction of such conditions; and

that Federated may be entitled to receive a \$350 million termination fee from May if the merger is not consummated for certain reasons;

the determination that an exchange ratio that is fixed, subject to adjustment in certain circumstances in Federated's discretion, is appropriate to reflect the strategic purpose of the merger and consistent with market practice for mergers of this type and that a fixed exchange ratio avoids fluctuations caused by near-term market volatility; and

the likelihood that the merger will be completed on a timely basis, including the likelihood that the merger will receive all necessary antitrust and other regulatory approvals without unacceptable conditions on a timely basis.

*Potential Risks Considered by the Federated Board.* Federated's board of directors also considered the potential risks of the merger and potential conflicts of interest, including the following:

the challenges of combining the operations of two major retail businesses and effecting certain cultural changes;

the possible disruptions from certain anticipated workforce reductions to be implemented as part of the merger integration plan;





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the risk that anticipated operating profit synergies and cost savings will not be achieved (or the risk that certain cost savings will adversely affect operating profits);

the one-time costs of the acquisition and integration, which management estimated at approximately \$1 billion spread over a three-year period;

the risk that Federated may be required under the merger agreement to commit to dispose of assets of the combined companies valued at up to \$4 billion if required by any governmental entity in order to obtain antitrust clearance for the merger;

the risk that Federated will have to pay May a fee of up to \$350 million if the merger agreement is terminated under certain circumstances;

the potential dilution to Federated's stockholders; and

the risk of diverting management's attention from other strategic priorities to implement merger integration efforts.

The foregoing discussion of the information and factors considered by Federated's board of directors is not meant to be exhaustive but is believed to include all material factors considered by it in connection with its determination that the terms of the merger agreement, including the issuance of Federated common stock in the merger, are advisable and in the best interests of Federated and its stockholders. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the Federated board did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. In considering the factors described above, individual members of the Federated board may have given different weight to different factors. The Federated board conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, Federated's management and Federated's legal and financial advisors, and considered the factors overall to be favorable to, and to support, its determination. The Federated board also considered the experience and expertise of Goldman Sachs, its financial advisor, in reviewing quantitative analyses of the financial terms of the merger. See *Opinion of Federated's Financial Advisor* beginning on page 75.

**Opinions of May's Financial Advisors**

***Morgan Stanley***

May retained Morgan Stanley to provide financial advisory services in connection with the proposed merger with Federated. The May board of directors selected Morgan Stanley to act as May's financial advisor based on Morgan Stanley's qualifications, expertise and reputation and its knowledge of the business and affairs of May. At the meeting of the May board of directors on February 27, 2005, Morgan Stanley rendered its oral opinion, subsequently confirmed in writing, as of February 27, 2005, that based upon and subject to the assumptions, qualifications and limitations set forth in the opinion, the consideration to be received by the holders of shares of May common stock pursuant to the merger agreement was fair from a financial point of view to such holders.

**The full text of Morgan Stanley's opinion, dated as of February 27, 2005, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Morgan Stanley in rendering its opinion is attached as Annex B to this joint proxy statement-prospectus. We urge you to read this opinion carefully and in its entirety. Morgan Stanley's opinion is directed to the board of directors of May, addresses only the fairness from a financial point of view of the consideration to be received by the holders of May common stock pursuant to the merger agreement and does not address any other aspect of the merger or constitute a recommendation to any May stockholder as to how to vote at the annual meeting. This summary is qualified in its entirety by reference to the full text of the opinion.**

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In connection with rendering its opinion, Morgan Stanley, among other things:

reviewed certain publicly available financial statements and other business and financial information of May and Federated, respectively;

reviewed certain internal financial statements and other financial and operating data concerning May prepared by the management of May;

reviewed certain financial projections prepared by the management of May;

discussed the past and current operations and financial condition and the prospects of May, with senior executives of May;

discussed the past and current operations and financial condition and the prospects of Federated, with senior executives of Federated;

discussed certain limited financial projections for Federated with the management of Federated;

discussed limited pro forma financial projections, including information relating to strategic, financial and operational benefits and issues anticipated from the merger, with senior executives of Federated;

discussed the strategic rationale of the merger with the management of May and Federated;

reviewed the pro forma impact of the merger on Federated's publicly available operating statistics, consolidated capitalization and financial ratios;

reviewed the reported prices and trading activity for May common stock and Federated common stock;

compared the financial performance of May and Federated and the prices and trading activity of May common stock and Federated common stock with that of certain other comparable publicly-traded companies and their securities;

reviewed the financial terms, to the extent publicly available, of certain comparable acquisition transactions;

participated in discussions and negotiations among representatives of May, Federated and their financial and legal advisors;

reviewed the draft merger agreement, dated February 27, 2005 and certain related documents; and

considered such other factors and performed such other analyses as Morgan Stanley deemed appropriate.

In arriving at its opinion, among other things, Morgan Stanley assumed and relied upon without independent verification the accuracy and completeness of the information supplied or otherwise made available to it by May and Federated for the purposes of its opinion. With respect to the financial projections supplied to Morgan Stanley or discussed with Morgan Stanley, including information relating to strategic, financial and operational benefits and issues anticipated from the merger, Morgan Stanley assumed they were reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of May and Federated. For purposes of its analysis with respect to Federated and after discussions with the management of Federated, Morgan Stanley used and relied on publicly available projections of equity research analysts who report on Federated. Morgan Stanley also relied without independent verification on the assessments of management of May and Federated of the

strategic rationale of the merger. In addition, Morgan Stanley assumed that the merger would be consummated in accordance with the terms set forth in the merger agreement with no material waiver, delay or amendment, including, among other things, that the merger would be treated as a tax-free reorganization, pursuant to the Internal Revenue Code of 1986, as amended. Morgan Stanley assumed that in connection with the receipt of all the necessary regulatory and other approvals and consents for the proposed merger, no restrictions would be imposed that would have a material adverse effect on the contemplated benefits expected to be derived in the proposed merger. Morgan Stanley is not a legal, regulatory, accounting or tax expert and assumed the accuracy and veracity of assessments by such advisors to May and Federated with respect to such issues. Morgan Stanley

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also relied upon, without independent verification, the assessment by the management of Federated and May of the timing and risks associated with the integration of Federated and May. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of May or Federated, nor was it furnished with any such appraisals. Morgan Stanley's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of, the date of its opinion.

The following is a summary of the material financial analyses performed by Morgan Stanley in connection with its oral opinion and the preparation of its written opinion. Although each analysis was provided to the May board of directors, in connection with arriving at its opinion, Morgan Stanley considered all of its analysis as a whole and did not attribute any particular weight to any analysis described below. These summaries of financial analyses include information presented in tabular format. In order to fully understand the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses.

In connection with its analysis, Morgan Stanley calculated the per share implied merger consideration for each share of May common stock pursuant to the merger agreement, which provides for the payment of \$17.75 in cash and 0.3115 shares of Federated common stock for each share of May common stock. Based on the average price per share of Federated common stock for the ten-day trading period ending February 25, 2005, which was \$56.99, the implied merger consideration as of February 25, 2005, was \$35.50, which was the sum of \$17.75 plus \$17.75 (the product of 0.3115 multiplied by \$56.99).

In addition, for purposes of its analysis, Morgan Stanley noted that both May and Federated have fiscal years ending on January 31, so references to specific years in the following analyses refer to fiscal years ending on January 31 of the following year. For example, a reference to 2007 earnings per share represents the earnings per share for the fiscal year ending January 31, 2008.

***Historical Common Stock Performance***

Morgan Stanley performed an historical share price analysis to provide the May board with background information and perspective with respect to the historical share prices of May and Federated common stock.

***May***

Consequently, Morgan Stanley reviewed the historical closing prices and average closing prices of May common stock over various periods during the last ten years. The tables below summarize the historical performance of May common stock during the periods specified.

<b>May Common Stock Average Share Price(1)(2) for Period Ending February 25, 2005</b>	<b>Average per Share Price (\$)</b>
6 Months	28.31
1 Year	28.94
2 Years	27.22
3 Years	27.68
5 Years	29.05
10 Years	31.38

(1) Represents unweighted average

(2) Represents split-adjusted prices

<b>May Common Stock Historical Trading Range for Period Ending February 25, 2005</b>	<b>Low (\$)</b>	<b>High (\$)</b>
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6 Months	24	35
1 Year	24	36
3 Years	18	38

Morgan Stanley noted that the per share implied merger consideration for May common stock was \$35.50 calculated as of February 25, 2005.

**Table of Contents***Federated*

Morgan Stanley also reviewed the historical trading ranges of Federated common stock during various periods over the last three years. The table below summarizes the historical performance of Federated common stock during the periods specified.

<b>Federated Common Stock Historical Trading Range for Period Ending February 25, 2005</b>	<b>Low (\$)</b>	<b>High (\$)</b>
6 Months	43	59
1 Year	43	59
3 Years	24	59

Morgan Stanley noted that the price per share of Federated common stock as of February 25, 2005, was \$56.79.

***Historical Relative Stock Price Analysis***

Morgan Stanley reviewed the closing share prices of May common stock relative to the corresponding closing share prices of Federated common stock during various periods over the last five years to provide background information and perspective on the relationship between May and Federated common stock. Morgan Stanley examined these historical relative stock prices and the following table summarizes its analysis:

<b>Period Ending February 25, 2005</b>	<b>Historical Relative Stock Price (x)</b>	<b>Implied May Common Stock Price per Share \$(2)</b>
February 25, 2005	0.622	35.35
January 14, 2005(1)	0.477	27.84
Last 6 Months	0.541	30.72
Last 1 Year	0.571	32.43
Last 2 Years	0.607	34.47
Last 3 Years	0.675	38.36
Last 5 Years	0.749	42.53

- (1) Last trading day prior to reports appearing in the popular press regarding a potential transaction
- (2) Calculated by multiplying the historical relative stock price for a given period by Federated's closing share price of \$56.79 as of February 25, 2005, with the exception of the January 14, 2005 implied price which was based on Federated's closing share price of \$58.37 as of that date

Morgan Stanley noted that the implied merger consideration for May common stock was \$35.50 and the implied relative stock price (assuming no cash consideration) was 0.625x, each calculated as of February 25, 2005.

**Table of Contents*****Historical Forward P/ E Ratio Analysis***

Morgan Stanley reviewed and compared the historical forward P/E ratios for May and Federated during various periods over the last five years to provide background information and perspective on the relationship between May and Federated common stock trading levels. These ratios are calculated by dividing the share price as of a certain date by the 12-month forward EPS, or future earnings per share, estimate as of that same date based on the I/B/E/S median of publicly available equity research projections. I/B/E/S is a data source that monitors and publishes a compilation of earnings per share estimates produced by selected research analysts on companies of interest to investors. Morgan Stanley examined these ratios during various periods ending February 25, 2005. These average historical forward P/ E ratios, as well as the implied premium of May's ratios to those of Federated, are as follows:

Period Ending February 25, 2005	P/E Ratios		May Premium
	May	Federated	
February 25, 2005	15.6x	12.4x	26.4%
January 14, 2005	12.2x	12.7x	(4.2)%
Last 6 Months	12.1x	11.8x	3.0%
Last 1 Year	12.4x	11.9x	4.1%
Last 2 Years	12.7x	11.7x	8.6%
Last 3 Years	12.2x	10.9x	11.5%
Last 5 Years	11.6x	10.3x	13.6%
All-Time High (during the last 5 years)	16.9x(1)	14.1x(2)	19.9%

(1) As of February 18, 2004

(2) As of March 4, 2004

Morgan Stanley noted that the implied forward P/ E multiple based on the implied merger consideration for May common stock of \$35.50 calculated as of February 25, 2005, was 15.7x, which implied a premium of 27.0% for the implied merger consideration.

***Selected Precedent Transaction Analysis***

Morgan Stanley also performed a precedent transaction analysis, which is designed to provide a valuation of May based on publicly available financial terms and premia of selected transactions that share some characteristics with the merger. In selecting the transactions it used in this analysis, Morgan Stanley reviewed transactions since January 1, 2000 to present with an aggregate value greater than \$10 billion involving cash consideration representing between 25% and 50% of the transaction's total aggregate value. In this analysis, aggregate value is a measure of each company's value that is calculated by adding its market capitalization, total debt, preferred shares and minority interest less cash and cash equivalents.

In its analysis, Morgan Stanley reviewed the following precedent transactions:

GPU Inc./ FirstEnergy

Banacci/ Citigroup

Sears Roebuck/ KMart Holding Corp

Guidant/ Johnson & Johnson

Times Mirror/ Tribune



Aventis/ Sanofi-Synthelabo

Caesars Entertainment/ Harrah's Entertainment

Credit Commercial de France/ HSBC

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From these selected transactions, Morgan Stanley, based on its experience with the department store industry generally and large merger and acquisition transactions, derived a reference range of premia paid relative to the trading share prices at two different periods of time preceding the announcement of a transaction. The premium paid relative to the share price four weeks prior to deal announcement ranged from 15.5% to 67.1%, with a median of 32.8%. The premium paid relative to the share price one day prior to deal announcement ranged from 7.0% to 96.1%, with an average of 17.1%. Morgan Stanley then selected an unaffected premium range of 20% to 30% based on the precedent transactions listed above and applied that range to the May common stock price as of January 14, 2005, the last trading day prior to news reports appearing in the popular press regarding potential discussions between May and Federated. The analysis resulted in a range of implied values of \$33 to \$36 per share of May common stock.

Morgan Stanley noted that the per share implied merger consideration for May common stock was \$35.50 calculated as of February 25, 2005.

No transaction utilized in the selected precedent transactions analysis is identical to the merger. In evaluating the transactions, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of May or Federated, such as the impact of competition on May or Federated and the industry generally, industry growth and the absence of any adverse material change in the financial condition and prospects of May or Federated or in the financial markets in general. Mathematical analysis, such as determining the mean or median, or the high or the low, is not in itself a meaningful method of using comparable transaction data.

***Present Value of Equity Research Analyst Targets***

Morgan Stanley reviewed publicly available equity research on May and Federated and used the per share price targets from these research reports to arrive at a range of present values per share of May and Federated common stock.

***May***

For May, Morgan Stanley considered the range of publicly available equity research analyst price targets prior to January 14, 2005, the last trading day prior to news reports appearing in the popular press regarding potential discussions between May and Federated, and calculated the present value of such targets based on a nine-month period and assuming a 10% estimated cost of equity. This analysis resulted in a range of implied values of \$28 to \$33 per share of May common stock.

Morgan Stanley noted that the per share implied merger consideration for May common stock was \$35.50 calculated as of February 25, 2005.

***Federated***

For Federated, Morgan Stanley considered the range of publicly available equity research analyst price targets prior to February 25, 2005, and calculated the present value of such targets based on a nine-month period and assuming a 10% estimated cost of equity. This analysis resulted in a range of implied values of \$51 to \$61 per share of Federated common stock.

Morgan Stanley noted that the price per share of Federated common stock as of February 25, 2005, was \$56.79.

**Table of Contents*****Future Stock Price Present Value***

Morgan Stanley performed a discounted equity value analysis, which is designed to provide insight into the future value of a company's common equity, as a function of the company's future earnings and its current forward P/ E multiple. The resulting value is subsequently discounted to arrive at the present value of May and Federated future stock price.

***May***

For May, Morgan Stanley considered the range of values per share for May based on the estimated 2007 earnings per share provided by May's management under four different scenarios as well as the estimated 2007 earnings per share based on the I/B/E/S median of publicly available equity research projections, referred to as the Research Case. In its analysis, Morgan Stanley assumed all of the scenarios were achievable and did not make any judgment with respect to the potential risks embedded in the different scenarios prepared by May's management. The following table presents the resulting ranges of implied per share values for May, assuming a forward P/ E multiple range of 11.0x to 15.0x based on the historical forward P/ E range that was used to calculate the future stock price as of the end of 2006 and which was then discounted for a two-year period at a 10% estimated cost of equity.

	<b>Implied per Share Value of May Common Stock</b>
Research Case	\$ 22 - \$31
Management Case A(1)	\$ 25 - \$34
Management Case B(2)	\$ 26 - \$35
Management Case C(3)	\$ 28 - \$38
Management Case D(4)	\$ 29 - \$40

- (1) May management internal five-year projections
- (2) May management internal five-year projections including share repurchases and debt refinancing
- (3) May management internal five-year projections including share repurchases and debt refinancing and the benefits of divisional consolidation
- (4) May management internal five-year projections including share repurchases and debt refinancing, the benefits of divisional consolidations and sale of the credit card receivables

Morgan Stanley also prepared a sensitivity analysis on the present value of May's future stock price. Specifically, Morgan Stanley considered the range of values per share for May implied by a range of forward P/ E multiples between 9.0x and 15.0x and a range of potential earnings per share compound annual growth rate between 2005 and 2007 of 0% to 20% and using May's 2004 earnings per share of \$1.93 (includes \$0.10 of store divestiture costs per 2004 earnings press release and \$0.13 of other charges per management guidance). This analysis resulted in a range of implied values per share of May common stock of \$14 to \$41.

Morgan Stanley noted that the per share implied merger consideration for May common stock was \$35.50 calculated as of February 25, 2005.

**Table of Contents***Federated*

For Federated, Morgan Stanley considered the range of values per share for Federated based on financial forecasts and estimates based on the I/B/E/S median of publicly available equity research projections for 2005 to 2007. The following table presents the resulting ranges of implied per share values for Federated, assuming Federated's current forward P/E multiple range of 12.0x to 13.0x for 2005 to estimate the current Federated stock price and assuming Federated's historical P/E range of 10.0x to 14.0x for 2006 and 2007 to estimate Federated's future stock prices as of the end of 2005 and 2006 and which were then discounted for one year and two years, respectively, at a 10.0% estimated cost of equity.

	<b>Implied per Share Value of Federated Common Stock</b>
2005E EPS of \$4.60	\$ 55 - \$60
2006E EPS of \$4.98	\$ 45 - \$63
2007E EPS of \$5.43	\$ 45 - \$63

Morgan Stanley noted that the price per share of Federated common stock as of February 25, 2005 was \$56.79.

***Discounted Cash Flow Analysis***

Morgan Stanley performed a discounted cash flow analysis for May and Federated, which is designed to provide insight into the value of a company as a function of its future cash flows and expenditures.

*May*

For May, Morgan Stanley performed a five-year discounted cash flow analysis, calculated as of February 25, 2005, of the after-tax unlevered free cash flows for 2005 through 2009, based on the financial forecasts and estimates of Scenarios A and C (as previously described in Present Value of May Future Stock Price ) provided by May management as well as using financial forecasts and estimates based on the I/B/E/S median of publicly available equity research projections. Morgan Stanley estimated a range of terminal values calculated in 2009 based on a perpetual growth rate range of 0.5% to 1.5%. Morgan Stanley then discounted the unlevered free cash flow streams and the estimated terminal value to a present value at a discount rate of 8.0% for each case. The discount rates utilized in this analysis were chosen based upon an analysis of the weighted average cost of capital of May and other comparable companies. The weighted average cost of capital is a measure of the average expected return on all of a company's securities or loans based on the proportions of those securities or loans in such company's capital structure. Based on the aforementioned projections and assumptions, the discounted cash flow analysis of May yielded an implied valuation range of May common stock as follows:

Research Case: \$22 - \$27 per share

Management Case A: \$29 - \$35 per share

Management Case C: \$33 - \$39 per share

Morgan Stanley noted that the per share implied merger consideration for May common stock was \$35.50 calculated as of February 25, 2005.

*Federated*

Morgan Stanley performed a five-year discounted cash flow analysis for Federated, calculated as of February 25, 2005, of the after-tax unlevered free cash flows for 2005 through 2009, based on financial forecasts and estimates based on the I/B/E/S median of publicly available equity research projections. Morgan Stanley estimated a range of terminal values calculated in 2009 based on a perpetual growth rate range of 0.5% to 1.5%. Morgan Stanley discounted the unlevered free cash flow streams and the estimated terminal value to a present value at a discount rate of 8.0%. The discount rates utilized in this analysis were



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chosen based upon an analysis of the weighted average cost of capital of Federated and other comparable companies. Based on the aforementioned projections and assumptions, the discounted cash flow analysis of Federated yielded an implied valuation range of Federated common stock of \$58 to \$67 per share.

Morgan Stanley noted that the price per share of Federated common stock as of February 25, 2005, was \$56.79.

***Present Value Analysis of the Merger***

Morgan Stanley evaluated the cash and stock components of the merger consideration to arrive at the present value of the merger consideration on a per share basis. In arriving at the present value of the stock portion of the merger consideration on a pro forma basis, Morgan Stanley conducted the analysis using the present value of future stock price methodology, as described above, assuming a forward P/ E multiple range of 12.0x to 14.0x and an estimated cost of equity of 10.0% and the discounted cash flow valuation methodology, as described above, assuming a perpetual growth rate range of 1.0% to 1.5% and a weighted average cost of capital of 8.0%. Morgan Stanley used two pro forma scenarios based on forecasts and estimates provided by Federated's management which assumed, among other things, cost synergies, certain adjustments for lost sales from stores sold, sales disruption and one time costs based on guidance from Federated's management. The two scenarios differed primarily in the following respects:

Pro Forma Scenario A: no sale of Federated's credit card receivables.

Pro Forma Scenario B: sale of Federated's credit card receivables at par, with Federated retaining 75% of the operating income of the portfolio and using the proceeds from the receivables sale over two years to pay down debt and buy back shares.

Based on the aforementioned assumptions and scenarios, the present value of future stock price analysis of Federated yielded an implied total value per share to May stockholders as follows:

Pro Forma Scenario A: \$38 - \$41 per share

Pro Forma Scenario B: \$42 - \$46 per share

Based on the aforementioned assumptions and scenarios, the discounted cash flow analysis of Federated yielded an implied total value per share to May stockholders as follows:

Pro Forma Scenario A: \$38 - \$40 per share

Pro Forma Scenario B: \$45 - \$47 per share

Morgan Stanley noted that the per share implied merger consideration for May common stock was \$35.50 calculated as of February 25, 2005.

In connection with the review of the merger by May's board of directors, Morgan Stanley performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. Morgan Stanley believes that the summary provided and the analyses described above must be considered as a whole and that selecting portions of these analyses, without considering all of them as a whole, would create an incomplete view of the process underlying its analyses and opinion. In addition, Morgan Stanley may have given various analyses and factors more or less weight than other analyses and factors and may have deemed various assumptions more or less probable than other assumptions, so that the range of valuations resulting from any particular analysis described above should therefore not be taken to be Morgan Stanley's view of the actual value of May and Federated combined.

In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of May and Federated. Any estimates contained in Morgan Stanley's analyses are not necessarily

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indicative of future results or actual values, which may be significantly more or less favorable than those suggested by these estimates. The analyses performed were prepared solely as a part of the analyses of Morgan Stanley of the fairness from a financial point of view of the consideration to be received by the holders of shares of May common stock pursuant to the merger agreement and were conducted in connection with the delivery by Morgan Stanley of its opinion dated February 27, 2005 to the board of directors of May. Morgan Stanley's analyses do not purport to be appraisals or to reflect the prices at which shares of common stock of May might actually trade. The merger consideration in the merger was determined through arm's-length negotiations between May and Federated and was approved by May's board of directors. Morgan Stanley did not recommend any specific merger consideration to May or that any given merger consideration constituted the only appropriate merger consideration for the merger.

In addition, Morgan Stanley's opinion and its presentation to May's board of directors was one of many factors taken into consideration by May's board of directors in deciding to approve the merger. Consequently, the analyses as described above should not be viewed as determinative of the opinion of May's board of directors with respect to the merger consideration or of whether May's board of directors would have been willing to agree to a different merger consideration.

Morgan Stanley is an internationally recognized investment banking and advisory firm. Morgan Stanley, as part of its investment banking and financial advisory business, is continuously engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. In the ordinary course of business, Morgan Stanley may from time to time trade in the securities of or indebtedness of May and Federated for its own account, the accounts of investment funds and other clients under the management of Morgan Stanley and for the accounts of its customers and, accordingly, may at any time hold a long or short position in these securities or indebtedness. Morgan Stanley has, from time to time, provided investment banking, commercial banking (including extension of credit) and other financial services to May for which it received fees of approximately \$20 million over the last two years.

If the merger is consummated, May has agreed to pay Morgan Stanley under the terms of its engagement a fee which, if calculated as of February 27, 2005, would be approximately \$51 million, all of which is payable upon consummation of the merger. May has also agreed to reimburse Morgan Stanley for its expenses incurred in performing its services and to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under federal securities laws, related to or arising out of Morgan Stanley's engagement and any related transactions.

***Peter J. Solomon Company***

On February 23, 2005, May engaged PJSC to act as its financial advisor with respect to rendering a fairness opinion regarding the consideration proposed to be received by the holders of May common stock in the merger. On February 27, 2005, PJSC rendered its oral opinion telephonically to May's board of directors, which opinion was confirmed by delivery of a written opinion, which we refer to in this joint proxy statement/prospectus as PJSC's opinion, to the effect that, based upon and subject to various considerations set forth in such opinion, as of February 27, 2005, the consideration proposed to be received by the holders of May common stock in connection with the merger was fair from a financial point of view to the holders of May common stock.

The full text of PJSC's opinion, which sets forth assumptions made, procedures followed, matters considered, limitations on and scope of the review by PJSC in rendering PJSC's opinion, is attached to this joint proxy statement/prospectus as Annex C and is incorporated by reference into this joint proxy statement/prospectus. **PJSC's opinion was directed only to the fairness of the consideration proposed to be received by the holders of May common stock in the merger from a financial point of view, was provided to May's board of directors in connection with its evaluation of the merger, did not address any other aspect of the merger and did not, and does not, constitute a recommendation to any holder of May common stock as to how any**

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**stockholder should vote or act on any matter relating to the merger. The summary of PJSC's opinion set forth in this joint proxy statement/ prospectus is qualified in its entirety by reference to the full text of such opinion. Holders of May common stock are urged to read PJSC's opinion carefully and in its entirety.** PJSC has consented to the use of PJSC's opinion in this joint proxy statement/ prospectus.

In connection with PJSC's opinion, PJSC:

- (i) Reviewed certain publicly available financial statements and other information of May and Federated;
- (ii) Reviewed certain internal financial statements and other financial and operating data concerning May prepared by the management of May;
- (iii) Reviewed certain financial projections for May prepared by the management of May;
- (iv) Reviewed financial forecasts and estimates for Federated prepared by independent research analysts contained in publicly available research reports regarding the future financial performance of Federated and discussed such forecasts and estimates with the management of Federated;
- (v) Discussed the past and current operations, financial condition and prospects of May with the management of May;
- (vi) Discussed the past and current operations, financial condition and prospects of Federated, including information relating to certain strategic, financial and operational benefits anticipated from the merger, with the management of Federated;
- (vii) Reviewed the reported prices and trading activity of May common stock and Federated common stock;
- (viii) Compared the financial performance and condition of May and Federated and the reported prices and trading activity of May common stock and Federated common stock with that of certain other comparable publicly traded companies;
- (ix) Reviewed publicly available information regarding the financial terms of certain transactions comparable, in whole or in part, to the merger;
- (x) Reviewed the draft merger agreement dated as of February 25, 2005; and
- (xi) Performed such other analyses as PJSC deemed appropriate.

PJSC assumed and relied upon the accuracy and completeness of the information reviewed by PJSC for the purposes of this opinion and PJSC did not assume any responsibility for independent verification of such information and relied on such information being complete and correct. With respect to the financial projections of May, PJSC also assumed that the financial projections were reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of May. PJSC was not provided with, and did not have any access to, any financial projections of Federated prepared by the management of Federated or May. Accordingly, upon advice of the management of Federated and with May's consent, PJSC assumed that the financial forecasts and estimates for Federated published by independent research analysts contained in publicly available research reports that PJSC reviewed were a reasonable basis upon which to evaluate the future financial performance of Federated, and PJSC relied upon such estimates, as modified by additional information from the management of Federated, in performing PJSC's analysis. Furthermore, with May's consent, PJSC relied upon the estimates made by the management of Federated of certain potential strategic, financial and other benefits expected to result from the merger without independent assessment. PJSC did not conduct a physical inspection of the facilities or property of May or



Federated. PJSC did not assume any responsibility for any independent valuation or appraisal of the assets or liabilities of May or Federated, nor was PJSC furnished with any such valuation or appraisal. Furthermore, PJSC did not consider any tax effects of the merger on any person or entity.

PJSC assumed that the final form of the merger agreement would be substantially the same as the last draft reviewed by PJSC. PJSC also assumed that the merger would be consummated in accordance with the

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terms of the merger agreement, without waiver, modification or amendment of any material term, condition or agreement (including, without limitation, the consideration to be received by the holders of May common stock in connection with the merger), and that, in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the merger, no delay, limitation, restriction or condition would be imposed that would have a material adverse effect on May or Federated or the contemplated benefits of the merger. PJSC further assumed that all representations and warranties set forth in the merger agreement were true and correct and that all parties to the merger agreement will comply with all covenants of such party thereunder.

PJSC's opinion was necessarily based on economic, market and other conditions as in effect on, and the information made available to PJSC as of, February 26, 2005. In particular, PJSC did not express any opinion as to the prices at which shares of either May common stock or Federated common stock may trade at any future time. Furthermore, PJSC's opinion did not address May's underlying business decision to undertake the merger.

No limitations were imposed by May's board of directors upon PJSC with respect to investigations made or procedures followed by PJSC in rendering PJSC's opinion.

The following summarizes the significant financial analyses performed by PJSC and reviewed with May's board of directors on February 27, 2005, in connection with the delivery of PJSC's opinion. The financial analyses summarized below include information presented in tabular format. In order to fully understand PJSC's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of PJSC's financial analyses.

***Historical Share Price Analysis – May***

PJSC performed an historical share price analysis to provide background information with respect to historical share price performance of May common stock and to assess the price implied by the merger consideration in comparison to this historical share price performance.

PJSC reviewed the closing prices and trading volumes of May common stock on the New York Stock Exchange from February 25, 2000, to February 25, 2005 (one trading day prior to the rendering of PJSC's opinion). During the twelve months ended February 25, 2005, the high closing price for May common stock was \$36.31 per share and the low closing price was \$23.95 per share. In addition, during the twelve months ended February 25, 2005, the average closing price for May common stock was \$28.94 per share and the median closing price was \$28.51 per share. During the period from February 25, 2000 to February 25, 2005, the high closing price for May common stock was \$41.25 per share and the low closing price was \$18.01 per share.

PJSC calculated the premiums implied by the blended merger consideration of \$35.44, which we refer to as the implied per share merger consideration, for each outstanding share of May common stock to derive premiums over the median price of May common stock for the specified time periods below. The implied per share merger consideration of \$35.44 is based on \$17.75 per share in cash and the 0.3115 shares of Federated common stock valued at \$56.79 as of the close of trading on February 25, 2005. PJSC derived premiums over the median price of May common stock for periods prior to (1) January 14, 2005 (the date on which, after the stock market's close, May announced the resignation of its chief executive officer, after which, on the following day, the price of May common stock closed at \$32.21, up 15.7%), and (2) February 25, 2005 (one trading day prior to the rendering of PJSC's opinion). PJSC analyzed premiums over the median price of May common stock prior to January 14, 2005, in order to analyze the premiums without the effect on the price of

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May common stock of public speculation regarding a potential merger with Federated. The derived premiums were:

	<b>Offer Price Premium to Median</b>
<b>Time Periods Prior to Jan. 14, 2005:</b>	
7 Days Prior	27.6%
30 Days Prior	23.7
60 Days Prior	23.6
90 Days Prior	24.6
180 Days Prior	35.5
Last 1 Year Prior	24.3
Last 3 Years Prior	28.9
Last 5 Years Prior	23.9
<b>Time Periods Prior to Feb. 25, 2005:</b>	
7 Days Prior	4.3
30 Days Prior	6.3
60 Days Prior	11.0
90 Days Prior	20.9
180 Days Prior	25.6
Last 1 Year Prior	24.3
Last 3 Years Prior	28.9
Last 5 Years Prior	23.5

PJSC also reviewed the relative performance from February 25, 2000, to February 25, 2005, of (1) May, (2) Federated, (3) the Standard & Poor's 500 Index, and (4) a market capitalization weighted industry index consisting of the following department store retailers: Dillard's, Inc., J.C. Penney Company, Inc., Kohl's Corporation, Nordstrom, Inc., The Neiman Marcus Group, Inc. and Saks Incorporated. During the period from February 25, 2004, to February 25, 2005 (one trading day prior to the rendering of PJSC's opinion), the price of May common stock returned 0.0%, the price of Federated common stock increased 8.1%, the market capitalization weighted index appreciated 14.3%, and the S&P 500 Index appreciated 5.9%. During the period from February 25, 2000, to February 25, 2005, the price per share of May common stock increased 38.0%, the price per share of Federated common stock increased 74.4%, the market capitalization weighted index appreciated 97.9%, and the S&P 500 Index depreciated 9.1%.

The above analysis showed that: (1) the closing price per share of May common stock of \$35.35 on February 25, 2005 was just below \$36.31, its highest closing price during such period, and above its median price over the one year period prior to February 25, 2005 (\$28.51); and (2) the price of May common stock increased during the one year period ending February 25, 2005 to a lesser extent than the industry index and the S&P 500. Furthermore, the implied per share merger consideration represented a premium of not less than 23.6% for all periods up to January 14, 2005 (one trading day prior to the announcement of the resignation of May's chief executive officer), which PJSC believed to be the most relevant time period to consider. This analysis suggested that the value of the implied per share merger consideration was greater than the median of historical trading prices of May common stock over each calculated period.

***Analysis of Selected Publicly Traded Comparable Companies***

PJSC performed a comparable companies analysis to determine (1) what May's valuation would be if the May common stock traded in the valuation range of comparable retail companies, as determined based on publicly-available financial metrics for comparable retail companies, and (2) what May's valuation would be if the May common stock traded in such range and were to receive a premium to this valuation consistent with premiums

received by other publicly traded companies in recent, large mergers and acquisitions.

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PJSC reviewed and compared selected financial data of May with similar data using publicly available information of the following publicly traded companies, which, based on PJSC's experience with companies in the department store retail industry, PJSC deemed comparable to May:

Federated,

Dillard's, Inc.,

J.C. Penney Company, Inc.,

Kohl's Corporation,

Nordstrom, Inc.,

The Neiman Marcus Group, Inc. and

Saks Incorporated.

These companies are referred to under this section as the Peter J. Solomon Company as the comparable companies.

PJSC calculated and compared various financial multiples and ratios, including, among other things: (1) the most recent stock price per share as a multiple of earnings per share, commonly referred to as earnings per share or E.P.S., for the fiscal years (ended January 31 of the following year) 2004, 2005 and 2006 based upon (i) the closing stock prices as of February 25, 2005, and the median of Wall Street analysts' estimates for E.P.S. for May as reported by First Call Investment Research on February 25, 2005 (one trading day prior to the rendering of PJSC's opinion) for the comparable companies and (ii) E.P.S. for May based on (a) actual 2004 E.P.S. of May, (b) a set of projections prepared by May management, which we refer to as the Base Case, and (c) the median of Wall Street analysts' expectations of E.P.S. for May for fiscal years 2005 and 2006; and (2) enterprise value (which represents total equity value plus book values of total debt, preferred stock and minority interests less cash) as a multiple of (i) net sales, earnings before interest and taxes, commonly referred to as EBIT, and earnings before interest, taxes, depreciation and amortization, commonly referred to as EBITDA, for the comparable companies and (ii) pro forma net sales, EBIT and EBITDA of May (assuming May's acquisition of Marshall Field's occurred at the beginning of fiscal 2004 using estimates provided by May), in either case, over the latest twelve months or fiscal year ended January 31, 2005.

Based on this data, as of February 25, 2005, PJSC developed a summary valuation analysis based on a range of trading valuation multiples and ratios for certain of the comparable companies and May. This analysis resulted in the following ranges of multiples and ratios:

	<b>Range of Trading Multiples</b>		
<b>Trailing Data for Last Twelve Months ended January 31, 2005</b>			
Enterprise Value as a Ratio of:			
Net Sales	60.0%	-	115.0%
EBITDA	6.0x	-	8.0x
EBIT	9.0x	-	14.0x
Equity Value as a Ratio of:			
Net Income	22.0x	-	14.0x
<b>Projected Data</b>			
Equity Value as a Ratio of:			
2005 Net Income	12.0x	-	20.0x

2006 Net Income	11.0x	-	16.0x
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PJSC calculated the implied equity value per share of May common stock using the multiples and ratios from the comparable companies and applied them to May's financial statistics, both excluding and including a control premium. For these purposes, PJSC used a control premium of 19%, which is the mean control

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premium paid (to closing price one week prior) in all announced United States mergers and acquisitions transactions valued over \$1 billion since February 22, 2002, as reported by Thomson Mergers & Acquisitions.

This analysis yielded: (i) a range of values from \$20.00 to \$40.00 per share for May common stock excluding a control premium, and PJSC noted that the implied per share merger consideration of \$35.44 was near the top of the valuation range for this analysis, and (ii) a range of values from \$23.80 to \$47.60 per share of May common stock including a control premium, and PJSC noted that the implied per share merger consideration of \$35.44 was above the middle of the range of value implied by this analysis. This analysis suggested that the value of the implied per share merger consideration was within a range of values for May determined by comparison to the values of the comparable companies both with and without a control premium.

***Analysis of Selected Comparable Transactions***

To analyze the valuation of the implied per share merger consideration to be received by holders of May common stock relative to the consideration received by shareholders in other similar transactions, PJSC prepared an analysis of selected comparable transactions.

Using publicly available information, PJSC reviewed certain mergers and acquisitions transactions in the department store retail industry which PJSC believed were comparable to the merger. The list of transactions reviewed were (including the acquiror and target in the transaction, respectively):

(i) Kmart Holding Corporation/ Sears Roebuck & Co.

(ii) Jones Apparel Group/ Barneys, Inc.

(iii) May/ Marshall Field's and nine Mervyn's stores

(iv) Proffitt's Inc./ Saks Holdings, Inc.

(v) Dillard's Inc./ Mercantile Stores Co. Inc.

(vi) Proffitt's Inc./ Carson Pirie Scott & Co.

(vii) Proffitt's Inc./ Parisian, Inc.

(viii) May/ Strawbridge & Clothier

(ix) Federated/ Broadway Stores Inc.

(x) Federated/ R.H. Macy & Co., Inc.

These transactions are referred to under this section as the Peter J. Solomon Company as the comparable transactions.

PJSC calculated the multiples of the last twelve months net sales, EBITDA and EBIT paid in these selected comparable transactions. PJSC calculated the implied equity values per share for May using this range of multiples and ratios applied to pro forma statistics for 2004 of May (assuming the acquisition of Marshall Field's occurred at the beginning of fiscal 2004, according to management of May). This analysis resulted in the following ranges of multiples and ratios:

	<b>Range of Multiples</b>		
<b>Enterprise Value as a Ratio of:</b>			
Net Sales	65.0%	-	125.0%
EBITDA	8.0x	-	14.5x

EBIT 11.0x - 19.0x

Based on the foregoing, this analysis yielded a range of values from \$28.00 to \$60.00 per share of May common stock. PJSC noted that the implied per share merger consideration fell in the range of the results of



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this analysis. This analysis suggested that the value of the implied per share merger consideration was within the range of values received in the comparable transactions.

***Discounted Cash Flow Analysis***

PJSC performed a discounted cash flow analysis to calculate the theoretical per share value of May common stock based on the value of earnings from five years of forecasted future cash flows of May.

PJSC prepared a discounted cash flow analysis to calculate the net present value per share of May common stock based on two financial forecasts prepared by May: (a) the Base Case and (b) a set of projections of May provided by May management derived from adding to the Base Case the following: the benefits of combining certain May divisions, the sale of May's receivables portfolio and special share repurchases and debt refinancing per May's management, which we refer to as the Alternative Case. In performing its discounted cash flow analysis, PJSC considered various assumptions that it deemed appropriate based on a review with management of May's prospects and risks. PJSC believed it appropriate to utilize various discount rates ranging from 7.5% to 9.5% and EBITDA terminal value multiples ranging from 6.5x to 8.5x to apply to forecasted EBITDA for the fiscal year 2008.

Based on the foregoing, this analysis yielded a range of net present values from \$27.00 to \$42.00 per share of May common stock based on the Base Case and a range of net present values from \$32.00 to \$46.00 per share of May common stock based on the Alternative Case. PJSC noted that the implied per share merger consideration fell within the range of per share results from these analyses. This analysis suggested that the value of the implied per share merger consideration was within the range of values of the May common stock based on the value of projected earnings from five years of forecasted future cash flows of May.

***Historical Share Price Analysis Federated***

In view of the fact that holders of May common stock would receive shares of Federated common stock as part of the merger consideration, PJSC evaluated the price of Federated common stock at February 25, 2005, relative to its historical share price performance.

PJSC reviewed the closing prices and trading volumes of Federated common stock on the New York Stock Exchange from February 25, 2000, to February 25, 2005 (one trading day prior to the rendering of PJSC's opinion). During the twelve months ended February 25, 2005, the high closing price for the Federated common stock was \$59.13 per share and the low closing price was \$43.11 per share. In addition, during the twelve months ended February 25, 2005, the average closing price for Federated common stock was \$50.70 per share and the median closing price was \$49.99 per share. During the period from February 25, 2000, to February 25, 2005, the high closing price for Federated common stock was \$59.13 per share and the low closing price was \$23.50 per share.

PJSC noted that the closing price of Federated common stock on February 25, 2005 (one trading day prior to the rendering of PJSC's opinion) was higher than the median price over the seven day period prior to February 25, 2005, lower than the median price over the 30 and 60 day periods prior to February 25, 2005, and higher than the 90 and 180 day periods prior to February 25, 2005. This analysis suggested that the value of the Federated common stock to be received by holders of May common stock as a part of the merger consideration was not significantly above the range of historical trading prices of Federated common stock for recent periods.

***Relative Contribution Analysis***

PJSC performed a relative contribution analysis to compare the historical and projected financial operating contributions of each company relative to enterprise and equity value contributions of each company to the combined company based on the implied per share merger consideration for May and the closing price for Federated common stock as of February 25, 2005.

PJSC calculated the relative net sales, EBITDA, EBIT and net income contributions of May and Federated based on actual historical results and projected results based on Base Case of May and a set of

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estimates of Federated based on Federated management's guidance relating to net sales, comparable store sales growth, EBITDA and E.P.S. in fiscal year 2005 and fiscal year 2006 and E.P.S. growth rate, which we refer to in this joint proxy statement/prospectus as the Guidance Case. PJSC compared the actual net income contribution of each company for fiscal years 2002, 2003 and 2004 and the projected net income contribution of each company for fiscal years 2005, 2006 and 2007 to the equity value contributions of each company to the combined company based on the implied per share merger consideration for May and the closing price for Federated common stock as of February 25, 2005. PJSC noted that the equity value contribution of May at the implied per share merger consideration exceeded the net income contribution of May for all periods analyzed. PJSC also compared actual net sales, EBITDA and EBIT (pro forma for May in 2004) for fiscal years 2002, 2003 and 2004 and projected net sales, EBITDA and EBIT for fiscal years 2005, 2006 and 2007 to contributions of each company to the enterprise value contributions of each to the combined company based on the implied per share merger consideration for May common stock and the closing price for Federated common stock as of February 25, 2005.

PJSC noted that the percentage enterprise value contribution of May at the implied per share merger consideration exceeded each of the percentage net sales, EBITDA and EBIT contributions of May for all periods analyzed and that the percentage equity value contribution of May at the implied per share merger consideration exceeded the percentage net income contributions of May for all periods analyzed, indicating, in all cases, a higher May valuation relative to its net sales, EBITDA, EBIT and net income contributions to the combined company.

***Historical Exchange Ratio Analysis***

PJSC prepared an historical exchange ratio analysis, which compares the exchange ratio determined by dividing the price of May common stock by the price of Federated common stock price, to evaluate the exchange ratio implied by the per share merger consideration, assuming an all stock deal, relative to the historic exchange ratio.

PJSC compared the historical per share prices of May common stock and Federated common stock for the one-year period prior to February 25, 2005, in order to determine the implied average exchange ratio that existed for the period. The implied exchange ratio of 0.624x shares of Federated common stock for each share of May common stock (based on the implied per share merger consideration divided by Federated's closing stock price of \$56.79 per share on February 25, 2005) is greater than the average exchange ratio of 0.571x for the one-year period prior to February 25, 2005.

PJSC noted that using such one year average exchange ratio of .571 and the price of Federated common stock of \$56.79 would have implied a value per share of May common stock of \$32.43, well below the implied per share merger consideration, which suggested that the implied exchange ratio of the merger was greater than the historical average exchange ratio for such period.

***Pro Forma Merger Analysis***

In view of the fact that holders of May common stock would receive shares of Federated common stock as part of the merger consideration, PJSC analyzed the pro forma earnings per share of Federated common stock as a result of the merger.

PJSC analyzed the pro forma impact of the merger on Federated's E.P.S. in fiscal years ended January 31, 2007, 2008 and 2009. PJSC compared the projected stand alone earnings per share of Federated common stock based on the Guidance Case, on a standalone basis, to the pro forma earnings per share of the common stock of the combined company based on the Guidance Case of Federated and the Base Case of May. This analysis took into account certain adjustments for lost sales from stores sold and sales disruptions based on guidance from management of Federated. This analysis was performed both with and without synergies in 2007, 2008 and 2009 based on guidance from management of Federated. This analysis suggested that, excluding synergies, the merger would be dilutive in 2007 and 2008 and accretive in 2009 to holders of Federated common stock.

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PJSC noted that, including the synergies, this analysis suggested that the merger would be accretive on an earnings per share basis in 2007, 2008 and 2009 to holders of Federated common stock.

***Miscellaneous***

In arriving at PJSC's opinion, PJSC performed a variety of financial analyses, the material portions of which are summarized above. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances and, therefore, such an opinion is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, PJSC did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to significance and relevance of each analysis and factor. Accordingly, PJSC believes that its analysis must be considered as a whole and that selecting portions of its analysis, without considering all such analyses, could create an incomplete view of the process underlying PJSC's opinion.

In performing its analyses, PJSC relied on numerous assumptions made by the management of May and Federated and made numerous judgments of its own with regard to current and future industry performance, general business and economic conditions and other matters, many of which are beyond the control of May and Federated. Actual values will depend upon several factors, including changes in interest rates, dividend rates, market conditions, general economic conditions and other factors that generally influence the price of securities. The analyses performed by PJSC are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. Such analyses were prepared solely as a part of PJSC's analysis of the fairness from a financial point of view of the consideration proposed to be received by the holders of May common stock in connection with the merger and were provided to May's board of directors in connection with the delivery of PJSC's opinion. The analyses do not purport to be appraisals or necessarily reflect the prices at which businesses or securities might actually be sold, which are inherently subject to uncertainty. Because such analyses are inherently subject to uncertainty, neither of May or PJSC or any other person assumes responsibility for their accuracy. With regard to the comparable public company analysis and the comparable transactions analysis summarized above, PJSC selected comparable public companies on the basis of various factors for reference purposes only; however, no public company or transaction utilized as a comparison is fully comparable to May or the merger. Accordingly, an analysis of the foregoing was not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the acquisition or public trading value of the comparable companies and transactions to which May and the merger were being compared. The merger consideration in the merger was determined through arm's-length negotiations between May and Federated and was approved by May's board of directors. PJSC did not recommend any specific merger consideration to May or that any given merger consideration constituted the only appropriate merger consideration for the merger. In addition, as described elsewhere in this joint proxy statement/prospectus, PJSC's opinion was one of many factors taken into consideration by May's board of directors in evaluating the merger. Consequently, the PJSC analyses described above should not be viewed as determinative of the opinion of May's board of directors or management with respect to the merger.

As part of its investment banking activities, PJSC is regularly engaged in the evaluation of businesses and their securities in connection with mergers and acquisitions, restructurings and valuations for corporate or other purposes. May's board of directors selected PJSC to deliver an opinion with respect to the consideration proposed to be received by the holders of May common stock in connection with the merger on the basis of such experience.

The financial advisory services PJSC provided to May in connection with the merger were limited to the delivery of PJSC's opinion.

Under the terms of its engagement with May, PJSC received a fee of \$1,650,000 for its financial advisory services in connection with the merger, all of which was payable upon the delivery of PJSC's opinion. In addition, May has also agreed to reimburse PJSC for its out-of-pocket expenses, including fees and

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disbursements of its counsel, incurred in connection with its engagement and to indemnify PJSC and certain related persons against liabilities and expenses, including liabilities under the federal securities laws, relating to or arising out of its engagement as financial advisor to May.

PJSC has not received compensation during the last two years for providing investment banking services to May or Federated.

**Opinion of Federated's Financial Advisor**

Goldman, Sachs & Co. delivered an oral opinion to Federated's board of directors, subsequently confirmed in writing, to the effect that, as of February 27, 2005, and based upon and subject to the factors and assumptions set forth in the opinion, the \$17.75 in cash and 0.3115 shares of Federated common stock to be paid by Federated for each outstanding share of May common stock pursuant to the merger agreement was fair from a financial point of view to Federated.

The full text of the written opinion of Goldman Sachs, dated February 27, 2005, which sets forth the assumptions made, procedures followed, matters considered, and limitations on the review undertaken in connection with the opinion, is attached as Annex D. Goldman Sachs provided its opinion for the information and assistance of Federated's board of directors in connection with its consideration of the merger. Goldman Sachs' opinion is not a recommendation as to how any holder of Federated common stock should vote with respect to the merger. We encourage you to read the opinion in its entirety.

In connection with rendering the opinion described above and performing its related financial analyses, Goldman Sachs reviewed, among other things:

the merger agreement;

annual reports to stockholders and Annual Reports on Form 10-K of Federated and May for the five fiscal years ended January 31, 2004;

certain interim reports to stockholders and Quarterly Reports on Form 10-Q of Federated and May;

certain other communications from Federated and May to their respective stockholders;

certain internal financial analyses and forecasts for Federated prepared by its management; and

certain financial analyses and forecasts for May prepared by the management of Federated which are referred to as the Forecasts, including certain cost savings and operating synergies projected by the management of Federated to result from the merger, which are referred to as the synergies.

Goldman Sachs held discussions with members of the senior management of Federated regarding their assessment of the strategic rationale for, and the potential benefits of, the merger. Goldman Sachs also held discussions with members of the senior management of Federated and May regarding the past and current business operations, financial condition and future prospects of Federated and May.

In addition, Goldman Sachs:

reviewed the reported price and trading activity for the shares of Federated common stock and the shares of May common stock;

compared certain financial and stock market information for Federated and May with similar information for certain other companies the securities of which are publicly traded;

reviewed the financial terms of certain recent business combinations in the department store and retail industry specifically and in other industries generally; and

performed such other studies and analyses, and considered such other factors, as Goldman Sachs considered appropriate.

Goldman Sachs has relied upon the accuracy and completeness of all of the financial, accounting, legal, tax and other information discussed with or reviewed by it and has assumed such accuracy and completeness

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for purposes of rendering its opinion. In that regard, Goldman Sachs has assumed with the consent of Federated that the Forecasts, including the synergies, were reasonably prepared on a basis reflecting the best currently available estimates and judgments of Federated. In addition, Goldman Sachs did not make an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or off-balance-sheet assets and liabilities and the credit card assets as to which Federated has announced that it is exploring various alternatives) of Federated or May or any of their respective subsidiaries, and Goldman Sachs was not furnished with any such evaluation or appraisal. Goldman Sachs also assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the merger will be obtained without any adverse effect on Federated or May, or the expected benefits of the merger, in any way meaningful to Goldman Sachs' analyses.

The following is a summary of the material financial analyses presented by Goldman Sachs on February 25, 2005, and February 27, 2005, to Federated's board of directors in connection with rendering its opinion. The following summary, however, does not purport to be a complete description of the financial analyses performed by Goldman Sachs. Goldman Sachs believes that each of these analyses was relevant to its examination and conclusion as to whether the consideration to be paid by Federated for each outstanding share of May common stock pursuant to the merger agreement was fair from a financial point of view to Federated. The measures chosen for analysis were selected by Goldman Sachs as customary and relevant to an acquisition utilizing a combination of cash and common stock of the acquiring company. The order of analyses described does not represent the relative importance or weight given to those analyses by Goldman Sachs. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of Goldman Sachs' financial analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before February 27, 2005, and is not necessarily indicative of current market conditions.

***Transaction Premium Analysis***

Goldman Sachs calculated the implied premium over the market price at various points for each share of May common stock that would be received by May stockholders. In these calculations, Goldman Sachs utilized an implied transaction price per share of \$35.50. This price was calculated using a fixed exchange ratio of 0.3115 Federated common shares for each May share of common stock, fixed cash consideration of \$17.75 per share of May common stock and the share price of \$56.99 of Federated common stock based on the ten-day average trading price as of February 25, 2005, (the last trading day prior to the announcement of the proposed merger). Goldman Sachs compared the implied transaction price per share of \$35.50 with the following trading prices for May common stock:

the closing price of \$27.73 on January 13, 2005 (the last full trading day prior to any speculation regarding the resignation of May's chief executive officer and a potential transaction between Federated and May);

the average trading price of \$29.03 over the one-year period prior to January 13, 2005; and

the twelve-month high trading price of \$36.31.

The results of Goldman Sachs' calculations are reflected below:

<b>May Stock Price on:</b>	<b>Implied Premium Based on Implied Transaction Price per Share of \$35.50</b>
January 13, 2005	28.0%
One-year average	22.3%
Twelve-month High	(2.2)%



**Table of Contents*****Implied Transaction Multiples***

The implied transaction multiples represent the ratio of the implied purchase price (expressed as either the implied fully diluted equity consideration or the implied enterprise value) to various financial measures, including net sales, earnings before interest, taxes, depreciation and amortization, or EBITDA, and net income. In performing this analysis, Goldman Sachs first derived the implied fully diluted equity consideration and the implied enterprise value in the merger based on the implied transaction price per share of \$35.50 in the merger. The fully diluted equity consideration amount was derived by multiplying the implied transaction price per share of \$35.50 by the number of fully diluted shares of May common stock outstanding as of February 25, 2005, assuming the conversion of May's convertible preferred shares subject to its employee stock option plan, referred to as the ESOP, based on information provided by May management. The enterprise value of May was derived by adding the fully diluted equity consideration to May's net debt of \$5,925 million, as estimated for May as of July 31, 2005 (the estimated closing date of the merger), by Federated management. Net debt means total debt less cash and cash equivalents.

Goldman Sachs also calculated the fully diluted May equity consideration amount based on the implied transaction price per share of \$35.50 as a multiple of the 2005 and 2006 net income for May based on estimates as of February 12, 2005, prepared by Federated management.

Goldman Sachs also calculated the May enterprise value based on the implied transaction price per share of \$35.50 as a multiple of the following historical and estimated financial results for May:

2004 net sales based on publicly available information;

Federated management's estimates of May net sales for 2005 and 2006;

2004 EBITDA based on publicly available information;

Federated management's estimates of May EBITDA for 2005 and 2006;

2004 earnings before interest and taxation, or EBIT, based on publicly available information; and

Federated management's estimates of May EBIT for 2005 and 2006.

All 2004 financial results for May give effect to a full year pro forma adjustment for May's acquisition of Marshall Field's from Target Corporation in July 2004. In addition, all net sales amounts used for purposes of the foregoing calculations exclude leased and licensed department income. Each year referred to relates to the fiscal year ending in January of the following year.

The results of these analyses are as follows:

<b>Fully Diluted Equity Consideration as a Multiple of:</b>	<b>Implied Transaction Price per Share:</b>
2005 estimated net income	17.4x
2006 estimated net income	15.0x
<b>Enterprise Value as a Multiple of:</b>	
2004 net sales	1.1x
2005 estimated net sales	1.1x
2006 estimated net sales	1.0x
2004 EBITDA	8.5x
2005 estimated EBITDA	7.9x
2006 estimated EBITDA	7.5x
2004 EBIT	13.1x
2005 estimated EBIT	11.8x



2006 estimated EBIT

10.9x

**Table of Contents*****Discounted Cash Flow Analysis***

Goldman Sachs performed a discounted cash flow analysis with respect to May of the after-tax cash flow projected to be available for use at the discretion of May's management, or free cash flow. This analysis is designed to represent the present value of a company based on its projected future cash flows. The discounted cash flow analysis gives effect to the synergies projected to result from the merger and related one-time costs. Goldman Sachs performed this analysis based on projections for May as prepared by Federated management and publicly available information. For the purposes of this analysis, Goldman Sachs utilized outstanding share and option information for May as provided by May management and assumed the conversion of all of May's ESOP preference shares into common shares and the exercise of all in-the-money options.

In performing this discounted cash flow analysis, Goldman Sachs used estimates of May's free cash flows for the period from 2005 through 2009 and estimates of free cash flows from synergies projected to result for the period from 2005 through 2014, in each case prepared by Federated management, and applied discount rates ranging from 8.0% to 11.0% and terminal EBITDA multiples ranging from 6.0x to 7.0x. Goldman Sachs derived implied equity value indications ranging from \$32.47 to \$45.46 per share with respect to May common stock.

***Pro Forma EPS Analysis***

A pro forma earnings per share, referred to as EPS, analysis involves the review of the projected earnings for the combined company, taking into account the effects of the merger. Goldman Sachs compared, for each of 2006 (the first full-year following projected completion of the merger), 2007 and 2008, the estimated EPS of Federated on a standalone basis with the estimated EPS of the combined company on the one hand, excluding one-time costs and, on the other hand, including one-time costs, in each case, using estimates prepared by Federated management for each of Federated, May, and the synergies projected to result from the merger and an illustrative asset integration strategy involving the closing of stores. Goldman Sachs prepared these analyses based on a total consideration of \$35.50 per share of May common stock to be received by May stockholders, consisting of \$17.75 in cash and 0.3115 shares of the common stock of Federated.

Based on the foregoing and a merger closing date of July 31, 2005, and without giving effect to the one-time costs, the merger would be dilutive to Federated's EPS in 2006 and somewhat accretive in each of 2007 and 2008. In giving effect to those one-time costs, the proposed merger would be significantly dilutive to Federated's EPS in 2006, dilutive in 2007 and somewhat accretive in 2008.

***Unlevered Internal Rate of Return Analysis***

Goldman Sachs performed an analysis of the implied internal rates of return that could theoretically be realized by an acquirer of May by utilizing projections of May's free cash flows for 2005 through 2014 as estimated by Federated's management and based on publicly available information. These projections included the synergies projected to result from the merger and an illustrative asset integration strategy involving the closing of stores. Goldman Sachs calculated implied rates of return assuming an acquisition of May as of July 31, 2005, based on a range of purchase prices per share of May common stock of \$35.00 to \$36.00 and a disposition of May by the acquirer at the end of 2014 at aggregate prices equal to 6.0x, 6.5x and 7.0x projected 2014 EBITDA. Based on the foregoing assumptions, Goldman Sachs calculated that an acquirer of May would realize implied internal rates of return ranging from 9.6% to 11.1%.

***Selected Companies Analysis***

Goldman Sachs reviewed selected publicly available financial information, ratios and multiples for May and compared that data to corresponding data for the following selected companies in the department store and retail industry:

Dillard's, Inc.

Federated Department Stores, Inc.

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Nordstrom, Inc.

The Neiman Marcus Group, Inc.

J.C. Penney Company, Inc.

Saks Incorporated

Although none of the selected companies are directly comparable to May, the companies included were chosen because they are publicly traded companies with operations that, for purposes of analysis, may be considered similar to the operations of May.

The equity market capitalization for the selected companies utilized by Goldman Sachs was calculated by multiplying each company's closing stock price as of February 25, 2005, by the number of that company's fully diluted shares outstanding. The equity market capitalization for May was calculated based on the \$35.50 per share implied transaction price to be received by May stockholders in the merger. Each company's enterprise value was calculated by adding to its diluted equity market capitalization the amount of its net debt as of the end of its most recently completed fiscal quarter. Historical financial results utilized by Goldman Sachs for purposes of this analysis were based upon information contained in the applicable company's latest publicly available financial statements as of February 25, 2005. Estimates of future results used by Goldman Sachs in this analysis were calendarized and based on median estimates provided by Institutional Brokers Estimate System, referred to as IBES (a data service that compiles estimates issued by securities research analysts). Certain historical and estimated results were adjusted to reflect or exclude the pro forma effect of acquisitions. Goldman Sachs' analysis of the selected companies compared the following to the results for May:

the February 25, 2005, closing stock price as a percentage of the 52-week high stock price;

enterprise value as a multiple of (1) sales for the twelve-month period completed as of the end of the quarter most recently completed prior to the announcement of the transaction, referred to as the LTM Period, (2) EBITDA for the LTM Period, (3) EBITDA for 2005, (4) EBITDA for 2006, and (5) EBIT for the LTM Period;

the February 25, 2005, closing stock price as a multiple of estimated 2005 and 2006 EPS, referred to as the 2005 and 2006 P/ E;

five-year EPS compounded annual growth rate, referred to as the 5-Year EPS CAGR, based on IBES median estimates;

the 2006 P/ E multiple as a multiple of 5-Year EPS CAGR;

EBITDA and EBIT margins for the LTM Period; and

dividend yield.

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The following table compares the multiples and percentages referred to above calculated for the selected companies with comparable information derived by Goldman Sachs with respect to May based on the implied transaction price per share of \$35.50 payable in the merger:

	Selected Companies				May
	High	Low	Mean	Median	Based on Implied Transaction Price per Share of \$35.50
February 25, 2005 closing stock price as a percentage of the 52-week high stock price (except as noted for May)	100%	87%	95%	97%	98%
Enterprise value to LTM Period Sales	1.2x	0.5x	0.8x	0.8x	1.1x
Enterprise value to LTM Period EBITDA	9.5x	5.9x	7.8x	7.9x	8.6x
Enterprise value to 2005 EBITDA	8.6x	5.9x	7.3x	7.1x	8.1x
Enterprise value to 2006 EBITDA	8.1x	5.9x	6.8x	6.5x	7.4x
Enterprise value to LTM Period EBIT	16.2x	8.7x	12.3x	11.5x	13.2x
2005 P/ E	24.5x	12.3x	17.0x	15.2x	17.3x
2006 P/ E	20.2x	11.4x	14.7x	13.5x	15.4x
5-Year EPS CAGR	13.0%	5.0%	9.3%	9.6%	7.0%
2006 P/ E to 5-Year EPS CAGR	4.0x	1.1x	1.8x	1.2x	2.2x
LTM Period EBITDA margin	14.3%	7.2%	10.5%	10.7%	12.6%
LTM Period EBIT margin	10.4%	3.2%	7.2%	8.1%	8.2%
Dividend yield	1.1%	0.0%	0.8%	0.9%	2.8%

**Exchange Ratio Analysis**

Goldman Sachs calculated the implied exchange ratios of May common stock to Federated common stock based on the average closing share prices of May common stock and Federated common stock for the three-year and one-year periods ended February 24, 2005 (the last trading day prior to the presentation Goldman Sachs made to the Federated board of directors on February 25, 2005), and on the closing share prices of May common stock and Federated common stock on January 13, 2005, the last full trading day prior to any speculation regarding the resignation of May's chief executive officer and a potential transaction between Federated and May. Goldman Sachs also performed this analysis after taking into account the 50% cash component of the consideration to be paid for each share of May common stock as of February 24, 2005. This analysis compared the closing prices as if all of the merger consideration, or half of the merger consideration, were to be paid in shares of Federated common stock. The following table reflects the results of this analysis:

May Stock Price Over or on:	Exchange Ratio	
	100% Stock	50% Stock
3 Year Average	0.68x	0.34x
1 Year Average	0.57x	0.29x
January 13, 2005	0.48x	0.24x

***Selected Transactions Analysis***

Goldman Sachs analyzed certain publicly available information relating to selected business combination transactions involving companies in the department store and retail industry announced between December 1993 and January 2005. These transactions (listed by acquirer/target and month and year of announcement) included:

Jones Apparel Group, Inc./ Barney's New York, Inc. (November 2004)

K-Mart Holding Corporation/ Sears, Roebuck and Co. (November 2004)

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Investor Group consisting of Sun Capital Partners, Inc., Cerberus Capital Management, L.P., Lubert-Adler Real Estate Fund IV, L.P. and Klaff Partners, L.P./ Mervyn's LLC (July 2004)

The May Department Stores Company/ Marshall Field's division of Target Corporation (June 2004)

Proffitt's, Inc./ Saks Holdings, Inc. (July 1998)

Dillard's, Inc./ Mercantile Stores Company, Inc. (May 1998)

Proffitt's, Inc./ Carson Pirie Scott & Co. (October 1997)

Proffitt's, Inc./ G.R. Herberger's, Inc. (November 1996)

Proffitt's, Inc./ Parisian, Inc. (July 1996)

Proffitt's, Inc./ Younkers, Inc. (October 1995)

Federated Department Stores, Inc./ Broadway Stores, Inc. (August 1995)

Federated Department Stores, Inc./ R.H. Macy's & Co., Inc. (December 1994)

For each of the selected transactions, Goldman Sachs calculated the implied enterprise value of the target company as a multiple of the target's publicly reported EBITDA and sales, in each case, for the last twelve months, or LTM, period ended immediately prior to the announcement of the transaction (to the extent that information was publicly available). Goldman Sachs then compared the high, low, mean and median EBITDA and sales multiples calculated for the selected transactions with similar EBITDA and sales multiples calculated for the proposed merger between Federated and May. For purposes of this analysis, Goldman Sachs derived an implied enterprise value for May based on:

(1) an implied transaction price of \$35.25 per share of May common stock, derived from (i) the closing price of \$57.39 of Federated common shares on February 16, 2005; (ii) a fixed exchange ratio of 0.3070 Federated shares for each share of May common stock; and (iii) fixed cash consideration of \$17.63 per share of May common stock;

(2) a number of fully diluted outstanding May common shares, which takes into account the number of outstanding common shares issuable upon conversion of all May ESOP preference shares and upon the exercise of all in-the-money May options; and

(3) net debt of May equal to approximately \$5,925 million as of July 31, 2005, the expected closing date of the proposed merger, as estimated by Federated management.

The following table shows the results of this comparison which takes into account the full pro forma effect of May's acquisition of Marshall Field's from Target Corporation in July 2004:

**Selected Transactions**

<b>Enterprise Value as a Multiple of:</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>Median</b>	<b>Proposed Transaction</b>
EBITDA	20.1x	5.9x	10.7x	9.4x	8.5x
Sales	1.5x	0.4x	0.8x	0.7x	1.1x

***Premium Analysis of Selected Transactions***

Using publicly available information, Goldman Sachs calculated the premia paid in selected pending and completed cash-and-stock business combination transactions announced since January 1, 2000, in which all the target shares are being, or have been, acquired for consideration in excess of \$10 billion, 25% to 50% of which is paid in cash. These transactions (listed by acquirer/target and date of announcement) included:

The Procter & Gamble Company/ The Gillette Company (January 28, 2005)

Johnson & Johnson/ Guidant Corporation (December 15, 2004)

Sanofi-Synthelabo/ Aventis (January 26, 2004)

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Anthem Inc./ WellPoint Health Networks Inc. (October 27, 2003)

Allianz Aktiengesellschaft/ Dresdner Bank AG (April 1, 2001)

DB Investments consisting of Anglo American, the Oppenheimer Family and the Botswana Government/ De Beers Consolidated Mines (February 15, 2001)

Deutsche Telekom AG/ VoiceStream Wireless Corporation (July 24, 2000)

HSBC Holdings PLC/ Credit Commercial de France (April 1, 2000)

Tribune Company/ The Times Mirror Company (March 13, 2000)

Goldman Sachs calculated the premia represented by the transaction consideration in those transactions based on each target's closing stock price one day, one week and four weeks prior to announcement of the applicable transaction. Goldman Sachs compared the high, low, mean and median premia calculated for the selected transactions with the implied premium based on the closing prices of May common stock on the one day, one week and four weeks prior to: (i) January 13, 2005, referred to as the undisturbed price, and (ii) February 24, 2005, referred to as the market price.

In performing this analysis, Goldman Sachs calculated an implied enterprise value of May of \$16,821 million as of February 24, 2005, that was determined based on the same assumptions enumerated in (1) through (3) under the Selected Transactions Analysis described above.

The results of this analysis appear in the following tables:

Transaction	Selected Transaction				
	Transaction Value	Percent Cash	1 Day Prior to Announcement	1 Week Prior to Announcement	4 Weeks Prior to Announcement
	(In millions)				
<b>High</b>	\$ 65,657	40.0%	98.2%	84.2%	68.9%
<b>Low</b>	\$ 10,984	25.9%	0.3%	3.1%	13.1%
<b>Mean</b>	\$ 28,007	32.9%	23.7%	26.3%	35.1%
<b>Median</b>	\$ 19,656	33.7%	17.6%	21.3%	32.4%

Transaction	Proposed Transaction				
	Transaction Value	Percent Cash	1 Day Prior to:	1 Week Prior to:	4 Weeks Prior to:
	(In millions)				
<b>Undisturbed Price</b>	\$ 16,821	50.0%	27.1%	24.9%	24.7%
<b>Market Price</b>	\$ 16,821	50.0%	3.4%	11.8%	6.3%

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the



analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs' opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all the analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, Goldman Sachs made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all the analyses. No company or transaction used in the above analyses as a comparison is directly comparable to Federated or May or the proposed merger.

Goldman Sachs prepared these analyses for purposes of Goldman Sachs' providing its opinion to Federated's board of directors as to the fairness from a financial point of view to Federated of the \$17.75 in cash and 0.3115 shares of Federated common stock to be paid by Federated for each outstanding share of May common stock pursuant to the merger agreement. These analyses do not purport to be appraisals nor do they necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective

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advisors, none of Federated, Goldman Sachs or any other person assumes responsibility if future results are materially different from those forecast. As described above, Goldman Sachs' opinion to Federated's board of directors was one of many factors taken into consideration by Federated's board of directors in making its determination to approve the merger agreement.

Goldman Sachs and its affiliates, as part of their investment banking business, are continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and other transactions as well as for estate, corporate and other purposes. Goldman Sachs has acted as financial advisor to Federated in connection with, and has participated in certain of the negotiations leading to, the merger contemplated by the merger agreement. Goldman Sachs expects to receive fees for its services in connection with the merger, the principal portion of which is contingent upon consummation of the merger, and Federated has agreed to reimburse Goldman Sachs' expenses and indemnify Goldman Sachs against certain liabilities arising out of Goldman Sachs' engagement. Goldman Sachs also may provide investment banking and other services to Federated, May and their respective affiliates in the future for which Goldman Sachs may receive compensation.

In addition, Goldman Sachs is a full service securities firm engaged, either directly or through its affiliates, in securities trading, investment management, financial planning and benefits counseling, risk management, hedging, financing and brokerage activities for both companies and individuals. In the ordinary course of these activities, Goldman Sachs and its affiliates may provide such services to Federated, May and their respective affiliates, may actively trade the debt and equity securities (or related derivative securities) of Federated and May for their own account and for the accounts of their customers and may at any time hold long and short positions of such securities.

Federated selected Goldman Sachs as its financial advisor because it is an internationally recognized investment banking firm that has substantial experience in transactions similar to the merger. Pursuant to a letter agreement, dated February 25, 2005, Federated engaged Goldman Sachs to act as its financial advisor in connection with a possible acquisition of May. Pursuant to the terms of this letter agreement, Federated agreed to pay Goldman Sachs a transaction fee of \$27,500,000, \$2,750,000 of which was payable upon Federated's entering into a merger agreement to acquire May and \$24,750,000 of which is payable upon consummation of the merger. Federated has also agreed to reimburse Goldman Sachs for its reasonable expenses, including attorneys' fees and disbursements, and to indemnify Goldman Sachs against various liabilities, including various liabilities under the federal securities laws.

### **Interests of May Directors and Executive Officers in the Merger**

May's executive officers and members of the May board of directors, in their capacities as such, have financial interests in the merger that are in addition to or different from their interests as stockholders of May generally. May's board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement and the transactions contemplated thereby.

#### ***Federated Board of Directors After the Merger***

Under the merger agreement, Federated has agreed to select two members of May's board of directors who are recommended by the NCG Committee of Federated's board of directors and, if those individuals are willing to serve, Federated will use its reasonable best efforts to appoint those individuals to Federated's board of directors as of the effective time of the merger.

#### ***Executive Employment and Severance Agreements***

Under the merger agreement, May may, in the ordinary course of business, continue to enter into employment agreements or agree to employment agreement extensions, subject to certain limitations.

May has entered into employment agreements with approximately 375 of its current employees, including all of its current executive officers. Each of these agreements provides, among other things, for a non-

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competition covenant that is to be in effect for six months, one year or two years, as the case may be, after termination of employment. During the non-competition period, the executive is to be paid an amount equal to his or her base salary (we refer to this payment below as the non-compete payment ).

May has entered into severance agreements with approximately 38 of its current employees, including each of its current executive officers. Each of these agreements provides for cash severance and other benefits in the event that the individual's employment is terminated under certain circumstances as of or within two years following a change in control of May. For purposes of the severance agreements, a change in control will occur at the effective time of the merger. Severance benefits under the agreements with the executive officers currently include: (i) a lump sum in cash equal to (a) 300% of the greater of the executive's base salary at the time of termination or immediately prior to the change in control, plus (b) 300% of the executive's target bonus with respect to the year in which the change in control occurs; (ii) continuation of life and health insurance benefits for three years; and (iii) for executive officers, a cash payment, in consideration of the cancellation of all outstanding stock options, that is equal to the spread of those options at the time of termination. Each of the severance agreements also provides that the executive will receive the non-compete payment. Each of the severance agreements further provides that if, after taking into account the 20% golden parachute excise tax that may be applied to the executive's payments and benefits under his or her severance agreement and other May plans and programs, the executive's net benefits would be less than the executive's safe harbor amount under the Internal Revenue Code's so-called golden parachute rules, May will reduce the executive's cash severance payments so that the total change in control-related payments and benefits paid to the executive will not exceed the executive's safe harbor amount. Mr. Dunham's agreement provides that if the reduction described in the preceding sentence is not applicable, May will pay to Mr. Dunham 50% of the amount that would be otherwise necessary to make Mr. Dunham whole with respect to the excise tax.

Under the merger agreement, May may amend the severance agreements to eliminate the mandatory cash-out of options and to clarify that certain fringe benefits to which the executive is entitled under the executive's employment agreement immediately before the termination date will be provided through the end of the term of the employment agreement, as though employment had not been terminated, provided that this results in no duplication of benefits to be provided under the executive's severance agreement.

The table below lists the estimated aggregate cash severance and non-compete payment to which each of May's executive officers named in the Summary Compensation Table on page 155 other than Mr. Kahn, May's former chief executive officer (we will refer to these five individuals as the named executive officers ), would be entitled under his employment and severance agreements if the executive officer's employment with May was terminated as of the effective time of the merger under circumstances entitling the executive officer to the non-compete payment and to severance under the executive officer's severance agreement. We have also included the aggregate amount of cash severance and non-compete payments that would be payable under these circumstances to all of May's executive officers as a group.

Name	Cash Severance and Non-Compete Payment
Mr. Dunham	\$ 9,372,500
Mr. Wolfe	\$ 6,120,000
Mr. McNamara	\$ 5,678,000
Mr. Fingleton	\$ 5,202,000
Mr. Levitt	\$ 4,726,000
All executive officers as a group (13 persons)	\$ 46,806,300

***Equity-Based Awards***

Under the merger agreement, May may make grants of equity awards in fiscal 2005 and 2006 (if the merger is not consummated during fiscal 2005) in the ordinary course of business, subject to certain limitations.



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All outstanding stock options and restricted stock awards granted by May prior to February 27, 2005, will become immediately vested upon approval of the merger agreement by May's stockholders. Stock options and restricted stock awards granted by May on or after February 27, 2005, will become immediately vested upon the effective time of the merger. May stock options that are outstanding immediately prior to the effective time of the merger will be converted into options to purchase Federated common stock (as more fully described in the section entitled "The Merger Agreement - Covenants and Agreements - May Stock Options," beginning on page 108), which options will be otherwise subject to their terms. May restricted stock awards will be converted, along with all other outstanding shares of May common stock, into the right to receive the merger consideration, as described in the section entitled "The Merger Agreement" beginning on page 95.

The following table lists, with respect to the named executive officers, all of May's executive officers as a group, and all of May's non-management directors as a group, the number of (i) unvested options to purchase May common stock, along with the weighted average exercise price of such options, and (ii) restricted shares of May common stock, all of which will become vested as a result of either the approval of the merger agreement by May's stockholders or the consummation of the merger. The information shown on this table is based on the equity awards outstanding as of May 20, 2005.

Name	Number of Shares Subject to Unvested Options	Weighted Average Exercise Price of Unvested Options	Number of Restricted Shares
Mr. Dunham	236,250	\$ 30.428	100,000
Mr. Wolfe	90,000	\$ 31.185	65,000
Mr. McNamara	108,750	\$ 31.151	100,000
Mr. Fingleton	90,000	\$ 31.185	80,000
Mr. Levitt	87,500	\$ 30.985	45,000
All executive officers as a group (13 persons)	828,450	\$ 30.988	511,805
All non-management directors as a group (8 persons)	N/A	N/A	49,990

***Bonuses; Profit Sharing Plan***

Under the merger agreement, with respect to annual bonuses for May's fiscal year in which the effective time of the merger occurs, if May determines that it would be impractical after the effective time of the merger to continue to utilize one or more of the goals applicable in determining all or any portion of a May employee's bonus for that year, May may authorize a bonus for any employee who remains employed at the end of the fiscal year, which bonus includes an amount that would have been payable to the employee assuming performance under the discontinued goal had been at target levels.

Under the merger agreement, if, within the 18-month period following the effective time of the merger, a May employee is terminated at the initiative of Federated or an affiliate of Federated (including May and its subsidiaries) other than for cause, the employee will be entitled to payment of a pro-rata bonus with respect to the year of termination, based on actual results or assuming performance at target levels (depending upon the underlying performance goals). Each May employee will have the right individually to enforce his or her rights to this pro-rata bonus.

Under the merger agreement, with respect to May's tax-qualified Profit Sharing Plan, May may take such actions as are necessary to (i) equitably adjust the goals applied for purposes of determining matching contributions under the plan for the year in which the effective time of the merger occurs and (ii) based on this equitable adjustment, provide

for a pro-rata matching contribution (at a rate of at least 33<sup>1</sup>/<sub>3</sub>% for the portion of the plan year), up to the closing date of the merger, to be allocated under the plan as if the then-current plan year ended on the closing date of the merger.

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***Other Severance Arrangements***

May has established the Severance Policy for Associates, which provides for severance payments and benefits in the event that a participating employee is terminated under qualifying circumstances within 12 months following a change in control. Those of May's employees who are party to an individual severance agreement (including all executive officers) are not eligible to participate in this plan. The plan currently provides that a change in control would occur when May's stockholders approve the merger agreement. Under the merger agreement, May may modify the plan to provide that a change in control will occur at the effective time of the merger rather than upon approval of the merger agreement by May's stockholders, and to provide that the period during which a May employee may become entitled to benefits under the plan will be extended from 12 months to 24 months following the effective time of the merger.

Under the merger agreement, Federated and its affiliates (including May and its subsidiaries) will provide at least 30 days' notice to any May employee whose employment is terminated (other than for cause) as a result of the merger at or within 18 months after the effective time of the merger.

***Retirement Benefits***

*Deferred Compensation Plans.* May maintains two non-qualified deferred compensation plans, the Deferred Compensation Plan for Directors, as amended (referred to below as the Director Plan), which covers non-employee directors of May, and the Deferred Compensation Plan (referred to below as the Employee Plan), which covers certain May employees, including all executive officers. The Director Plan provides for deferrals of fees in either cash accounts, which accrue interest, or stock units, each of which is equivalent in value to one share of May common stock. All amounts deferred, whether deferred in a cash account or a stock unit account, will be paid in cash. The Employee Plan provides for deferrals of salary and bonuses in either cash accounts, which accrue interest, or in the form of stock units, each of which is equivalent in value to one share of May common stock and which may be paid in shares of May common stock or cash, as determined by the plan administrator. Each of these plans provides for a lump sum payout of the participant's accounts upon the occurrence of a change in control which, under their current terms, would occur upon approval of the merger agreement by May's stockholders; provided, that under the Director Plan, payment may not commence until the director's board service is terminated. Each May director will cease service on May's board of directors as of the effective time of the merger. All amounts deferred under the Director Plan and the Employee Plan are vested.

Under the merger agreement, May may make certain modifications to these non-qualified deferred compensation plans, to provide that (i) a change in control under these plans will occur at the effective time of the merger rather than upon approval of the merger agreement by May's stockholders and (ii) if the merger agreement has been approved by May's stockholders but the merger has not been consummated before December 28, 2005, then all outstanding balances under the deferred compensation plans will be distributed prior to the end of 2005, with stock units allocated under the plans being valued for this purpose as if the closing date of the merger were December 28, 2005.

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The following table lists, with respect to the named executive officers, May's executive officers as a group, and May's non-management directors as a group, the amount of cash or the number of stock units, as applicable, credited to their accounts under the applicable May deferred compensation plan as of May 20, 2005.

<b>Name</b>	<b>Cash Account</b>	<b>Stock Units</b>
Mr. Dunham	\$ 366,839	70,978
Mr. Wolfe	\$ 0	0
Mr. McNamara	\$ 1,895,970	43,092
Mr. Fingleton	\$ 1,046,540	18,109
Mr. Levitt	\$ 1,409,311	52,423
All executive officers as a group (13 persons)	\$ 5,819,901	217,055
All non-management directors as a group (8 persons)	\$ 298,325	187,965

*Supplementary Retirement Plan.* May maintains the Supplementary Retirement Plan, as amended, for the benefit of certain May employees, including May's executive officers. Under the plan generally, participants may become entitled to receive (i) a benefit based on 2% of the participant's final average pay, with credit for up to 25 years of service, or, if greater, (ii) a benefit based on the benefits to which the individual would have been entitled under May's tax-qualified retirement plans if certain Internal Revenue Code limitations did not apply (referred to as the Annual Minimum Benefit). Subject to certain transition rules adopted in 1997, benefits under the plan generally vest when a participant reaches age 60 with 10 years of service. However, in the event that (i) within five years after a change in control (currently defined under the plan as stockholder approval of the merger agreement), a participant's employment is terminated other than for cause, and (ii) as of the date of the change in control, the participant is within five years of qualifying for benefits under the Supplementary Retirement Plan, the participant is entitled to receive a benefit computed as if the participant had continued to be employed through the period ending on the earliest date on which he or she would have qualified for benefits, using the participant's final average pay as determined as of the date of the change in control or, if greater, as of the date of termination, and crediting the participant with additional years of service during this period.

Under the merger agreement, May may make the following modifications to the Supplementary Retirement Plan:

a change in control under the plan will occur at the effective time of the merger, rather than at the time May's stockholders approve the merger agreement;

any plan participant who is employed with May or one of its subsidiaries immediately prior to the effective time of the merger, who has completed five or more years of service and who is more than five years away from qualifying for benefits will be fully vested in the Annual Minimum Benefit that the participant has accrued as of the effective time of the merger;

eligibility for change in control-related benefits under the plan will be extended to plan participants who (i) as of the effective time of the merger have attained age 50 with five or more years of service, (ii) otherwise qualify for change in control related benefits, but whose employment terminates after the effective time of the merger because of death, or (iii) otherwise qualify for change in control-related benefits, but whose employment terminates because of death between the date on which May's stockholders approve the merger agreement and the closing date of the merger, provided that the merger is consummated;

as of the effective time of the merger, any plan participant who has not then completed five years of service will become vested in the participant's Annual Minimum Benefit accrued as of the effective time of the merger, which vesting will occur upon the completion of five years of service or upon the participant's termination of employment within 18 months following the effective time of the merger, if the termination of employment is at



the initiative of Federated or an affiliate of Federated (including May and its subsidiaries) other than for cause ; and

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benefits under the plan may commence on an actuarially reduced basis prior to the date currently provided under the plan, but in no event prior to age 55 (except in the case of survivor benefits payable in respect of a deceased participant).

*Retiree Welfare Benefits.* Under the merger agreement, May and Federated have agreed to certain matters with respect to May's retiree welfare benefit programs, including the following:

Federated and its affiliates (including May and its subsidiaries) will continue to provide to each May employee who is currently retired and each May employee who retires on or before the closing date of the merger (and eligible dependents), all benefits to which the individual (and eligible dependents) is entitled under May's retiree welfare benefit plans (e.g., post-retirement medical and life), without adverse modifications, in each case for the life of the retiree and the retiree's spouse;

specified active May employees (including each of the May named executive officers, two other executive officers and an additional 18 executives) who, immediately prior to the effective time of the merger, are eligible for retiree welfare benefits under a May retiree welfare benefit plan will qualify for retiree welfare benefits upon termination of employment for any reason following the effective time of the merger, provided that these benefits will generally not commence until the employee reaches age 55, and Federated and its affiliates (including May and its subsidiaries) will not adversely alter or modify the requirement that May's retiree welfare benefits be provided for the life of any such retired May employee and any such employee's spouse, or require any premium payments by any such retired May employee or any such employee's eligible dependents; and

the level of excess medical benefits to be provided to or on behalf of the active May employees described above will not be reduced from that currently provided under the applicable May plan, and the level of medical benefits to which these May employees become entitled will be no less favorable than is provided from time to time to similarly situated employees of Federated and its affiliates.

Federated has also agreed that each affected May employee or retiree will have the right individually to enforce his or her rights to these retiree welfare benefits.

*Store Discounts.* Under the merger agreement, Federated and its affiliates (including May and its subsidiaries) will provide to each director and employee of May and its affiliates who is currently retired or who retires prior to the effective time of the merger, a lifetime discount on purchases in accordance with May's policy currently covering that person. Federated has also agreed that each of these May directors and employees will have the right individually to enforce his or her rights as described in the immediately preceding sentence. In addition, Federated has agreed that Federated and its affiliates (including May and its subsidiaries) will provide to each May director or employee who, as of the effective time of the merger, has met the age and service requirements for retirement and to each May employee or director who meets those age and service requirements within three years after the effective time of the merger, a lifetime discount on purchases at any Federated store on a basis no less favorable than is provided pursuant to the discount policy covering that person at the time of retirement.

**Accounting Treatment**

The merger will be accounted for as a business combination using the purchase method of accounting. Federated will be the acquirer for financial accounting purposes.

**Appraisal Rights of May Stockholders**

Holders of record of May common stock who do not vote in favor of adopting the merger agreement and the transactions contemplated by the merger agreement, including the merger, and who otherwise comply with the applicable provisions of Section 262 of the Delaware General Corporation Law, which we refer to throughout this joint proxy statement/prospectus as the DGCL, will be entitled to exercise appraisal rights under Section 262 of the DGCL. A person having a beneficial interest in shares of May common stock held of record in the name of another person, such as a broker, bank or other nominee, must act promptly to cause the

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record holder to follow the steps summarized below properly and in a timely manner to perfect appraisal rights.

**The following discussion is not a complete statement of the law pertaining to appraisal rights under the DGCL and is qualified in its entirety by the full text of Section 262 of the DGCL, which is reprinted in its entirety as Annex E and incorporated into this joint proxy statement/ prospectus by reference. All references in Section 262 of the DGCL and in this summary to a shareholder, stockholder or holder are to the record holder of the shares of May common stock as to which appraisal rights are asserted.**

Under Section 262 of the DGCL, holders of shares of May common stock who follow the procedures set forth in Section 262 of the DGCL will be entitled to have their May common stock appraised by the Delaware Court of Chancery and to receive payment in cash of the fair value of these shares of May common stock, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, as determined by that court.

Under Section 262 of the DGCL, when a proposed merger is to be submitted for approval at a meeting of stockholders, as in the case of the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger, by May stockholders, the company, not less than 20 days prior to the meeting, must notify each of its stockholders who was a stockholder on the record date for this meeting with respect to shares for which appraisal rights are available, that appraisal rights are so available, and must include in this required notice a copy of Section 262 of the DGCL.

This joint proxy statement/ prospectus constitutes the required notice to the holders of these shares of May common stock and the applicable statutory provisions of the DGCL are attached to this joint proxy statement/ prospectus as Annex E. Any May stockholder who wishes to exercise their appraisal rights or who wishes to preserve their right to do so should review the following discussion and Annex E carefully, because failure to timely and properly comply with the procedures specified in Annex E will result in the loss of appraisal rights under the DGCL.

A holder of May common stock wishing to exercise appraisal rights must not vote in favor of the approval and adoption of the merger agreement and must deliver to May before the taking of the vote on the merger agreement and the transactions contemplated by the merger agreement, including the merger, at the May annual meeting a written demand for appraisal of their May common stock. This written demand for appraisal must be separate from any proxy or vote abstaining from the vote on the merger or against the merger. This demand must reasonably inform May of the identity of the stockholder and of the stockholder's intent thereby to demand appraisal of their shares. A holder of May common stock wishing to exercise appraisal rights must be the record holder of these shares of May common stock on the date the written demand for appraisal is made and must continue to hold these shares of May common stock through the effective date of the merger. Accordingly, a holder of May common stock who is the record holder of May common stock on the date the written demand for appraisal is made, but who thereafter transfers these shares of May common stock prior to consummation of the merger, will lose any right to appraisal in respect of these shares of May common stock.

A proxy that is signed and does not contain voting instructions will, unless revoked, be voted in favor of the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger, and it will constitute a waiver of the stockholder's right of appraisal and will nullify any previously delivered written demand for appraisal. Therefore, a stockholder who votes by proxy and who wishes to exercise appraisal rights must vote against the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger, or abstain from voting on the merger agreement.

Only a holder of record of May common stock on the record date for the May annual meeting is entitled to assert appraisal rights for the shares of May common stock registered in that holder's name. A demand for appraisal should be executed by or on behalf of the holder of record, fully and correctly, as the holder's name appears on the holder's stock certificates, should specify the holder's mailing address and the number of shares registered in the holder's name, and must state that the person intends to demand appraisal of the holder's shares pursuant to the merger agreement. If the shares of May common stock are held of record in a fiduciary

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capacity, such as by a trustee, guardian or custodian, execution of the demand should be made in that capacity, and if the May common stock is held of record by more than one holder as in a joint tenancy or tenancy in common, the demand should be executed by or on behalf of all joint holders. An authorized agent, including an agent for one or more joint holders, may execute a demand for appraisal on behalf of a holder of record. The agent, however, must identify the record holder or holders and expressly disclose the fact that, in executing the demand, the agent is acting as agent for the holder or holders. A record holder such as a broker who holds May common stock as nominee for several beneficial owners may exercise appraisal rights with respect to the shares of May common stock held for one or more beneficial owners while not exercising appraisal rights with respect to the May common stock held for other beneficial owners. In this case, the written demand should set forth the number of shares of May common stock as to which appraisal is sought. When no number of shares of May common stock is expressly mentioned, the demand will be presumed to cover all May common stock in brokerage accounts or other nominee forms held by such record holder, and those who hold shares in brokerage accounts or other nominee forms and who wish to exercise appraisal rights under Section 262 of the DGCL are urged to consult with their brokers to determine the appropriate procedures for the making of a demand for appraisal by such a nominee.

**All written demands for appraisal should be sent or delivered to The May Department Stores Company, 611 Olive Street, St. Louis, Missouri 63101, Attention: Corporate Secretary.**

Within ten days after the effective date of the merger, Milan Acquisition LLC, or its successor in interest, which we refer to generally as the surviving company, will notify each former May stockholder who has properly asserted appraisal rights under Section 262 of the DGCL and has not voted in favor of adopting the merger agreement and the transactions contemplated by the merger agreement, including the merger, of the date the merger became effective.

Within 120 days after the effective date of the merger, but not thereafter, the surviving company or any former May stockholder who has complied with the statutory requirements summarized above may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares of May common stock that are entitled to appraisal rights. None of Federated, the surviving company or May is under any obligation to and none of them has any present intention to file a petition with respect to the appraisal of the fair value of the shares of May common stock. Accordingly, it is the obligation of May stockholders wishing to assert appraisal rights to take all necessary action to perfect and maintain their appraisal rights within the time prescribed in Section 262 of the DGCL.

Within 120 days after the effective date of the merger, any former May stockholder who has complied with the requirements for exercise of appraisal rights will be entitled, upon written request, to receive from the surviving company a statement setting forth the aggregate number of shares of May common stock not voted in favor of adopting the merger agreement and the transactions contemplated by the merger agreement, including the merger, and with respect to which demands for appraisal have been timely received and the aggregate number of former holders of these shares of May common stock. These statements must be mailed within ten days after a written request therefore has been received by the surviving company or within 10 days after expiration of the period for delivery of demands for appraisal under Section 262 of the DGCL, whichever is later.

If a petition for an appraisal is filed timely with the Delaware Court of Chancery by a former May stockholder and a copy thereof is served upon the surviving company, the surviving company will then be obligated within 20 days of service to file with the Delaware Register in Chancery a duly certified list containing the names and addresses of all former May stockholders who have demanded appraisal of their shares of May common stock and with whom agreements as to value have not been reached. After notice to such former May stockholders as required by the Delaware Court of Chancery, the Delaware Court of Chancery may conduct a hearing on such petition to determine those former May stockholders who have complied with Section 262 of the DGCL and who have become entitled to appraisal rights thereunder. The Delaware Court of Chancery may require the former May stockholders who demanded appraisal of their shares of May common stock to submit their stock certificates to the Register in Chancery for notation

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thereon of the pendency of the appraisal proceeding. If any former stockholder fails to comply with such direction, the Delaware Court of Chancery may dismiss the proceedings as to that former stockholder.

After determining which, if any, former May stockholders are entitled to appraisal, the Delaware Court of Chancery will appraise their shares of May common stock, determining their fair value, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. May stockholders considering seeking appraisal should be aware that the fair value of their shares of May common stock as determined under Section 262 of the DGCL could be more than, the same as or less than the value of the consideration they would receive pursuant to the merger agreement if they did not seek appraisal of their shares of May common stock and that investment banking opinions as to fairness from a financial point of view are not necessarily opinions as to fair value under Section 262 of the DGCL. The Delaware Supreme Court has stated that, among other factors, proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court should be considered in the appraisal proceedings.

In addition, Delaware courts have decided that a stockholder's statutory appraisal remedy may or may not be a dissenter's exclusive remedy, depending on the factual circumstances.

The costs of the appraisal action may be determined by the Delaware Court of Chancery and levied upon the parties as the Delaware Court of Chancery deems equitable. Upon application of a former May stockholder, the Delaware Court of Chancery may also order that all or a portion of the expenses incurred by any former May stockholder in connection with an appraisal proceeding, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts used in the appraisal proceeding, be charged pro rata against the value of all of the shares of May common stock entitled to appraisal.

Any holder of May common stock who has duly demanded an appraisal in compliance with Section 262 of the DGCL will not, after the consummation of the merger, be entitled to vote the shares of May common stock subject to this demand for any purpose or be entitled to the payment of dividends or other distributions on those shares of May common stock (except dividends or other distributions payable to holders of record of May common stock as of a record date prior to the effective date of the merger).

If any stockholder who properly demands appraisal of their May common stock under Section 262 of the DGCL fails to perfect, or effectively withdraws or loses, their right to appraisal, as provided in Section 262 of the DGCL, that stockholder's shares of May common stock will be converted into the right to receive the consideration payable with respect to those shares of May common stock in accordance with the merger agreement (without interest). A May stockholder will fail to perfect, or effectively lose or withdraw, their right to appraisal if, among other things, no petition for appraisal is filed within 120 days after the effective date of the merger, or if the stockholder delivers to May or the surviving company, as the case may be, a written withdrawal of their demand for appraisal. Any attempt to withdraw an appraisal demand in this matter more than 60 days after the effective date of the merger will require the written approval of the surviving company and, once a petition for appraisal is filed, the appraisal proceeding may not be dismissed as to any holder absent court approval.

Failure to follow the steps required by Section 262 of the DGCL for perfecting appraisal rights may result in the loss of these rights, in which event a May stockholder will be entitled to receive the consideration payable with respect to their shares of May common stock in accordance with the merger agreement (without interest).

Consequently, any stockholder willing to exercise appraisal rights is urged to consult with legal counsel prior to attempting to exercise such rights.

### **Delisting and Deregistration of May Common Stock**

If the merger is completed, May common stock will be delisted from the New York Stock Exchange and will be deregistered under the Exchange Act, and May will no longer file periodic reports with the SEC. The stockholders of May will become stockholders of Federated and their rights as stockholders will be governed

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by applicable Delaware law and by Federated's certificate of incorporation and by-laws. See Comparison of Rights of Stockholders beginning on page 177.

### **Federal Securities Laws Consequences; Resale Restrictions**

All shares of Federated common stock that will be distributed to May stockholders in the merger will be freely transferable, except for restrictions applicable to affiliates of May and except that resale restrictions may be imposed by securities laws in non-U.S. jurisdictions insofar as subsequent trades are made within these jurisdictions. Persons who are deemed to be affiliates of May may resell shares of Federated common stock received by them only in transactions permitted by the resale provisions of Rule 145 or as otherwise permitted under the Securities Act of 1933. Persons who may be deemed to be affiliates of May generally include executive officers, directors and holders of more than 10% of the outstanding shares of May. The merger agreement requires May to use its reasonable best efforts to cause each of its directors and executive officers who May believes may be deemed to be affiliates of May to execute a written agreement to the effect that those persons will not sell, assign or transfer any of the shares of Federated common stock issued to them in the merger unless that sale, assignment or transfer has been registered under the Securities Act of 1933, is in conformity with Rule 145 or is otherwise exempt from the registration requirements under the Securities Act of 1933.

This joint proxy statement/prospectus does not cover any resales of the shares of Federated common stock to be received by May stockholders in the merger, and no person is authorized to make any use of this joint proxy statement/prospectus in connection with any resale.

### **Certain Events**

On March 1, 2005, Edward Decristofaro, an alleged May stockholder, filed a purported class action lawsuit on behalf of all May stockholders in the Circuit Court of St. Louis, Missouri against May and all of the members of the board of directors of May. The complaint generally alleges that the directors of May breached their fiduciary duties of loyalty, due care, good faith and candor to May stockholders in connection with the proposed merger. The plaintiff requests rescissory damages as well as the following relief:

an order declaring that the action is properly maintainable as a class action;

an order declaring that the merger agreement was entered into in breach of the fiduciary duties of the defendants;

an order enjoining the defendants from consummating the merger as planned;

an order directing that the defendants exercise their fiduciary duties to obtain a transaction which is in the best interests of May stockholders;

an order rescinding the merger to the extent already implemented;

an award of costs and disbursements, including reasonable attorneys' and experts' fees; and

such other and further equitable relief as the court may deem just and proper.

On April 1, 2005, the defendants removed the lawsuit to the United States District Court for the Eastern District of Missouri and filed a motion to dismiss the lawsuit pursuant to the Securities Litigation Uniform Standards Act of 1998. On April 22, 2005, the plaintiff filed a motion to remand the lawsuit to the Circuit Court of St. Louis, Missouri and opposition to the defendants' motion to dismiss. May believes the lawsuit is without merit and intends to contest it vigorously.

### **MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES**

The following is a summary of the material United States federal income tax consequences of the merger to U.S. holders of Federated or May common stock who hold their stock as a capital asset. The summary is based on the Internal Revenue Code of 1986, as amended, referred to as the Code, Treasury regulations issued



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under the Code, and administrative rulings and court decisions in effect as of the date of this joint proxy statement/prospectus, all of which are subject to change at any time, possibly with retroactive effect.

For purposes of this discussion, the term "U.S. holder" means:

a citizen or resident of the United States;

a corporation created or organized under the laws of the United States or any of its political subdivisions;

a trust that (i) is subject to the supervision of a court within the United States and the control of one or more United States persons or (ii) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person; or

an estate that is subject to United States federal income tax on its income regardless of its source.

If a partnership holds Federated or May common stock, the tax treatment of a partner will depend on the status of the partners and the activities of the partnership. If a U.S. holder is a partner in a partnership holding Federated or May common stock, the U.S. holder should consult its tax advisors.

This summary is not a complete description of all the tax consequences of the merger and, in particular, may not address United States federal income tax considerations applicable to holders of Federated or May common stock who are subject to special treatment under United States federal income tax law (including, for example, non-United States persons, financial institutions, dealers in securities, insurance companies or tax-exempt entities, holders who acquired Federated common stock or May common stock pursuant to the exercise of an employee stock option or right or otherwise as compensation, and holders who hold Federated common stock or May common stock as part of a hedge, straddle or conversion transaction). This summary does not address the tax consequences of any transaction other than the merger. This summary does not address the tax consequences to any person who actually or constructively owns 5% or more of Federated or May common stock. Also, this summary does not address United States federal income tax considerations applicable to holders of options or warrants to purchase Federated or May common stock, or holders of debt instruments convertible into Federated or May common stock. In addition, no information is provided with respect to the tax consequences of the merger under applicable state, local or non-United States laws.

The obligations of Federated and May to consummate the merger as currently anticipated are conditioned on the receipt of opinions of their respective tax counsel, Jones Day (as to Federated) and Skadden, Arps, Slate, Meagher & Flom LLP (as to May), dated the effective date of the merger, each referred to as a Tax Opinion, to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code and that May and Federated will each be a party to the reorganization within the meaning of Section 368(b) of the Code. Each of the Tax Opinions will be subject to customary qualifications and assumptions, including the assumption that the merger will be completed according to the terms of the merger agreement. In rendering the Tax Opinions, each counsel may rely upon representations and covenants, including those contained in certificates of officers of Federated and May. Although the merger agreement allows each of Federated and May to waive this condition to closing, neither Federated nor May currently anticipates doing so. However, in the event that Federated's stock price declines to the point where counsel are unable to render one or both Tax Opinions, the structure of the merger may change and holders of May common stock may recognize taxable gain on the exchange of their shares, as more fully explained below under "Federal income tax consequences to May stockholders if the transaction is restructured because tax deferred exchange treatment cannot be obtained."

Neither the Tax Opinions nor the discussion that follows is binding on the Internal Revenue Service, referred to as the IRS, or the courts. In addition, the parties do not intend to request a ruling from the IRS with respect to the merger. Accordingly, there can be no assurance that the IRS will not challenge the conclusion expressed in the Tax Opinions or the discussion below, or that a court will not sustain such a challenge.



**Table of Contents*****Federal income tax consequences to Federated stockholders who do not hold any May common stock***

Because holders of Federated common stock will retain their common stock in the merger, holders of Federated common stock will not recognize gain or loss upon the merger.

***Federal income tax consequences to May stockholders if the merger is consummated as currently anticipated***

The following discussion assumes that the exchange of May common stock for Federated common stock pursuant to the merger will constitute a reorganization within the meaning of Section 368(a) of the Code.

A holder of May common stock who receives cash and Federated common stock in the merger will recognize gain equal to the lesser of (i) the excess of the sum of the fair market value of the Federated common stock received by the holder in exchange for May common stock and the amount of cash received by the holder (excluding any cash received in lieu of fractional shares) in exchange for May common stock over the holder's tax basis in the May common stock and (ii) the amount of cash received by the holder in exchange for May common stock (excluding any cash received in lieu of fractional shares). No loss will be recognized by holders of May common stock in the merger, except, possibly, in connection with the receipt of cash in lieu of fractional shares, as discussed below. The gain recognized will be capital gain unless the receipt of cash by the holder of May common stock has the effect of a distribution of a dividend, in which case the gain will be treated as ordinary dividend income to the extent of the holder's ratable share of accumulated earnings and profits as calculated for United States federal income tax purposes. In determining whether a holder's receipt of cash has the effect of a distribution of a dividend, the holder will be treated as if it first exchanged all of its Federated common stock for May common stock and then Federated immediately redeemed a portion of the May common stock for the cash that the holder actually received pursuant to the merger agreement. The IRS has indicated in rulings that any reduction in the interest of a minority stockholder that owns a small number of shares in a publicly and widely held corporation and that exercises no control over corporate affairs would result in capital gain as opposed to dividend treatment. In determining the interest of a stockholder in a corporation, the constructive ownership rules that apply for United States federal income tax purposes must be taken into account. This same analysis could apply to cash received by a holder of May common stock in lieu of fractional shares. Any gain recognized by a holder of May common stock will be long-term capital gain if the holder's holding period of the May common stock is more than one year. Capital gains of individuals derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The aggregate tax basis of the Federated common stock received (including fractional shares deemed received and redeemed as described below) will be equal to the aggregate tax basis of the May common stock surrendered, reduced by the amount of cash the holder of May common stock receives (excluding any cash received in lieu of fractional shares), and increased by the amount of gain that the holder of May common stock recognizes, but excluding any gain or loss from the deemed receipt and redemption of fractional shares described below. The holding period of Federated common stock received by a holder of May common stock in the merger will include the holding period of the holder's May common stock.

Cash received by a holder of May common stock in lieu of fractional shares will be treated as if the holder received the fractional shares in the merger and then received the cash in a redemption of the fractional shares. The holder should recognize capital gain or loss equal to the difference between the amount of the cash received in lieu of fractional shares and the portion of the holder's tax basis allocable to the fractional shares. Under the circumstances described in the preceding paragraph, the receipt of cash in lieu of fractional shares could also have the effect of a distribution of a dividend.

***Federal income tax consequences to May stockholders if the transaction is restructured because tax deferred exchange treatment cannot be obtained***

If Federated's stock price declines to the point where one or both Tax Opinions cannot be issued and if Federated, in these circumstances, does not opt to increase the amount of Federated common stock provided to holders of May common stock in the merger, May may elect to increase the cash consideration received in the merger for each share of May common stock to \$18.75. If this restructuring occurs, a holder of May

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common stock who receives cash and Federated common stock in the merger will recognize gain or loss equal to the difference, if any, between (i) the sum of the fair market value of the Federated common stock and the amount of cash received and (ii) the holder's tax basis in the May common stock. Gain or loss will be determined separately for each block of shares (i.e., shares acquired at the same cost in a single transaction) of May common stock surrendered for the consideration described above pursuant to the merger. Any gain or loss recognized by a holder of May common stock will be long-term capital gain or loss if the holder's holding period of the May common stock is more than one year. Capital gains of individuals derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. There are limitations on the deductibility of capital losses.

***Backup withholding***

Backup withholding may apply with respect to the cash consideration received by a holder of May common stock in the merger unless the holder:

is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact; or

provides a correct taxpayer identification number, certifies as to no loss of exemption from backup withholding and that such holder is a U.S. person (including a U.S. resident alien) and otherwise complies with applicable requirements of the backup withholding rules.

A holder of May common stock who does not provide Federated (or the exchange agent) with its correct taxpayer identification number may be subject to penalties imposed by the IRS. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the holder's federal income tax liability, provided that the holder furnishes certain required information to the IRS.

***Reporting requirements***

U.S. holders of May common stock receiving Federated common stock in the merger will be required to attach to their federal income tax returns for the taxable year in which the merger occurs a complete statement, and maintain a permanent record, of all the facts relating to the exchange of stock in connection with the merger. The facts to be disclosed by a U.S. holder include the holder's basis in the May common stock transferred to Federated and the number of shares of Federated common stock received by the holder in the merger.

**THE FOREGOING DISCUSSION OF UNITED STATES FEDERAL INCOME TAX CONSEQUENCES IS NOT INTENDED TO CONSTITUTE A COMPLETE DESCRIPTION OF ALL TAX CONSEQUENCES RELATING TO THE MERGER. TAX MATTERS ARE VERY COMPLICATED, AND THE TAX CONSEQUENCES OF THE MERGER TO YOU WILL DEPEND UPON THE FACTS OF YOUR PARTICULAR SITUATION. BECAUSE INDIVIDUAL CIRCUMSTANCES MAY DIFFER, WE URGE YOU TO CONSULT WITH YOUR TAX ADVISOR REGARDING THE APPLICABILITY TO YOU OF THE RULES DISCUSSED ABOVE AND THE PARTICULAR TAX EFFECTS TO YOU OF THE MERGER, INCLUDING THE APPLICATION OF STATE, LOCAL AND FOREIGN TAX LAWS.**

**THE MERGER AGREEMENT**

The following is a summary of certain material provisions of the merger agreement, a copy of which is attached as Annex A to this joint proxy statement/ prospectus and is incorporated into this joint proxy statement/ prospectus by reference. We urge you to read carefully this entire joint proxy statement/ prospectus, including the annexes and the other documents to which we have referred you. See "Where You Can Find More Information" beginning on page 185.

**The merger agreement has been included to provide you with information regarding its terms, and we recommend that you read it in its entirety.**

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The merger agreement included as an annex to this joint proxy statement/ prospectus should be read in conjunction with the disclosures in Federated's and May's filings with the SEC incorporated by reference into this joint proxy statement/ prospectus. See **Where You Can Find More Information** beginning on page 185 for the filings with the SEC incorporated by reference into this joint proxy statement/ prospectus. The terms of the merger agreement are intended to govern the contractual rights and relationships, and to allocate risks, between Federated and May with respect to the merger. The representations and warranties made by Federated and May to one another were negotiated between the parties for the principal purpose of setting forth their respective rights and obligations regarding closing the merger if events or circumstances change, and we do understand that, while not expected, such changes could nevertheless occur. Moreover, the representations and warranties are themselves specifically qualified in a number of important respects and we urge you to consider those qualifications as you read the representations and warranties in the merger agreement.

**First, all of the representations and warranties that deal with the business and operations of Federated and May are qualified to the extent that any inaccuracy would not reasonably be expected to have or result in, individually or in the aggregate, a material adverse effect on the party making the representation and warranty.**

**Second, none of the representations or warranties will survive the closing of the merger and they will therefore have no legal effect among the parties to the merger agreement after the closing, nor will the parties be able to assert the inaccuracy of the representations and warranties as a basis for refusing to close unless all such inaccuracies as a whole would reasonably be expected to have or result in, individually or in the aggregate, a material adverse effect on the party that made the representations and warranties. Otherwise, for purposes of the merger agreement, the representations and warranties will be deemed to have been sufficiently accurate to require a closing.**

**Federated and May have provided additional disclosure in their public reports and other filings with the SEC to the extent that they are aware of the existence of any material facts that are required to be disclosed under the federal securities laws and that might otherwise contradict the representations and warranties contained in the merger agreement and will update such disclosure as required by the federal securities laws.**

### **The Merger; Closing**

Upon the terms and subject to the conditions of the merger agreement, and in accordance with Delaware law, at the effective time of the merger, May will merge with and into Merger Sub, a wholly owned subsidiary of Federated. The separate corporate existence of May will cease.

The closing of the merger will occur no later than the second business day following the date on which all of the conditions to the merger, other than conditions that, by their terms, cannot be satisfied until the closing date (but subject to satisfaction of such conditions) have been satisfied or waived, unless the parties agree on another time. Federated and May expect to complete the merger in the third quarter of 2005. However, we cannot assure you that such timing will occur or that the merger will be completed as expected.

As soon as practicable on or after the closing date of the merger, Federated and May will file a certificate of merger with the Secretary of State of the State of Delaware. The effective time of the merger will be the time Federated and May file the certificate of merger or at a later time Federated and May may agree and specify in the certificate of merger.

### **Directors and Officers**

The directors of Merger Sub immediately prior to the effective time of the merger will be the directors of the surviving company, until the earlier of their death, resignation or removal or until their respective successors are duly elected and qualified, as the case may be. The officers of May immediately prior to the

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effective time of the merger will be the officers of the surviving company, until the earlier of their death, resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

Federated will select two individuals who are directors of May as of the date of the merger agreement and who are recommended by the NCG Committee of Federated's board of directors and, if such individuals are willing to serve, Federated will use its reasonable best efforts to appoint these individuals, as of the effective time of the merger, to Federated's board of directors.

**Merger Consideration**

Upon the effectiveness of the merger, each share of May common stock (other than shares held by any dissenting May stockholder that has properly exercised appraisal rights in accordance with Delaware law as described above) will be converted into the right to receive from Federated the merger consideration, consisting of the following:

\$17.75 in cash, without interest; and

0.3115 fully paid, nonassessable shares of Federated common stock.

The total value of the merger consideration that a May stockholder receives in the merger may vary. The value of the cash portion of the merger consideration is fixed at \$17.75 for each share of May common stock. The value of the stock portion of the merger consideration is not fixed and will depend upon the value of 0.3115 shares of Federated common stock. This value may be ascertained by multiplying the trading price of Federated common stock by 0.3115.

As illustrated in the table below, the value of 0.3115 shares of Federated common stock may be less than or greater than \$17.75, which was the value of the stock portion of the merger consideration as of the announcement of the transaction, based on the 10-day trading average of Federated common stock as of February 25, 2005. In particular, if the closing price of Federated common stock upon completion of the merger is greater than \$56.98, then the value of 0.3115 shares of Federated common stock would be greater than \$17.75. If the closing price of Federated common stock upon completion of the merger is less than \$56.98, then the value of 0.3115 shares of Federated common stock would be less than \$17.75.

Hypothetical Trading Price of Federated's Common Stock	Corresponding Value of 0.3115 Shares of Federated's Common Stock	Cash Consideration	Corresponding Value of Merger Consideration
\$ 70.98	\$ 22.11	\$ 17.75	\$ 39.86
\$ 69.98	\$ 21.80	\$ 17.75	\$ 39.55
\$ 68.98	\$ 21.49	\$ 17.75	\$ 39.24
\$ 67.98	\$ 21.18	\$ 17.75	\$ 38.93
\$ 66.98	\$ 20.86	\$ 17.75	\$ 38.61
\$ 65.98	\$ 20.55	\$ 17.75	\$ 38.30
\$ 64.98	\$ 20.24	\$ 17.75	\$ 37.99
\$ 63.98	\$ 19.93	\$ 17.75	\$ 37.68
\$ 62.98	\$ 19.62	\$ 17.75	\$ 37.37
\$ 61.98	\$ 19.31	\$ 17.75	\$ 37.06
\$ 60.98	\$ 19.00	\$ 17.75	\$ 36.75
\$ 59.98	\$ 18.68	\$ 17.75	\$ 36.43
\$ 58.98	\$ 18.37	\$ 17.75	\$ 36.12
\$ 57.98	\$ 18.06	\$ 17.75	\$ 35.81



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Hypothetical Trading Price of Federated's Common Stock	Corresponding Value of 0.3115 Shares of Federated's Common Stock	Cash Consideration	Corresponding Value of Merger Consideration
\$ 56.98	\$ 17.75	\$ 17.75	\$ 35.50
\$ 55.98	\$ 17.44	\$ 17.75	\$ 35.19
\$ 54.98	\$ 17.13	\$ 17.75	\$ 34.88
\$ 53.98	\$ 16.81	\$ 17.75	\$ 34.56
\$ 52.98	\$ 16.50	\$ 17.75	\$ 34.25
\$ 51.98	\$ 16.19	\$ 17.75	\$ 33.94
\$ 50.98	\$ 15.88	\$ 17.75	\$ 33.63
\$ 49.98	\$ 15.57	\$ 17.75	\$ 33.32
\$ 48.98	\$ 15.26	\$ 17.75	\$ 33.01
\$ 47.98	\$ 14.95	\$ 17.75	\$ 32.70
\$ 46.98	\$ 14.63	\$ 17.75	\$ 32.38
\$ 45.98	\$ 14.32	\$ 17.75	\$ 32.07
\$ 44.98	\$ 14.01	\$ 17.75	\$ 31.76
\$ 43.98	\$ 13.70	\$ 17.75	\$ 31.45
\$ 42.98	\$ 13.39	\$ 17.75	\$ 31.14

If the total value of the Federated common stock to be received in the merger falls below 40% of the total consideration paid on the closing date, the merger consideration may be taxable for federal income tax purposes. In that event, Federated may elect to pay more in Federated common stock to maintain the nontaxable status or, if Federated does not so elect, May may elect to increase the cash consideration received in the merger for each share of May common stock to \$18.75. Under the merger agreement, there are no other circumstances in which the exchange ratio or the cash consideration increases. Federated and May will issue a joint press release if either the exchange ratio or the cash consideration increases.

The exchange ratio in the merger and the cash consideration will be proportionately and appropriately adjusted to reflect the effect of any reclassification, recapitalization, split-up, stock split, subdivision, combination or exchange of shares or readjustment, or stock dividend, or other like change with respect to Federated common stock or May common stock having a record date on or after the date of the merger agreement and prior to completion of the merger.

Upon completion of the merger, each share of May common stock held by Federated, May or any direct or indirect majority owned subsidiary of Federated or May immediately prior to the merger will be automatically cancelled and extinguished, and none of Federated, May or any of their respective direct or indirect majority owned subsidiaries will receive any consideration in exchange for those shares.

***Treatment of ESOP Preference Shares***

Each issued and outstanding May ESOP preference share will be converted into the right to receive the merger consideration on an as converted basis in the same manner as the shares of May common stock, as described above.

***Fractional Shares***

No fractional Federated common shares will be issued in the merger. Instead, holders who would otherwise be entitled to receive a fractional share of Federated common stock will receive an amount in cash (without interest) determined by multiplying the fractional share interest by the average closing price for a



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share of Federated common stock as reported on the NYSE Composite Transactions Reports for the ten trading days prior to, but not including, the closing date of the merger.

***Dissenters Shares***

Shares of May common stock held by any May stockholder that properly demands payment for its shares in compliance with the appraisal rights under Section 262 of the DGCL will not be converted into the right to receive the merger consideration. May stockholders properly exercising appraisal rights will be entitled to payment as further described above under The Merger Appraisal Rights of May Stockholders beginning on page 88. However, if any May stockholder withdraws his or her demand for appraisal (in accordance with Section 262 of the DGCL) or becomes ineligible for appraisal, then that May stockholder will not be paid in accordance with Section 262 of the DGCL and the shares of May common stock held by that May stockholder will be converted as of the effective time of the merger into and represent the right to receive the merger consideration, without interest.

**Exchange Procedures**

Not later than 15 business days prior to the effective time of the merger, Federated will enter into an agreement with an exchange agent for the merger to handle the exchange of shares of May common stock for the merger consideration, including the payment of cash for fractional shares. As of the effective time of the merger, Federated will deposit with the exchange agent, for the benefit of the holders of May common stock, cash and certificates representing Federated common shares issuable in the merger in exchange for outstanding shares of May common stock and ESOP preference shares, including any cash to be paid in lieu of fractional shares or in respect of any dividends or distributions on shares of Federated common stock with a record date after the effective time of the merger or in respect of dividends or distributions on shares of May common stock with a record date prior to the effective time of the merger which remain unpaid at the effective time of the merger.

At the effective time of the merger, each certificate representing shares of May common stock that has not been surrendered will represent only the right to receive upon surrender of that certificate the merger consideration, dividends and other distributions on shares of Federated common stock with a record date after the effective time of the merger, dividends and other distributions on shares of May common stock with a record date prior to the effective time of the merger that remain unpaid as of the effective time of the merger and cash, without interest, in lieu of fractional shares. Following the effective time of the merger, no further registrations of transfers on the stock transfer books of the surviving company of the shares of May common stock will be made. If, after the effective time of the merger, May stock certificates are presented to Federated, the surviving company or the exchange agent for any reason, they will be cancelled and exchanged as described above.

**Exchange of Shares**

As soon as reasonably practicable after the effective time of the merger, the exchange agent will mail to each holder of record of a May stock certificate whose shares of May common stock were converted into the right to receive the merger consideration, a letter of transmittal and instructions explaining how to surrender May stock certificates in exchange for the merger consideration.

After the effective time of the merger, upon surrender of a May stock certificate to the exchange agent, together with a letter of transmittal, duly executed, and other documents as may reasonably be required by the exchange agent, the holder of the May stock certificate will be entitled to receive the merger consideration, dividends and other distributions on shares of Federated common stock with a record date after the effective time of the merger, dividends and other distributions on shares of May common stock with a record date prior to the effective time of the merger that remain unpaid as of the effective time of the merger and cash, without interest, in lieu of fractional shares, and the May stock certificates surrendered will be cancelled.



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### **Transfers of Ownership and Lost Stock Certificates**

A May stockholder desiring to receive payment upon the surrender of stock certificates registered in the name of another person will receive payment if the stock certificates have been properly endorsed or are otherwise in proper form for transfer and the stockholder:

pays any transfer or other taxes required because the payment is made to a person other than the registered holder of the May stock certificate; or

establishes to the satisfaction of the exchange agent that any transfer or other taxes described above have been paid or are not applicable.

If any stock certificate has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the stock certificate to be lost, stolen or destroyed and, if required by Federated or the surviving company, as the case may be, the posting by such person of a bond in a reasonable amount as Federated or the surviving company, as the case may be, may direct as indemnity against any claim that may be made against it with respect to the stock certificate, the exchange agent will issue, in exchange for such lost, stolen or destroyed stock certificate, the merger consideration, dividends and other distributions on shares of Federated common stock with a record date after the effective time of the merger, dividends and other distributions on shares of May common stock with a record date prior to the effective time of the merger that remain unpaid as of the effective time of the merger and cash, without interest, in lieu of fractional shares.

**May stock certificates should not be returned with the enclosed proxy card(s). May stock certificates should be returned with a validly executed transmittal letter and accompanying instructions that will be provided to May stockholders following the effective time of the merger.**

### **Termination of Exchange Fund**

Six months after the effective time of the merger, Federated may require the exchange agent to deliver to Federated all cash and shares of Federated common stock remaining in the exchange fund. Thereafter, May stockholders must look only to Federated for payment of the merger consideration on their shares of May common stock.

### **No Liability**

None of Federated, the surviving company or the exchange agent will be liable to any person in respect of any shares of Federated common stock, any dividends or distributions on Federated common stock with a record date after the effective time of the merger, dividends and other distributions on May common stock with a record date prior to the effective time of the merger that remain unpaid as of the effective time of the merger or cash, without interest, in lieu of fractional shares of Federated common stock or any cash from the exchange fund, in each case, delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

### **Representations and Warranties**

The merger agreement contains representations and warranties made by each party to the other. These representations and warranties are qualified in their entirety by all information each of us has filed with the SEC prior to the date of the merger agreement (which filings are available without charge at the SEC's website, [www.sec.gov](http://www.sec.gov)) as well as by a disclosure letter each of us delivered to the other immediately prior to signing the merger agreement. These representations and warranties relate to, among other things:

due organization, good standing and the requisite corporate power and authority to carry on their respective businesses;

ownership of subsidiaries;

capital structure and equity securities;

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corporate power and authority to enter into the merger agreement and due execution, delivery and enforceability of the merger agreement;

board of directors approval;

absence of conflicts with charter documents, breaches of contracts and agreements, liens upon assets and violations of applicable law resulting from the execution and delivery of the merger agreement and consummation of the transactions contemplated by the merger agreement;

absence of required governmental or other third party consents in connection with execution and delivery of the merger agreement and consummation of the transactions contemplated by the merger agreement other than governmental filings specified in the merger agreement, such as filing premerger notification under the HSR Act;

timely filing of required documents with the SEC, material compliance with the requirements of the Securities Act and the Exchange Act and the absence of untrue statements of material facts or omissions of material facts in those documents;

material compliance of financial statements as to form with applicable accounting requirements and SEC rules and regulations and preparation in accordance with U.S. generally accepted accounting principles;

absence of misleading information contained or incorporated into this joint proxy statement/ prospectus or the registration statement of which this joint proxy statement/ prospectus forms a part;

absence of specified changes or events and that the conduct of its business has been in the ordinary course since January 31, 2004;

compliance with applicable laws and holding of all necessary permits;

employee benefits matters and ERISA compliance;

tax matters;

environmental matters and compliance with environmental laws;

the stockholder votes required to approve and adopt the merger agreement and authorize the issuance of Federated common stock;

receipt of a fairness opinion from each company's financial advisors; and

brokers' or finders' fees.

Federated and Merger Sub made additional representations and warranties to May in the merger agreement, including the availability of funds sufficient to pay the cash portion of the merger consideration and all other cash amounts to be paid pursuant to the merger agreement and that Merger Sub is a duly incorporated, wholly owned subsidiary of Federated, formed solely to enter into the merger agreement and engaging in the transactions contemplated by the merger agreement.

May also made additional representations and warranties to Federated, including the non-applicability of anti-takeover laws to the merger and that it had taken all action necessary on the part of May to render May's rights agreement inapplicable to the merger.

The representations and warranties contained in the merger agreement will not survive the consummation of the merger, but they form the basis of specified conditions to the parties' obligations to complete the merger.

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**Covenants and Agreements**

***Operating Covenants***

May has agreed that prior to the effective time of the merger it and its subsidiaries will carry on their businesses in the ordinary course. With specified exceptions, May has agreed, among other things, not to:

declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock, except, among other things, for quarterly cash dividends not in excess of \$0.245 per share, and any dividends required under the terms of the ESOP preference shares;

split, combine or reclassify any of its capital stock;

except as required in connection with the ESOP preference shares or May's stock plans, purchase, redeem or otherwise acquire any shares of its or its subsidiaries' capital stock or any other securities of May or any of its subsidiaries or any rights, warrants or options to acquire any of those shares or other securities;

issue or authorize the issuance of, deliver or sell any shares of its capital stock, any other voting securities or any securities convertible into, or any rights, warrants or options to acquire, any such shares, voting securities or convertible securities, other than in connection with May's stock plans or the ESOP preference shares;

amend its certificate of incorporation or by-laws, other than amendments or changes to any such documents of May's subsidiaries in the ordinary course of business;

sell, lease, license, mortgage or otherwise encumber or subject to any lien or otherwise dispose of any of its material properties or assets, other than in the ordinary course of business;

incur any material long or short-term indebtedness other than in the ordinary course of business or under existing lines of credit;

other than in the ordinary course of business, grant any increase in the compensation or benefits payable or to become payable by May or any of its subsidiaries to any current or former director, officer, employee or consultant;

other than in the ordinary course of business, adopt, enter into, amend or otherwise increase, reprice or accelerate the payment or vesting of the amounts, benefits or rights payable or accrued or to become payable or accrued under any of May's or its subsidiaries' employee benefit plans;

other than in the ordinary course of business, enter into or amend any employment, bonus, severance, change-in-control, retention agreement or any similar agreement or any collective bargaining agreement, or grant any severance, bonus, termination or retention pay to any officer, director, employee or consultant;

other than in the ordinary course of business, pay or award any pension, retirement, allowance or other non-equity incentive awards, or other employee or director benefit not required by any outstanding May employee benefit plans;

change the accounting principles used by it unless required by applicable generally accepted accounting principles or by any government entity;

acquire by merging or consolidating with, by purchasing any substantial equity interest in or a substantial portion of the assets of, or by any other manner, any significant business or any corporation, partnership, association or

other business organization or division of that entity, or otherwise acquire any assets that are material to May and its subsidiaries, taken as a whole, other than; (i) the purchase of assets from suppliers or vendors in the ordinary course of business, (ii) items reflected in the capital plan of May previously made available to Federated, or (iii) acquisitions of businesses or assets involving consideration up to an aggregate amount not to exceed \$50 million;

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except in the ordinary course of business, make or rescind any material express or deemed election or settle or compromise any material claim or action relating to taxes, or materially change any of its methods of accounting or of reporting income or deductions for tax purposes;

satisfy any material claims or liabilities, other than satisfaction in the ordinary course of business or in accordance with their terms;

make any loans, advances or capital contributions to, or investments in, any other person in excess of \$25 million in the aggregate, except for (i) loans, advances, capital contributions or investments between any wholly owned May subsidiary and May or another wholly owned May subsidiary, (ii) employee advances for expenses in the ordinary course of business or (iii) ordinary course proprietary credit card transactions;

other than in the ordinary course of business and other than contracts that may be terminated within one year or amendments renewing, on substantially similar terms, any contract existing on the date of the merger agreement, terminate or adversely modify or amend any contract having a duration of more than one year and total payment obligations of May in excess of \$25 million;

other than in the ordinary course of business, waive, release, relinquish or assign any right or claim of material value to May;

other than in the ordinary course of business, cancel or forgive any material indebtedness owed to May or any of its subsidiaries; or

authorize, or commit or agree to take, any of the foregoing actions.

Federated has agreed that, prior to the effective time of the merger, it and its subsidiaries will carry on their businesses in the ordinary course. Merger Sub has agreed that prior to the effective time of the merger, it will not engage in any activities of any nature except as contemplated in the merger agreement. With specified exceptions, Federated has agreed, among other things, not to:

declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock, except, among other things, for quarterly cash dividends of \$0.14 per share;

split, combine or reclassify any of its capital stock;

except pursuant to agreements entered into with respect to Federated stock plans that are in effect as of the close of business on the date of the merger agreement, purchase, redeem or otherwise acquire any shares of capital stock of Federated or any of its subsidiaries or any other securities of Federated or any of its subsidiaries or any rights, warrants or options to acquire any of those shares or other securities;

issue or authorize the issuance of, deliver, or sell any shares of its capital stock, or any other securities in respect of, in lieu of, or in substitution for, shares of its capital stock, any other voting securities or any securities convertible into, or any rights, warrants or options to acquire, any of such shares, voting securities or convertible securities, other than in connection with Federated's stock plans;

amend its certificate of incorporation or by-laws, other than amendments or changes to any such documents of Federated's subsidiaries in the ordinary course of business;

sell, lease, license, mortgage or otherwise encumber or subject to any lien or otherwise dispose of any of its material properties or assets other than in the ordinary course of business;

change the accounting principles used by it unless required by applicable generally accepted accounting principles or by any government entity;

acquire by merging or consolidating with, by purchasing any substantial equity interest in or a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division of that entity, or otherwise acquire assets that are material to Federated and its subsidiaries, taken as a whole, other than; (i) the purchase of assets from suppliers or vendors in the ordinary course of business, (ii) items reflected in the capital

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plan of Federated previously made available to May, or (iii) acquisitions of businesses or assets involving consideration up to an aggregate amount not to exceed \$50 million;

except in the ordinary course of business, make or rescind any material express or deemed election or settle or compromise any material claim or action relating to taxes, or materially change any of its methods of accounting or of reporting income or deductions for tax purposes;

satisfy any material claims or liabilities, other than in the ordinary course of business or in accordance with their terms;

other than in the ordinary course of business and other than contracts that may be terminated within one year or amendments renewing, on substantially similar terms, any contract existing on the date of the merger agreement, terminate or adversely modify or amend any contract having a duration of more than one year and total payment obligations of Federated in excess of \$25 million;

other than in the ordinary course of business, waive, release, relinquish or assign any right or claim of material value to Federated;

other than in the ordinary course of business, cancel or forgive any material indebtedness owed to Federated or any of its subsidiaries; or

authorize, or commit or agree to take, any of the foregoing actions.

***No Solicitation by May***

May has agreed, and agreed to use its reasonable best efforts to cause its officers, directors, employees, financial advisors, attorneys, accountants and other advisors, investment bankers, representatives and agents, to cease all then existing activities with any parties with respect to or that could reasonably be expected to lead to a company takeover proposal. A company takeover proposal means any bona fide written proposal or offer from any person relating to any:

direct or indirect acquisition or purchase of a business that constitutes 50% or more of the net revenues, net income or the assets of May and its subsidiaries, taken as a whole;

direct or indirect acquisition or purchase of 50% or more of the combined voting power of May;

any tender offer or exchange offer that if consummated would result in any person beneficially owning 50% or more of the combined voting power of May; or

any merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving May, other than the transactions contemplated by the merger agreement.

In addition, May has agreed that it will not, and will not permit its officers, directors, employees, financial advisors, attorneys, accountants and other advisors, investment bankers, representatives and agents to, directly or indirectly:

solicit, initiate or knowingly encourage the making of a company takeover proposal;

enter into any agreement, arrangement or understanding with respect to any company takeover proposal; or

other than informing persons of the existence of the non-solicitation provision, participate in any discussions or negotiations regarding, or furnish or disclose to any person (other than to Federated) any non-public information with respect to May in connection with any inquiries or the making of any proposal that constitutes, or would reasonably be expected to lead to, any company takeover proposal.



Notwithstanding the foregoing, May may, at any time prior to obtaining May stockholder approval at the May annual meeting, in response to an unsolicited company takeover proposal that the board of directors of May determines in good faith (after consultation with its outside counsel and a financial advisor of nationally recognized reputation) constitutes or would reasonably be expected to lead to a superior proposal (as

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defined below), and which company takeover proposal was made after the date of the merger agreement and did not otherwise result from a breach of May's non-solicitation obligations:

furnish information with respect to May to the person making the company takeover proposal (and its representatives) pursuant to a customary confidentiality agreement not less restrictive of the person than the existing confidentiality agreement between May and Federated, provided that all the information is, in substance, simultaneously provided to Federated; and

participate in discussions or negotiations with the person making the company takeover proposal (and its representatives) regarding the company takeover proposal.

Superior proposal means a company takeover proposal from any person to acquire, directly or indirectly, for consideration consisting of cash and/or securities, all of the combined voting power of May then outstanding or all or substantially all of the assets of May that the board of directors of May determines in its good faith judgment (after consulting with a nationally recognized investment banking firm), taking into account all legal, financial and regulatory and other aspects of the proposal and the person making the proposal (including any break-up fees, expense reimbursement provisions and conditions to consummation):

would be more favorable from a financial point of view to the stockholders of May than the transactions contemplated by the merger agreement (including any adjustment to the terms and conditions proposed by Federated in response to such company takeover proposal), and

for which financing, to the extent required, is then committed or may reasonably be expected to be committed.

Unless the board of directors of May determines in good faith, after consulting with outside counsel, that taking such action would result in a reasonable probability that the board of directors of May would breach its fiduciary duties, May has agreed to promptly (but in any event within one business day) advise Federated of the receipt, directly or indirectly, of any inquiries, requests, discussions, negotiations or proposals relating to a company takeover proposal, or any request for nonpublic information relating to May by any person that informs May or its representatives that the person is considering making, or has made, a company takeover proposal, or an inquiry from a person seeking to have discussions or negotiations relating to a possible company takeover proposal.

May's board of directors will convene and hold a meeting of May stockholders, recommend that such stockholders approve the merger and use its reasonable best efforts to obtain such approval. May has further agreed that neither May's board of directors nor any committee of May's board of directors will cause a company adverse recommendation change (as defined below); or

approve or recommend, or allow May or any of its subsidiaries to execute or enter into, any letter of intent, memorandum of understanding, agreement in principle, merger agreement, acquisition agreement, option agreement, joint venture agreement, partnership agreement or other similar agreement constituting or related to any company takeover proposal.

A company adverse recommendation change is where the May board of directors decides to (i) withdraw, or publicly propose to withdraw, (or, in either case, modify in a manner adverse to Federated) the approval recommendation or declaration of advisability by the board of directors of the merger agreement or (ii) recommend, adopt or approve, or propose publicly to recommend, adopt or approve, any company takeover proposal.

However, in the event that prior to obtaining May stockholder approval, May's board of directors receives a company takeover proposal, then May's board of directors may (1) make a company adverse recommendation change and/or (2) upon termination of the merger agreement and payment of the termination fee described below, approve and enter into an agreement relating to a company takeover proposal that constitutes a superior proposal, if May's board of directors determines in good faith, after consultation with outside counsel, that it is necessary for the proper discharge of its fiduciary duties under applicable law to do so and if, in either case, May provides written notice advising Federated that the May board of directors intends to take



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such action and specifying the reasons therefor, and negotiates in good faith with Federated for three days following its receipt of such notice to make such adjustments to the terms and conditions of the merger agreement as would enable May to proceed with its recommendation of this merger agreement and/or not terminate the merger agreement.

The merger agreement does not prohibit May from taking and disclosing to its stockholders, in compliance with the rules and regulations of the Exchange Act, a position regarding any unsolicited tender offer for May common stock or from making any other disclosure to May stockholders if, in the good faith judgment of the May board of directors, after consultation with outside counsel, failure to disclose would be inconsistent with the fulfillment of the fiduciary duties or any other obligations of the May board of directors under applicable law.

***Federated Annual Meeting***

Federated's board of directors will convene and hold an annual meeting of Federated stockholders, recommend that such stockholders authorize the issuance of Federated common stock in connection with the merger and use its reasonable best efforts to obtain such authorization. However, in the event that, prior to obtaining Federated stockholder approval, Federated's board of directors receives a third-party takeover proposal (as defined below), then Federated's board of directors may withdraw or modify or publicly propose to withdraw or modify its recommendation of the issuance of Federated common stock in connection with the merger, if Federated's board of directors determines in good faith, after consultation with outside counsel, that it is necessary for the proper discharge of its fiduciary duties under applicable law to do so, and, in either case, Federated provides written notice advising May that the Federated board of directors intends to take such action and specifying the reasons therefor, and negotiates in good faith with May for three days following its receipt of such notice to make such adjustments to the terms and conditions of the merger agreement as would enable Federated to proceed with its recommendation. A third-party takeover proposal with respect to Federated means any bona fide written proposal or offer from any person relating to any (A) direct or indirect acquisition or purchase of a business that constitutes 50% or more of the net revenues, net income or the assets of Federated and its subsidiaries, taken as a whole, (B) direct or indirect acquisition of equity securities of Federated representing 50% or more of the combined voting power of Federated, (C) tender offer or exchange offer that if consummated would result in any person beneficially owning equity securities of Federated representing 50% or more of the combined voting power of Federated or (D) merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving Federated.

***Access to Information; Confidentiality***

During the period prior to the effective time of the merger, Federated and May will, and will cause each of their subsidiaries to, afford to the other party and its representatives reasonable access during normal business hours to all of their respective properties, books, contracts, commitments, personnel and records, except that neither party is required to provide the other with any information that it reasonably believes it can not provide due to contractual restrictions or legal restrictions, or which it believes is competitively sensitive information. The information will be held in confidence to the extent required by the provisions of the confidentiality agreement between Federated and May.

***Regulatory and Antitrust Approvals and Clearances***

Federated and May have each agreed to use its reasonable best efforts to cooperate and to take, or cause to be taken, all actions necessary, proper or advisable to complete and make effective the merger and the other transactions contemplated by the merger agreement, as promptly as practicable, but in no event later than the outside date of October 3, 2005, unless such date is extended up to and including August 31, 2006 in circumstances described below, in *The Merger Agreement - Termination of the Merger Agreement* beginning on page 113. This includes:

- obtaining all necessary actions or nonactions, waivers, consents and approvals from governmental entities and
- making all necessary registrations and filings and taking all reasonable steps as may be

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necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any governmental entity;

the avoidance of impediments under any antitrust, merger control, competition or trade regulation law that may be asserted by any governmental entity;

obtaining all necessary consents, approvals or waivers from third parties;

defending any lawsuits or other legal proceedings challenging the merger agreement or the transactions contemplated by the merger agreement, including seeking to have any stay or temporary restraining order vacated or reversed; and

executing and delivering any additional instruments necessary to complete the merger and the other transactions contemplated by the merger agreement and to fully carry out the purposes of the merger agreement.

Federated and its subsidiaries are required to commit to any and all divestitures, licenses or hold separate or similar arrangements with respect to its assets or conduct of business arrangements as a condition to obtaining any and all approvals from any government entity for any reason in order to complete, as promptly as practicable, the merger and other transactions contemplated by the merger agreement to be performed or completed by Federated and its subsidiaries. Specifically, Federated and its subsidiaries will take any and all actions necessary to ensure that:

no requirement for non-action, a waiver, consent or approval of the FTC, the Antitrust Division, any State Attorney General or other governmental entity;

no decree, judgment, injunction, temporary restraining order or any other order in any suit or proceeding; and

no other matter relating to any antitrust or competition law or regulation; would preclude completion of the merger by August 31, 2006, provided that in no event will Federated be required to dispose of or hold separate assets of May, Federated or their respective subsidiaries which, in the aggregate, accounted for annual net sales for the most recently completed fiscal year exceeding \$4 billion.

In addition, Federated and May each agreed to:

file as soon as practicable (after the execution and delivery of the merger agreement) a Notification and Report Form under the HSR Act with the FTC and the Antitrust Division, which Notification and Report Form was filed on March 8, 2005;

respond as promptly as practicable under the circumstances to any inquiries received from the FTC or the Antitrust Division for additional information or documentation and to all inquiries and requests received from any State Attorney General or other governmental entity in connection with antitrust matters;

not extend any waiting period under the HSR Act or enter into any agreement with the FTC or the Antitrust Division not to complete the transactions contemplated by the merger agreement;

subject to applicable laws and except as may be prohibited by any representative of any governmental entity, promptly notify the other party of any written communication to that party from the FTC, the Antitrust Division, any State Attorney General or any other governmental entity, and permit the other party to review in advance any proposed written communication to any of the foregoing;

subject to applicable laws and except as may be prohibited by any representative of any governmental entity, not agree to participate in any substantive meeting or discussion with any governmental entity regarding any filings, investigation or inquiry concerning the merger agreement or the merger unless it consults with the other party in advance and, to the extent permitted by the governmental entity, gives the other party the opportunity to attend and participate in the meeting; and



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subject to applicable laws and except as may be prohibited by any representative of any governmental entity, furnish the other party with copies of all correspondence, filings, and written communications, including summary memoranda, between it and its affiliates and their respective representatives on the one hand, and any governmental entity or members or their respective staffs on the other hand, with respect to the merger agreement and the merger.

In connection with and without limiting these obligations, each of Federated and May will take all reasonable action necessary to ensure that no state takeover statute or similar statute or regulation is or becomes applicable to the merger agreement or any transaction contemplated by the merger agreement, including the merger. If any state takeover statute or similar statute or regulation becomes applicable to the merger agreement or any transaction contemplated by the merger agreement, each of Federated and May will take all action reasonably necessary to ensure that the merger agreement and the transactions contemplated by the merger agreement, including the merger, may be completed as promptly as practicable on the terms contemplated by the merger agreement and otherwise to minimize the effect of the statute or regulation on the merger agreement and the transactions contemplated by the merger agreement, including the merger.

**May Stock Options**

At the effective time of the merger each outstanding May stock option and stock plan will be assumed by Federated. To the extent provided under terms of May's stock plans, all outstanding options will accelerate and become immediately exercisable in connection with the merger. Except for acceleration in accordance with the terms of May's stock plans, each May stock option assumed by Federated will continue to have the same terms and conditions as were applicable immediately before the effective time of the merger, except that each May stock option will be exercisable for a number of shares of Federated common stock equal to the product of the number of shares of May common stock issuable upon exercise of the option immediately before the effective time of the merger multiplied by the sum of (1) the stock consideration plus (2) the cash consideration divided by the average closing price for a share of Federated common stock as reported on the NYSE Composite Transaction Reports for the ten days prior to the closing date of the merger. In addition, the per share exercise price of each May stock option will be equal to the quotient determined by dividing the per share exercise price of the May stock option by the sum of (1) the stock consideration plus (2) the cash consideration divided by the average closing price for a share of Federated common stock as reported on the NYSE Composite Transaction Reports for the ten days prior to the closing date of the merger.

For example, if an executive has options to purchase 1,000 shares of May common stock for an exercise price of \$20 per share, and if the average closing price of Federated common stock were \$60 per share, then the stock option conversion calculations would be as follows:

	<b>May Options</b>		<b>Conversion Calculation</b>		<b>Federated Options</b>
Options	1,000	×	$.3115 + (\$17.75/\$60) = .3115 + .2958 = .6073$	=	607 options
Exercise price per share	\$ 20 per share	÷		.6073	= \$ 32.9326 per share
Aggregate exercise price	\$ 20,000.00				\$ 19,990.09*

\* Aggregate exercise values fluctuate due to fractional share rounding and rounding of exercise price.

If, on the other hand, the average closing price of Federated shares in the above example were \$52 per share, then the conversion factor would be  $.3115 + (\$17.75/\$52) = .3115 + .3413 = .6528$ , so that the options for 1,000 shares of May stock would convert to options for 653 shares of Federated stock, and the \$20 per share exercise price would convert to a \$30.6373 per share exercise price, with an aggregate exercise price of \$20,006.13.

The conversion of any May stock options which are incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, into options to purchase Federated common stock will be made so as not to constitute a modification of those May stock options within the meaning of Section 424 of the Internal Revenue Code.



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Federated will take all corporate action necessary to reserve for issuance a sufficient number of shares of Federated common stock for delivery upon exercise or settlement of the May stock plans described above that it will assume or settle pursuant to the merger agreement. Promptly after the effective time of the merger, Federated will file a registration statement on Form S-8, or other appropriate form, with respect to the shares of Federated common stock subject to the May stock plans and will maintain the effectiveness of such registration statement and maintain the current status of the prospectus or prospectuses contained in such registration statement, for so long as the May stock options assumed by Federated remain outstanding.

***Indemnification and Insurance***

Federated has agreed that all rights to indemnification and exculpation, including any obligations to advance funds or expenses, from liabilities for acts or omissions occurring at or prior to the effective time of the merger existing in favor of the current or former directors, officers and employees of May and its subsidiaries, as provided in their respective certificates of incorporation, by-laws and indemnification agreements will be assumed by the surviving company and will survive the merger and continue in full force and effect in accordance with their terms, and to the fullest extent permitted by law. In addition, Federated has agreed not to amend or otherwise modify those rights in any manner that would adversely affect the rights of individuals who on or prior to the effective time of the merger were directors, officers, employees or agents of May, unless the modification is required by law.

Federated has agreed to maintain in effect, for at least six years after the effective time of the merger, the current May directors and officers liability insurance policies covering acts or omissions occurring at or prior to the effective time of the merger with respect to those persons who are currently covered by May's directors and officers liability insurance policies for (or substitute policies of at least the same coverage and amounts containing terms and conditions which are no less advantageous than the May policies), provided that Federated or the surviving company will not be required to expend in any one year an amount in excess of 300% of the annual premiums paid by May at the date of the merger agreement for the insurance and, provided, that, if the annual premiums exceed that amount, Federated will be obligated to obtain a policy with the greatest coverage available for a cost not exceeding the limit set forth above.

***Employee Benefits Matters***

Federated agreed to assume all of the May benefit plans and honor and pay or provide the benefits required under the plans, recognizing that the consummation of the merger or approval of the merger agreement by May's stockholders, as the case may be, will constitute a change in control for purposes of each such plan that includes a definition of change in control.

Federated agreed to cause the surviving company to continue all May benefit plans in accordance with their terms as in effect immediately before the effective time of the merger until the first anniversary of the effective time of the merger, except as may be required under applicable law.

From the first anniversary of the effective time of the merger until the third anniversary of the effective time of the merger, Federated agreed to provide to those individuals who were employees of May immediately before the effective time of the merger (other than those subject to collective bargaining obligations or agreements), compensation and employee benefits substantially comparable in the aggregate to those provided to the employees immediately before the effective time of the merger (excluding equity-based compensation) and consider May employees for equity-based award grants on the same basis that similarly situated employees of Federated are considered for such grants.

Employees of May immediately before the effective time of the merger who are provided benefits under Federated employee benefit plans after the merger will receive credit for their service with May and its affiliates before the effective time of the merger for purposes of eligibility, vesting and benefit accrual (other than benefit accrual under a Federated defined benefit plan) to the same extent as they were entitled, before the effective time of the merger, to credit for service under any similar or comparable May benefit plan.

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For purposes of each Federated benefit plan providing medical, dental or health benefits to any May employee described above, Federated agreed to cause all pre-existing condition limitations and exclusions and all actively-at-work requirements of the plan to be waived for the employee and his or her covered dependents (but only to the extent that the limitations, exclusions and requirements would have been waived (or inapplicable) under the comparable May benefit plan). Federated also agreed to cause any eligible expenses incurred by the employee and his or her covered dependents during the portion of the plan year of the May plan ending on the date the employee's participation in the corresponding Federated plan begins to be taken into account under the Federated plan for purposes of satisfying all deductible, coinsurance and maximum out-of-pocket requirements applicable to the employee and his or her covered dependents for the applicable plan year as if the amounts had been paid in accordance with the Federated plan.

Under the merger agreement, May may take such action as may be necessary so that all unit awards granted under the Stock Appreciation Plan of The May Department Stores Company and Its Subsidiaries for International Employees will be settled in cash, whether or not the units are vested at the effective time of the merger. The amount of cash to be paid under the plan will be calculated as an amount equal to the product of (i) the closing price of May's common stock on the last trading day prior to the date on which the merger closes over the base price of the unit award and (ii) the number of shares of May common stock represented by the unit award.

Federated acknowledged and agreed to continue the following May practices with respect to its equity awards: (i) with respect to the noncompetition provisions under its 1994 Stock Incentive Plan, May has enforced the forfeiture provisions under the plan only with respect to terminating employees who terminate voluntarily at their own initiative or who have been terminated for cause; and (ii) with respect to options granted prior to the effective time of the merger, an option holder who is party to an employment agreement with May or a May affiliate and whose employment is terminated by the option holder's employer other than for cause, will have his or her stock options generally remain exercisable until the scheduled expiration of the term of the employment agreement and, if at the expiration of the term of the employment agreement, the option holder would be treated as a retiree for stock option purposes, the option holder's options will remain exercisable generally until the third anniversary of the date of termination of employment (or, if earlier, the expiration of the option term).

***Federated Dividends***

Federated agreed to increase its quarterly dividend on Federated common stock to \$0.25 per share beginning with the first quarterly dividend with a record date on or after the effective time of the merger. While Federated intends to maintain dividends at this level for the foreseeable future, it cannot assure you that dividends will be paid in future periods in any particular amount, or at all.

***St. Louis Operations***

Federated will maintain in St. Louis, Missouri a major divisional headquarters, as well as certain regional corporate support functions.

***Community Involvement***

Federated has agreed to honor any charitable contribution obligations of May in existence on the date of the merger agreement. For one year following the effective time of the merger, Federated will not reduce the total aggregate amount of funding for charitable causes by May from the total amount of such funding in the twelve month period immediately preceding the closing date of the merger. Between the first and second anniversary of the closing date of the merger, Federated will not reduce the total aggregate amount of funding for charitable causes by May by more than 50% from the total amount of such funding in the prior twelve month period. Between the second and third anniversary of the closing date of the merger, Federated will not reduce the total aggregate amount of funding for charitable causes by May by more than 75% from the total amount of such finding in the prior twelve month period. Federated's funding obligations will in each case be

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reduced by the total aggregate amount of funding for charitable causes by the May Department Stores Company Foundation during the relevant time period.

***Stockholder Litigation***

Federated and May shall cooperate and consult with one another in connection with any stockholder litigation against any of them or any of their respective directors or officers with respect to the transactions contemplated by the merger agreement. Each of the parties will use its respective reasonable best efforts to prevail in such litigation so as to permit the consummation of the transactions contemplated by the merger agreement in the manner contemplated by the merger agreement. May has agreed that it will not compromise or settle (other than compromises or settlements involving solely monetary damages) any litigation commenced against it or its directors and officers relating to the merger agreement or the transactions contemplated by the merger agreement (including the merger) without Federated's prior written consent, not to be unreasonably withheld or delayed. However, May may compromise or settle any such litigation without Federated's consent solely for monetary damages.

***Additional Agreements***

The merger agreement contains additional agreements between Federated and May relating to, among other things:

preparation of the Form S-4 and this joint proxy statement/ prospectus;

tax treatment of the merger, and cooperation with respect to obtaining opinions from outside counsel that the merger will constitute a reorganization within the meaning of Section 368(a) of the Code;

consultations regarding public announcements;

delivery of a letter identifying all persons who are affiliates of May;

use of reasonable best efforts to cause the shares of Federated common stock to be issued to be approved for listing on the NYSE; and

ensure exemption under Rule 16b-3 of the Exchange Act.

**Conditions to Completion of the Merger**

The obligations of Federated and May to complete the merger are subject to the satisfaction or waiver on or prior to the closing date of the merger of the following conditions:

the requisite stockholder approval from May and Federated stockholders (the satisfaction of which cannot be determined until the respective stockholders meetings);

the absence of any order or injunction of any governmental entity of competent jurisdiction that prohibits the consummation of the merger; provided, however, that prior to asserting this condition each of the parties shall have used its reasonable best efforts to prevent the entry of any such order or injunction and to appeal as promptly as possible any such order or injunction that may be entered (as of the date of this joint proxy statement/prospectus, no such order or injunction is in effect);

the registration statement of which this joint proxy statement/ prospectus forms a part must not be subject to any stop order or proceedings seeking a stop order (as of the date of this joint proxy statement/prospectus, no such stop orders or proceedings is in effect or ongoing);

the waiting period applicable to the consummation of the merger under the HSR Act shall have expired or been terminated (as of the date of this joint proxy statement/prospectus, such waiting period has not expired or been terminated and the parties have received a request for additional information from the FTC); and

the shares of Federated common stock issuable to May's stockholders as contemplated by the merger agreement must have been approved for listing on the New York Stock Exchange, subject to official

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notice of issuance (as of the date of this joint proxy statement/prospectus, this condition is not yet satisfied).

The obligation of Federated to effect the merger is further subject to satisfaction or waiver of the following conditions (in each case, the satisfaction of which cannot be determined until the closing):

the representations and warranties of May set forth in the merger agreement must be true and correct in all respects (without giving effect to any materiality or material adverse effect qualifications contained in them) both when made and at and as of the closing date of the merger, as if made at and as of the closing date of the merger (except to the extent expressly made as of an earlier date, in which case as of that date), except where the failure of such representations and warranties to be so true and correct would not reasonably be expected to have or result in, individually or in the aggregate, a material adverse effect on May;

May must have performed (i) in all material respects all of its obligations, except for the pre-closing conduct of business covenant described above, required to be performed by it under the merger agreement at or prior to the closing date of the merger and (ii) in all respects all of its obligations required to be performed by it under the pre-closing conduct of business covenant described above, except where the failure to do so would not have or result in, individually or in the aggregate, a material adverse effect on May;

May must have furnished Federated with a certificate dated the closing date of the merger signed on its behalf by an executive officer to the effect that the conditions set forth above in the two immediately preceding bullets have been satisfied; and

Federated shall have received from Jones Day, its counsel, an opinion dated as of the closing date of the merger, to the effect that the merger will constitute a reorganization within the meaning of Section 368(a) of the Code.

The obligation of May to effect the merger is further subject to satisfaction or waiver of the following conditions (in each case, the satisfaction of which cannot be determined until the closing):

the representations and warranties of Federated and Merger Sub set forth in the merger agreement must be true and correct in all respects (without giving effect to any materiality or material adverse effect qualifications contained in them) both when made and at and as of the closing date of the merger, as if made at and as of the closing date of the merger (except to the extent expressly made as of an earlier date, in which case as of that date), except where the failure of the representations and warranties to be so true and correct would not have or result in, individually or in the aggregate, a material adverse effect on Federated and Merger Sub;

Federated and Merger Sub must have performed (i) in all material respects all of its obligations, except for the pre-closing conduct of business covenant described above, required to be performed by it under the merger agreement at or prior to the closing date of the merger and (ii) in all respects all of its obligations required to be performed by it under the pre-closing conduct of business covenant described above, except where the failure to do so would not have or result in, individually or in the aggregate, a material adverse effect;

Federated and Merger Sub must have each furnished May with a certificate dated the closing date of the merger signed on its behalf by an executive officer to the effect that the conditions set forth above in the two immediately preceding bullets have been satisfied; and

May shall have received from Skadden, Arps, Slate, Meagher, & Flom LLP, its counsel, an opinion dated as of the closing date, to the effect that the merger will constitute a reorganization within the meaning of Section 368(a) of the Code.

Material adverse effect, when used in reference to May or Federated, means any change, effect, event, occurrence or state of facts that is, or would reasonably be expected to be, materially adverse to the business, financial condition, or results of operations of the referenced company and its subsidiaries taken as a whole.

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However, any changes, effects, events, occurrences or state of facts will not be deemed to have a material adverse effect if they relate to:

the economy or financial markets in general, to the extent that they do not disproportionately affect the referenced company relative to the other participants in the industries in which the referenced company operates;

the industry in which the referenced company and its subsidiaries operate in general, to the extent that they do not disproportionately affect the referenced company relative to the other participants in the industries in which the referenced company operates;

the negotiation and entry into the merger agreement, the announcement of the merger agreement or the undertaking and performance or observance of the obligations contemplated by the merger agreement or necessary to consummate the transactions contemplated by the merger agreement (including adverse effects on results of operations attributable to the uncertainties associated with the period between the date of the merger agreement and the closing date of the merger);

the effect of incurring and paying expenses in connection with negotiating, entering into, performing and consummating the transactions contemplated by the merger agreement;

changes in applicable laws after the date of the merger agreement; and

changes in GAAP after the date of the merger agreement.

May's same store sales decreased by 2.4% in the fiscal year ended January 29, 2005. Although May has instituted a number of remedial measures designed to reverse this trend and to improve same store sales performance in fiscal 2005, there can be no assurance that this result will be successfully implemented or that same store sales performance will not continue the trends experienced in fiscal 2004 or that they will not be further adversely affected by the disruption caused by the merger with Federated. Before May and Federated signed the merger agreement, May informed Federated that comparative store for store sales performance may continue on a downward trend, and may be negatively influenced by the transactions contemplated by the merger agreement.

In addition, compliance with the terms of the merger agreement, including the provisions with respect to the actions to be taken to obtain regulatory and antitrust approvals, and the consequences of compliance with the terms of the merger agreement will not be taken into account in determining whether a material adverse effect will have occurred or will be expected to occur.

Neither Federated, nor Merger Sub, nor May, as applicable, may rely on the failure of any condition set forth above to be satisfied if the failure was caused by its failure to comply with its obligations to consummate the merger and the other transactions contemplated by the merger agreement. Other than the conditions pertaining to stockholder approvals and the expiration or termination of the HSR waiting period, either Federated or May may elect to waive conditions to its own performance and complete the merger. Neither Federated nor May intends to waive any condition as of the date of this joint proxy statement/prospectus.

### **Termination of the Merger Agreement**

Before the effective time of the merger, the merger agreement may be terminated:

by the mutual written consent of Federated and May;

by either Federated or May if:

the parties fail to consummate the merger on or before the outside date of October 3, 2005, or such later date, if any, as Federated and May may agree, unless the failure to consummate the merger by the outside date is the result of a breach of the merger agreement by the party seeking the termination; provided that the outside date will be extended to August 31, 2006, if all conditions to the closing have been fulfilled other than the absence of an order or injunction by a governmental



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entity prohibiting completion of the merger or the expiration or termination of the waiting period under HSR;

the Federated annual meeting has concluded and the authorization of the issuance of shares of Federated common stock pursuant to the merger agreement by the Federated stockholders was not obtained;

the May annual meeting has concluded and the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger, by the May stockholders was not obtained; or

any governmental entity issues an order or injunction that permanently prohibits the merger and such order or injunction has become final and non-appealable unless the order or injunction results from a breach of the merger agreement by the party seeking the termination;

by May if:

Federated or Merger Sub breaches its representations or warranties or breaches or fails to perform its covenants in the merger agreement, which breach or failure to perform results in a failure of certain of the conditions to the completion of the merger being satisfied and such breach or failure to perform is not cured within 60 days after the receipt of written notice thereof or is incapable of being cured by the outside date;

prior to the receipt of its stockholder approval, May (i) receives a superior proposal, (ii) provides Federated with a written notice that the board of directors has determined, in good faith, after consultation with outside counsel, that it is necessary for the proper discharge of its fiduciary duties under applicable law and (iii) thereafter satisfies the conditions for withdrawing (or modifying in a manner adverse to Federated) the recommendation by its board of directors of the merger or recommending such superior proposal; provided that May pays a \$350 million termination fee to Federated and is not in material breach of its non-solicitation obligations under the merger agreement; or

the Federated board of directors or any committee thereof withdraws or modifies or publicly proposes to withdraw or modify its recommendation that Federated's stockholders authorize the issuance of Federated common stock in the merger;

by Federated if:

May breaches its representations or warranties or breaches or fails to perform its covenants in the merger agreement, which breach or failure to perform results in a failure of certain of the conditions to the completion of the merger being satisfied, provided such breach or failure to perform is not cured within 60 days after receipt of a written notice thereof or is incapable of being cured by the outside date; or

the May board of directors or any committee thereof (i) withdraws or adversely modifies or publicly proposes to withdraw or adversely modify, its recommendation of the merger agreement and the transactions contemplated by the merger agreement, including the merger; or (ii) recommends, adopts or approves, or proposes publicly to recommend, adopt or approve a takeover proposal other than the merger agreement.

**Termination Fees**

***May***

May must pay Federated a \$350 million termination fee if the merger agreement is terminated:

by Federated if the May board of directors or any committee thereof (i) withdraws or adversely modifies or publicly proposes to withdraw or adversely modify, its recommendation of the merger agreement and the transactions contemplated by the merger agreement, including the merger; or



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(ii) recommends, adopts or approves, or proposes publicly to recommend, adopt or approve a takeover proposal other than the merger agreement;

by May if, prior to the receipt of its stockholder approval, May (i) receives a superior proposal, (ii) provides Federated with a written notice that the board of directors has determined, in good faith, after consultation with outside counsel, that it is necessary for the proper discharge of its fiduciary duties under applicable law and (iii) thereafter satisfies the conditions for withdrawing (or modifying in a manner adverse to Federated) the recommendation by its board of directors of the merger or recommending such superior proposal; provided that May is not in material breach of its non-solicitation obligations under the merger agreement; or

(i) because (x) the merger has not been consummated by the outside date; (y) the May annual meeting has concluded and the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger, by the May stockholders was not obtained; or (z) May breaches its representations or warranties or breaches or fails to perform its covenants in the merger agreement, which breach or failure to perform results in a failure of certain of the conditions to the completion of the merger being satisfied, provided such breach or failure to perform is not cured within 60 days after receipt of a written notice thereof or is incapable of being cured by the outside date; (ii) at the time of such termination, Federated is not in breach in any material respect of any of its representations, warranties or covenants contained in the merger agreement; (iii) prior to such termination, any person publicly announces an alternative takeover proposal relating to May that has not been withdrawn; and (iv) within 12 months of such termination May enters into a definitive agreement with respect to, or consummates, an alternative takeover proposal relating to May.

***Federated***

Federated must pay May a termination fee:

of \$350 million if the merger agreement is terminated by May because the Federated board of directors or any committee thereof has withdrawn or modified, or publicly proposed to withdraw or modify, its recommendation that Federated stockholders authorize the issuance of Federated common stock in the merger;

of \$350 million if the merger agreement is terminated by either party because the merger was not consummated by the outside date and at the time of the termination all of the conditions precedent to the obligations of the parties to consummate the merger agreement had been satisfied except for:

the condition that none of the parties shall be subject to any order or injunction of any government entity that prohibits the consummation of the merger, and the condition that the waiting period applicable to the consummation of the merger under the HSR Act shall have expired or been terminated;

the condition that the shares of Federated common stock issuable to May's stockholders as contemplated in the merger agreement shall have been approved for listing on the NYSE, if such condition is capable of being satisfied at the time of termination, or the condition that Federated shall have received from Jones Day, an opinion dated as of the closing date, to the effect that the merger will constitute a reorganization within the meaning of Section 368(a) of the Code, if such condition is capable of being satisfied at the time of termination; and

any other conditions that are capable of being satisfied on the date of termination but by their terms cannot be satisfied until the closing date.

equal to the product of \$20 million and the quotient (rounded to the nearest fourth decimal point) determined by dividing the number of calendar days between the date of the agreement and the date of the termination by 30, provided however that the amount of the fee will not be less than \$150 million or more than \$350 million, if the merger agreement is terminated by either party because any government

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entity issues an order or injunction that permanently prohibits the merger, such order or injunction becomes final and non-appealable, and at the time of the termination all of the conditions precedent to the obligation to consummate the merger agreement had been satisfied except for:

the condition that none of the parties shall be subject to any order or injunction of any government entity that prohibits the consummation of the merger, and the condition that the waiting period applicable to the consummation of the merger under the HSR Act shall have expired or been terminated; and

the condition that the shares of Federated common stock issuable to May's stockholders as contemplated in the merger agreement shall have been approved for listing on the NYSE, if such condition is capable of being satisfied at the time of termination, or the condition that Federated shall have received from Jones Day, an opinion dated as of the closing date, to the effect that the merger will constitute a reorganization within the meaning of Section 368(a) of the Code, if such condition is capable of being satisfied at the time of termination; and

any other conditions that are capable of being satisfied on the date of termination but by their terms cannot be satisfied until the closing date.

In general, each of Federated and May will bear its own expenses in connection with the merger agreement and the related transactions except that Federated and May will share equally the costs and expenses in connection with filing, printing and mailing of the registration statement and this joint proxy statement/ prospectus.

**Amendments, Extensions and Waivers**

***Amendments***

The merger agreement may be amended by the parties at any time prior to the effective time of the merger by an instrument in writing signed on behalf of each of the parties. However, after the approval and adoption of the merger agreement with the transactions contemplated by the merger agreement, including the merger, at the May annual meeting or the approval of the issuance of shares of Federated common stock in the merger at the Federated annual meeting, there will be no amendment to the merger agreement made that by law, or, in the case of the approval at the Federated annual meeting, by the regulations established by the NYSE, requires further approval by the stockholders of May or Federated without the further approval of the stockholders of May or Federated.

***Extensions and Waivers***

At any time prior to the effective time of the merger, any party to the merger agreement may:

- extend the time for the performance of any of the obligations or other acts of the other parties;

waive any inaccuracies in the representations and warranties of the other parties contained in the merger agreement or in any document delivered pursuant to the merger agreement; or

waive compliance by the other parties with any of the agreements or conditions contained in the merger agreement except as limited by the provisions of the merger agreement described above in the section Amendments.

Any agreement on the part of either party to any extension or waiver will be valid only if set forth in an instrument in writing signed by that party. The failure of any party to the merger agreement to assert any of its rights under the merger agreement or otherwise will not constitute a waiver of those rights.

**Table of Contents****INFORMATION ABOUT FEDERATED****Business*****General***

Federated is a Delaware corporation. Federated and its predecessors have been operating department stores since 1820.

As of January 29, 2005, Federated, through its subsidiaries, operated 394 department stores and 65 furniture galleries and other specialty stores. The stores are located in 34 states, Puerto Rico and Guam, with 152 stores being located on the west coast, 104 stores in the southeast, 90 stores in the northeast, 48 stores in the midwest and the remaining 65 stores spread in other areas of the United States and its territories. Prior to March 6, 2005, the stores were operated under the names Bloomingdale s, Bon-Macy s, Burdines-Macy s, Goldsmith s-Macy s, Lazarus-Macy s and Rich s-Macy s. Pursuant to a broad national strategy announced by Federated in September 2004 to more fully leverage its Macy s brand, the stores operating under the names Bon-Macy s, Burdines-Macy s, Goldsmith s-Macy s, Lazarus-Macy s and Rich s-Macy s were renamed effective March 6, 2005, to become Macy s stores. The department stores sell a wide range of merchandise, including men s, women s and children s apparel and accessories, cosmetics, home furnishings and other consumer goods, and are diversified by size of store, merchandising character and character of community served. Most stores are located at urban or suburban sites, principally in densely populated areas across the United States.

Federated, through its subsidiaries, conducts direct-to-customer mail catalog and electronic commerce businesses under the names Bloomingdale s By Mail and macys.com. Additionally, Federated offers an on-line bridal registry to customers.

Federated provides various support functions to its retail operating divisions on an integrated, company-wide basis.

Federated s financial, administrative and credit services subsidiary, FACS Group, Inc., referred to as FACS, provides credit processing, collections, customer service and credit marketing services for the proprietary credit programs of Federated s retail operating divisions in respect of all proprietary and non-proprietary credit card accounts owned by Federated and credit processing, customer service and credit marketing for those accounts owned by GE Money Bank, referred to as GE Bank. GE Bank owns all of the Macy s credit card accounts originated prior to December 19, 1994, when R.H. Macy & Co., Inc. was acquired pursuant to a merger, and an allocated portion of the Macy s credit card accounts originated subsequent to such merger. In addition, FACS provides payroll and benefits services to Federated s retail operating and service divisions. As of the date of this joint proxy statement/ prospectus, Federated is exploring various alternatives with respect to its and Macy s credit card related assets, including the possible purchase of the portion of the Macy s accounts currently owned by GE Bank, the possible sale of all or a portion of Federated-owned accounts and related assets or possible entry into modified arrangements with GE Bank or another third party with respect thereto.

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

Macy s Merchandising Group, LLC, referred to as MMG, a wholly owned indirect subsidiary of Federated and successor in interest to Federated Merchandising Group, helps Federated 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 Federated s various department store franchises. MMG is also responsible for all of the private label development of Federated s retail operating divisions. However, Bloomingdale s sources some of its private label merchandise through Associated Merchandising Corporation.

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

Since April 2004, Macy's Home Store, LLC, a wholly owned indirect subsidiary of Federated, has been responsible for the overall strategy, merchandising and marketing of home-related categories of business in all of Federated's retail operating stores, except stores operated under the Bloomingdale's name.

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

FACS, FSG and MMG also offer their services to unrelated third parties.

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

### ***Employees***

As of January 29, 2005, Federated had approximately 112,000 regular full-time and part-time employees. Because of the seasonal nature of the retail business, the number of employees peaks in the holiday season. Approximately 10% of Federated's employees as of January 29, 2005, were represented by unions. Federated 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 holiday season when Federated must carry significantly higher inventory levels.

### ***Purchasing***

Federated purchases merchandise from many suppliers, no one of which accounted for more than 5% of Federated's net purchases during the fiscal year ended January 29, 2005, referred to as fiscal 2004. Federated has no long-term purchase commitments or arrangements with any of its suppliers, and believes that it is not dependent on any one supplier. Federated considers its relations with its suppliers to be satisfactory.

### ***Competition***

The retailing industry is intensely competitive. Federated's stores and direct-to-customer business operations compete with many retailing formats, including department stores, 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, among others. The retailers with which Federated competes include Dillard's, J.C. Penney, Kohl's, May, Nordstrom, Sears, Neiman Marcus, Saks, The Gap, The Limited, Old Navy, TJ Maxx, Wal-Mart, Target, Linens 'n Things, Bed, Bath & Beyond and many others. Federated seeks to attract customers by offering superior selections, value pricing and strong private label merchandise, and by providing an exciting shopping environment and superior service. Other retailers may compete for customers on some or all of these bases, or on other bases, and may be perceived by some potential customers as being better aligned with their particular preferences.

### ***Credit Sales***

Sales at Federated's stores are made for cash or credit, including Federated's 30-day charge accounts and open-end credit plans for department store divisions, which include revolving charge accounts and revolving

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installment accounts. During fiscal 2004, approximately 42% of net sales were made through Federated's department store credit plans, including the credit plans relating to certain operations of Federated that are owned by GE Money Bank.

**Directors of Federated**

***Nominees for Election as Class II Directors Term expires at the 2008 annual meeting***

**Meyer Feldberg**

Professor Feldberg, age 63, has been Dean Emeritus and Sanford Bernstein Professor of Leadership and Ethics at Columbia Business School at Columbia University since June 2004. Prior thereto he served as the Dean of the Columbia Business School at Columbia University from 1989 to June 2004. He is also a member of the boards of directors of Revlon, Inc., Primedia, Inc., UBS Global Asset Management, SAPPI Limited and Select Medical Corporation. Professor Feldberg is a member of the NCG and Compensation and Management Development, referred to as the CMD Committee, Committees of the board. Professor Feldberg has been a director since 1992.

**Terry J. Lundgren**

Mr. Lundgren, age 53, has been Chairman of Federated since January 15, 2004, and President and Chief Executive Officer of Federated since February 26, 2003. Prior thereto he served as the President/ Chief Operating Officer and Chief Merchandising Officer of Federated since April 15, 2002. From May 1997 until April 15, 2002, he was President and Chief Merchandising Officer of Federated. Mr. Lundgren has been a director since May 1997.

**Marna C. Whittington**

Dr. Whittington, age 57, has been President of Nicholas Applegate Capital Management since 2001 and Chief Operating Officer of Allianz Global Investors, the parent of Nicholas Applegate Capital Management, since 2002. From 1996 until 2001 she was Chief Operating Officer of Morgan Stanley Dean Witter Investment Management. Dr. Whittington is also a member of the board of directors of Rohm & Haas Company. Dr. Whittington is a member of the Audit and Finance Committees of the board. Dr. Whittington has been a director since 1993.

***Class III Directors Term expires at the 2006 annual meeting***

**Earl G. Graves, Sr.**

Mr. Graves, age 70, has been Chairman and Chief Executive Officer of Earl G. Graves, Ltd., a multi-faceted communications company, since 1970, and is the Publisher and Chief Executive Officer of Black Enterprise magazine, which he founded. From 1990 until 1998, Mr. Graves was Chairman and Chief Executive Officer of Pepsi-Cola of Washington, D.C., L.P., a Pepsi-Cola bottling franchise. Since 1998, Mr. Graves has been Chairman of the Pepsi-Cola Ethnic Advisory Board. Mr. Graves is also a member of the boards of directors of Aetna Inc., AMR Corporation, DaimlerChrysler Corporation and Rohm & Haas Company. He is a member of the NCG, Public Policy and Audit Committees of the board. Mr. Graves has been a director since 1994. Although Mr. Graves' term expires at the 2006 annual meeting, he intends to resign his position as a Federated director effective at the 2005 annual meeting.

**Craig E. Weatherup**

Mr. Weatherup, age 59, was Chairman and Chief Executive Officer of The Pepsi Bottling Group, Inc. from November 1998 until January 2003. Mr. Weatherup is also a member of the board of directors of Starbucks Corporation. Mr. Weatherup has been a director since August 1996.

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***Class I Directors Term expires at the 2007 annual meeting***

**Sara Levinson**

Ms. Levinson, age 54, has been President, Women's Group of Rodale, Inc. since October 2002 and has been Non-Executive Chairman of Club Mom since May 2000. Prior to October 2000, she was President of NFL Properties, Inc. since September 1994. Ms. Levinson is also a member of the board of directors of Harley Davidson, Inc. Ms. Levinson is a member of the NCG and CMD Committees of the board. Ms. Levinson has been a director since May 1997.

**Joseph Neubauer**

Mr. Neubauer, age 64, has been Chairman and Chief Executive Officer of ARAMARK Corporation since September 2004. From January 2004 to September 2004 he served as Executive Chairman of ARAMARK Corporation. Prior thereto, he was Chief Executive Officer of ARAMARK Corporation from 1983 until December 2003 and Chairman from 1984 until December 2003. He is also a member of the boards of directors of ARAMARK Corporation, Verizon Communications, Inc., Wachovia Corporation and CIGNA Corporation. Mr. Neubauer is a member of the Audit, CMD and Finance Committees of the board. Mr. Neubauer has been a director since 1992.

**Joseph A. Pichler**

Mr. Pichler, age 65, was Chairman of The Kroger Co. from June 2003 until June 2004 and was Chief Executive Officer of The Kroger Co. from June 1990 until June 2003. Mr. Pichler is a member of the NCG and CMD Committees of the board. Mr. Pichler has been a director since December 1997.

**Karl M. von der Heyden**

Mr. von der Heyden, age 68, was Vice Chairman of the Board of Directors of PepsiCo, Inc. from September 1996 to January 2001. He is also a member of the boards of directors of ARAMARK Corporation and PanAmSat Corp. Mr. von der Heyden is a member of the Audit and Finance Committees of the board. Mr. von der Heyden has been a director since 1992.

***Attendance at Board Meetings***

The board held nine meetings fiscal 2004. During fiscal 2004, no director attended fewer than 75%, in the aggregate, of the total number of meetings of the board and board committees on which such director served.

***Director Attendance at Annual Meetings***

As a matter of policy, Federated expects its directors to make reasonable efforts to attend Federated's annual meetings of stockholders. All of Federated's directors attended its most recent annual meeting of stockholders.

***Communications with the Board***

Interested parties may communicate with the full board, the Audit Committee, directors who are not employees of Federated, referred to as the non-management directors, or any individual director by communicating through Federated's Internet website at [www.fds.com/corporategovernance](http://www.fds.com/corporategovernance) or by mailing such communications to 7 West Seventh Street, Cincinnati, Ohio 45202, Attention: General Counsel. Such communications should indicate to whom they are addressed. Any comments received that relate to accounting, internal accounting controls or auditing matters will be referred to members of the Audit Committee unless the communication is otherwise addressed. Parties may communicate anonymously and/or confidentially if they desire. All communications received will be collected by the Office of the General Counsel of Federated and forwarded to the appropriate director or directors.

**Table of Contents*****Director Independence***

Federated's Corporate Governance Guidelines require that a majority of the board consist of directors who the board has determined do not have any material relationship with Federated and are independent. The board has adopted standards for director independence, a copy of which is attached as Annex H to this joint proxy statement/prospectus, to assist the board in determining if a director is independent.

The board has determined that, except for Mr. Lundgren, who is a senior executive of Federated, and Mr. Weatherup, the remaining members of the board who are non-management directors qualify as independent. The board determined that, following the expiration of the transition rule applicable to Section 303A.02(b)(iv) of the New York Stock Exchange Listed Company Manual, referred to as the NYSE Manual, on October 31, 2004, Mr. Weatherup was not independent under Federated's standards for director independence. Mr. Weatherup was Chairman and Chief Executive Officer of the Pepsi Bottling Group, Inc., referred to as PBG, from November 1998 until January 2003. Susan Kronick, a member of PBG's compensation committee since 1999, became an executive officer of Federated on February 25, 2003. Although Mr. Weatherup's tenure as a PBG executive officer did not overlap Ms. Kronick's service on PBG's compensation committee while she was also a Federated executive officer, the board determined that Mr. Weatherup was not independent based on the application of the three-year look-back under Section 303A.02(b)(iv) of the NYSE Manual. Each of the directors who were determined to be independent by the board satisfied Federated's standards for director independence.

***Non-Management Directors Meetings***

The non-management directors of the board meet in executive session without management either before or after all regularly scheduled board meetings. The chairpersons of the board committees preside at such sessions by rotation. Non-management directors who are not independent under the NYSE listing standards may participate in these executive sessions, but an executive session in which only independent directors participate is convened at least once per year.

***Committees of the Board***

The following standing committees of the board were in existence throughout fiscal 2004: the Finance Committee, the Audit Committee, the NCG Committee (formerly called the Board Organization and Corporate Governance Committee), and the Compensation and Management Development Committee (formerly called the Compensation Committee). The Public Policy Committee and the Section 162(m) Subcommittee were in existence until May 2004. On the recommendation of the NCG Committee, the board resolved to dissolve the Public Policy Committee and the Section 162(m) Subcommittee as of May 21, 2004.

*Audit Committee.* The Audit Committee (formerly called the Audit Review Committee) is presently composed of Dr. Whittington and Messrs. Graves, Neubauer and von der Heyden. The Audit Committee Charter is disclosed on Federated's website at [www.fds.com/corporategovernance](http://www.fds.com/corporategovernance). As required by the Audit Committee Charter, the board has determined that all members of the Audit Committee are independent and that Dr. Whittington and other members of the Audit Committee qualify as financial experts. For a portion of fiscal 2004, Mr. von der Heyden served on the audit committees of three other public companies. The board previously determined that such service did not impair Mr. von der Heyden's ability to serve on Federated's Audit Committee.

The responsibilities of the Audit Committee include:

Reviewing the professional services provided by Federated's independent registered public accounting firm and the independence of such firm;

Reviewing the scope of the audit by Federated's independent registered public accounting firm;

Reviewing any proposed non-audit services by Federated's independent registered public accounting firm to determine if the provision of such services is compatible with the maintenance of their independence, and approval of same;

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Reviewing Federated's annual financial statements, systems of internal accounting controls, material legal developments relating thereto, and legal compliance policies and procedures;

Reviewing matters with respect to the legal, accounting, auditing and financial reporting practices and procedures of Federated as it may find appropriate or as may be brought to its attention, including Federated's compliance with applicable laws and regulations;

Reviewing with members of Federated's internal audit staff the internal audit department's staffing, responsibilities and performance, including its audit plans, audit results and actions taken with respect to those results; and

Establishing procedures for the Audit Committee to receive, review and respond to complaints regarding accounting, internal accounting controls, and auditing matters, as well as confidential, anonymous submissions by employees of concerns related to questionable accounting or auditing matters.

See Report of the Audit Committee for further information regarding the Audit Committee's review. The Audit Committee met seven times during fiscal 2004.

*Compensation and Management Development Committee.* The charter for the CMD Committee is disclosed on Federated's website at [www.fds.com/corporategovernance](http://www.fds.com/corporategovernance). The CMD Committee is presently composed of Ms. Levinson and Messrs. Feldberg, Neubauer and Pichler. Prior to November 1, 2004, Mr. Weatherup also was a member of the CMD Committee. As required by the CMD Committee Charter, all current members of the CMD Committee are independent under Federated's standards for director independence.

The responsibilities of the CMD Committee include:

Reviewing and approving any proposed employment agreement with, and any proposed severance, termination or retention plans, agreements or payments applicable to, any executive officer of Federated;

Reviewing and approving the salaries of the chief executive officer and other executive officers of Federated;

Administering the bonus, incentive and stock option plans of Federated, including (i) establishing any annual or long-term performance goals and objectives and maximum annual or long-term incentive awards for the chief executive officer and the other executives, (ii) determining whether and the extent to which annual and/or long-term performance goals and objectives have been achieved, and (iii) determining related annual and/or long-term incentive awards for the chief executive officer and the other executives;

Reviewing and approving the benefits of the chief executive officer and the other executive officers of Federated;

Advising and consulting with Federated's management regarding pension, benefit and compensation plans, policies and practices of Federated;

Establishing chief executive officer and key executive succession plans, including plans in the event of an emergency, resignation or retirement; and

Reviewing management development plans for key executives.

The CMD Committee met four times during fiscal 2004.

*Finance Committee.* The Finance Committee is presently composed of Dr. Whittington and Messrs. Neubauer and von der Heyden.



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The Finance Committee:

Reviews with the appropriate officers of Federated the financial considerations relating to acquisitions and dispositions of businesses and operations involving projected costs or income above \$15 million and below \$25 million and approves all such transactions, and makes recommendations to the Federated board on all such transactions involving projected costs or income of \$25 million and above;

Reports to the Federated board on potential transactions affecting Federated's capital structure, such as financings, refinancings and the issuance, redemption or repurchase of Federated's debt or equity securities;

Reports to the Federated board on potential changes in Federated's financial policy which could have a material financial impact on Federated;

Reviews capital projects and other financial commitments and approves such projects and commitments above \$15 million and below \$25 million, and makes recommendations to the Federated board on all such projects and commitments of \$25 million and above; and

Reviews investment performance of pension and savings plans.

The Finance Committee met twelve times during fiscal 2004.

*Nominating and Corporate Governance Committee.* The charter for the NCG Committee is disclosed on Federated's website at [www.fds.com/corporategovernance](http://www.fds.com/corporategovernance). The NCG Committee is presently composed of Ms. Levinson and Messrs. Feldberg, Graves and Pichler. Prior to November 1, 2004, Mr. Weatherup also was a member of the NCG Committee. As required by the NCG Committee Charter, all current members of the NCG Committee are independent under Federated's standards for director independence.

The responsibilities of the NCG Committee include:

Identifying and screening candidates for future board membership;

Proposing candidates to the board to fill vacancies as they occur, and proposing nominees to the board for election by the stockholders at annual meetings;

Reviewing Federated's Corporate Governance Principles and Practices and recommending to the board any modifications that the NCG Committee deems appropriate;

Overseeing the evaluation of and reporting to the board on the performance and effectiveness of the board and its committees, and other issues of corporate governance and recommending to the board any changes concerning the composition, size, structure and activities of the board and the committees of the board as the NCG Committee deems appropriate based on its evaluations;

Reviewing and reporting to the board with respect to director compensation and benefits and make recommendations to the board as the Committee deems appropriate; and

Considering possible conflicts of interest of board members and management and making recommendations to prevent, minimize, or eliminate such conflicts of interest.

The NCG Committee met six times during fiscal 2004.

Among other means of identifying potential candidates, under the NCG Committee Charter, the NCG Committee is authorized to employ third-party search firms. The criteria considered by the NCG Committee in evaluating potential candidates include the following:

Personal qualities and characteristics, accomplishments and reputation in the business community;

Knowledge of the communities in which Federated does business and Federated's industry or other industries relevant to Federated's business;

Relevant experience and background that would benefit Federated;

Ability and willingness to commit adequate time to Federated board and committee matters;

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The fit of the individual's skills and personality with those of other directors and potential directors in building a board that is effective, collegial and responsive to the needs of Federated; and

Diversity of viewpoints, background, experience and demographics.

The NCG Committee also takes into consideration whether particular individuals satisfy the independence criteria set forth in the New York Stock Exchange listing standards together with any special criteria applicable to service on various standing committees of the Federated board. The full Federated board (a) considers candidates recommended to it by the NCG Committee, (b) considers the optimum size of the Federated board, (c) determines the manner in which any vacancies on the Federated board are addressed, and (d) determines the composition of all Federated board committees.

The NCG Committee will consider nominees for directors recommended by stockholders of Federated and will evaluate such nominees using the same criteria used to evaluate director candidates otherwise identified by the NCG Committee. Stockholders wishing to make such recommendations should write to the Nominating and Corporate Governance Committee, c/o Dennis J. Broderick, Secretary, Federated Department Stores, Inc., 7 West Seventh Street, Cincinnati, Ohio 45202. Persons making submissions should include the full name and address of the recommended nominee, a description of the proposed nominee's qualifications and other relevant biographical information. See *Directors of Federated Director Nomination Procedures* beginning on page 124 for a discussion of nomination procedures under Federated's by-laws.

*Public Policy Committee.* The Public Policy Committee ceased to exist as of May 21, 2004. Prior to its dissolution, the Public Policy Committee was composed of Ms. Levinson and Messrs. Graves, von der Heyden and Weatherup, and had the following responsibilities:

Establishing, when necessary or appropriate, policies involving Federated's role as a corporate citizen;

Reviewing, evaluating and monitoring the policies, programs and practices in public policy areas;

Maintaining an awareness of public affairs developments and trends; and

Reviewing and making recommendations to the Federated board on stockholder proposals relating to various matters.

The Public Policy Committee met one time during fiscal 2004. The Federated board and the CMD Committee now perform the responsibilities previously performed by the Public Policy Committee.

*Section 162(m) Subcommittee.* The Section 162(m) Subcommittee was established by the Federated board as a subcommittee of the CMD Committee, and was required to be composed solely of two or more members of the CMD Committee who were outside directors within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations of the Internal Revenue Service relating thereto, referred to collectively as Section 162(m). The Section 162(m) Subcommittee ceased to exist as of May 21, 2004, because all members of the CMD Committee are independent under Section 162(m).

Prior to its dissolution, the Section 162(m) Subcommittee was composed of Messrs. Feldberg and Pichler and was authorized to take all required actions under the 1995 Equity Plan and the 1992 Bonus Plan, and such other compensation plans, agreements or arrangements of Federated as were specified by the Federated board from time to time, in each case with respect to such action as may be necessary under Section 162(m) in order to cause any compensation that was paid thereunder to a person who was specified by the CMD Committee as being reasonably likely to become, a covered employee within the meaning of Section 162(m) to qualify as performance based within the meaning of Section 162(m).

The Section 162(m) Subcommittee did not meet during fiscal 2004. The CMD Committee now performs the responsibilities previously performed by the Section 162(m) Subcommittee.

### ***Director Nomination Procedures***

Federated's by-laws provide that nominations for election of directors by the stockholders will be made by the Federated board or by any stockholder entitled to vote in the election of directors generally. The by-laws



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require that stockholders intending to nominate candidates for election as directors deliver written notice thereof to the Secretary of Federated not less than 60 days prior to the annual meeting of stockholders. However, in the event that the date of the meeting is not publicly announced by Federated by inclusion in a report filed with the SEC or furnished to stockholders, or by mail, press release or otherwise more than 75 days prior to the meeting, notice by the stockholder to be timely must be delivered to the Secretary of Federated not later than the close of business on the tenth day following the day on which such announcement of the date of the meeting was so communicated. The by-laws further require, among other things, that the notice by the stockholder set forth certain information concerning such stockholder and the stockholder's nominees, including their names and addresses, a representation that the stockholder is entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, the class and number of shares of Federated's stock owned beneficially and of record by such stockholder, a description of all arrangements or understandings between the stockholder and each nominee, such other information as would be required to be included in a proxy statement soliciting proxies for the election of the nominees of such stockholder, and the consent of each nominee to serve as a director of Federated if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with these requirements. Similar procedures prescribed by Federated's by-laws are applicable to stockholders desiring to bring any other business before an annual meeting of Federated's stockholders. See *Submission of Future Stockholder Proposals* on page 185.

***Corporate Governance Guidelines and Code of Business Conduct and Ethics***

The Federated board approved the adoption by Federated of Corporate Governance Guidelines and a Code of Business Conduct and Ethics, each of which is disclosed on Federated's website at [www.fds.com/corporategovernance](http://www.fds.com/corporategovernance).

***Director Compensation***

Non-management directors receive the following compensation:

<b>Type of Fee</b>	<b>Amount of Fee</b>
Base Retainer	\$40,000 annually*
Board or Board Committee Meeting	\$2,000 for each meeting attended and for each review session with one or more members of management.
Committee Chairperson	\$10,000 annually

\* Since January 1, 1999, the annual base retainer fee (including the fee payable to a committee chair) and the meeting fee payable to non-management directors is being paid 50% (or such greater percentage, in ten percent increments, as any individual director may have elected) in credits representing the right to receive shares of common stock, with the balance being paid in cash. Such stock credits will be settled in shares of common stock three years following the issuance of such stock credits (or at such later time as any individual director's service on the Federated board ends, if such individual director has elected to defer compensation under the directors' deferred compensation plan).

Subject to the holding period described above for stock credits covering a portion of retainer and meeting fees, any Non-Management Director may defer all or a portion of the total fees received by him or her either as stock credits or cash credits under the directors' deferred compensation plan until such director's service on the Federated board ends, provided that the stock credits subject to the holding period described above may be deferred under the directors' deferred compensation plan only as stock credits.

In connection with the termination of the retirement plan for non-management directors described below, the 1995 Equity Plan was amended to make each Non-Management Director eligible to receive annual grants of options to purchase up to 3,500 shares of Federated common stock. The 1995 Equity Plan was further amended to make each Non-Management Director eligible to receive, commencing with fiscal year 2001, annual grants of options to purchase up to 5,000 shares of Federated common stock. Each Non-Management Director was granted an option to

purchase 5,000 shares of common stock in respect of his or her service

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during fiscal 2004. Directors who are also full-time employees of Federated receive no additional compensation for service as directors.

Federated's retirement plan for non-management directors was terminated on a prospective basis effective May 16, 1997, referred to as the plan termination date. As a result of such termination, persons who first become non-management directors after the plan termination date will not be entitled to receive any payment thereunder. Persons who were non-management directors as of the plan termination date will be entitled to receive retirement benefits accrued as of the plan termination date. Subject to an overall limit in an amount equal to the aggregate retirement benefit accrued as of the plan termination date (i.e., the product of the amount of the annual base retainer fee earned immediately prior to retirement and the years of Federated board service prior to the plan termination date), and the vesting requirements described below, persons who retire from service as non-management directors after the plan termination date will be entitled to receive an annual payment equal to the amount of the annual base retainer fee earned immediately prior to retirement, payable in monthly installments, commencing at age 60 (if such person's termination of Federated board service occurred prior to reaching age 60) and continuing for the lesser of such person's remaining life or a number of years equal to such person's years of Federated board service prior to the plan termination date. Full vesting will occur for non-management directors who reach age 60 while serving on the Federated board, irrespective of such person's years of Federated board service. Vesting will occur as follows for non-management directors whose Federated board service terminates before the director reaches age 60: 50% vesting after five years of Federated board service and an additional 10% vesting for each year of Federated board service after five years. Federated board service following the plan termination date will be given effect for purposes of the foregoing vesting requirements. There are no survivor benefits under the terms of the retirement plan.

Non-management directors also receive executive discounts on merchandise purchased.

***Certain Relationships and Related Transactions***

Dr. Whittington, a director of Federated, is Chief Operating Officer of Allianz Global Investors, which through its insurance affiliate, Allianz Insurance Company, is providing to Federated during fiscal year 2005 portions of Federated's excess casualty insurance coverage at an aggregate premium cost of \$111,000.

Earl G. Graves, Sr., a director of Federated, is the Publisher and Chief Executive Officer of Black Enterprise magazine and Chairman and Chief Executive Officer of Earl G. Graves, Ltd. Federated anticipates that in fiscal year 2005 it will purchase at least \$30,000 in advertising space in Black Enterprise magazine and spend approximately \$30,000 for event sponsorship with Earl G. Graves, Ltd. These expenditures are being made in furtherance of Federated's minority hiring programs.

**Compliance with Section 16(a) of the Exchange Act**

Section 16(a) of the Exchange Act requires Federated's directors and executive officers, and certain persons who own more than 10% of the common stock outstanding, to file with the SEC and the NYSE initial reports of ownership and reports of changes in ownership of common stock. Executive officers, directors and greater than 10% stockholders are required by SEC regulation to furnish Federated with copies of all Section 16(a) reports they file. See Beneficial Ownership of Federated Common Stock beginning on page 140.

To Federated's knowledge, based solely on a review of the copies of reports furnished to Federated and written representations signed by all directors and executive officers that no other reports were required with respect to their beneficial ownership of common stock during fiscal 2004, all reports required by Section 16(a) of the Exchange Act to be filed by the directors and executive officers and all beneficial owners of more than 10% of the common stock outstanding to report transactions in securities were timely filed, except as described below.

Mr. Graves filed one report late because of inadvertent miscommunications between Mr. Graves and the broker at the time the option was exercised, which delayed the completion of the option exercise procedures.

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Mr. Weatherup filed one report late because the transactions required to be reported occurred through a discretionary investment account with an unaffiliated broker without the knowledge of Mr. Weatherup. The unintended acquisitions were corrected retroactively by the broker through its error account.

**Executive Officers of Federated****List of Officers**

The names, ages and current positions of the executive officers of Federated are listed below. All executive officers listed below were elected at the 2004 annual meeting of the Federated board of directors. They are expected to serve as executive officers until the next annual meeting of the Federated board of directors.

Name	Age	Positions and Offices
Terry J. Lundgren	53	Chairman, President and Chief Executive Officer; Director
Thomas G. Cody	63	Vice Chair
Thomas L. Cole	56	Vice Chair
Janet E. Grove	53	Vice Chair
Susan D. Kronick	53	Vice Chair
Ronald W. Tysoe	52	Vice Chair
Dennis J. Broderick	56	Senior Vice President, General Counsel and Secretary
Karen M. Hoguet	48	Senior Vice President and Chief Financial Officer
Joel A. Belsky	51	Vice President, Principal Accounting Officer and Controller

**Brief History of Officers**

*Terry J. Lundgren* has been Chairman of the Board since January 15, 2004 and President and Chief Executive Officer of Federated since February 26, 2003; prior thereto he served as the President/ Chief Operating Officer and Chief Merchandising Officer of Federated since April 15, 2002. Prior to April 15, 2002, Mr. Lundgren served as the President and Chief Merchandising Officer of Federated since May 1997.

*Thomas G. Cody* has been Vice Chair, Legal, Human Resources, Internal Audit and External Affairs, since February 26, 2003; prior thereto he served as the Executive Vice President, Legal and Human Resources, of Federated since May 1988.

*Thomas L. Cole* has been Vice Chair, Support Operations, since February 26, 2003, and Chairman of FLO since 1995, FSG since 2001 and FACS since 2002.

*Janet E. Grove* has been Vice Chair, Merchandising, Private Brand and Product Development, since February 26, 2003, and Chairman of FMG since 1998 and Chief Executive Officer of FMG since 1999.

*Susan D. Kronick* has been Vice Chair, Department Store Divisions, since February 26, 2003; prior thereto she served as Group President, Regional Department Stores, since April 2001, and prior thereto as Chairman and Chief Executive Officer of Burdines, Inc. since June 1997.

*Ronald W. Tysoe* has been Vice Chair, Finance and Real Estate, of Federated since April 1990.

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

*Karen M. Hoguet* has been elected Executive Vice President effective June 1, 2005, and has been Senior Vice President of Federated since April 1991 and Chief Financial Officer of Federated since October 31, 1997. Mrs. Hoguet also served as the Treasurer of Federated from January 1992 until July 6, 1999.



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*Joel A. Belsky* has been Vice President, Principal Accounting Officer and Controller of Federated since October 1996.

**Executive Compensation****Three-Year Compensation Summary**

The following table summarizes the compensation of the Chairman and the five other most highly compensated executive officers of Federated as of January 29, 2005, referred to as the Federated Named Executives, for Federated's last three fiscal years for services rendered in all capacities to Federated and its subsidiaries.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards		Payouts	
					Restricted Stock Award(s) \$(1)	Securities Underlying Options/ SARs (#)	LTIP Payouts (\$)	All Other Compensation \$(2)
T. Lundgren Chairman, President and Chief Executive Officer	2004	1,252,917	3,309,400	92,710(3)	0	137,500	0	1,979,049(4)
	2003	1,195,606	2,493,800	93,791	1,241,000	250,000	0	5,059
	2002	1,100,000	837,300	60,413	0	250,000	0	6,029
T. Cody Vice Chair	2004	752,917	995,500	152,316(5)	0	32,500	0	738,416(6)
	2003	746,667	748,100	134,489	0	65,000	0	5,059
	2002	730,000	388,500	118,740	0	50,000	0	6,029
T. Cole Vice Chair	2004	752,917	995,500	79,016(7)	0	32,500	0	738,416(6)
	2003	745,000	1,506,600	74,115	0	65,000	0	5,059
	2002	720,000	459,400	84,416	0	36,000	0	6,029
J. Grove Vice Chair	2004	752,917	995,500	53,473(8)	50,500	32,500	0	738,416(6)
	2003	741,667	1,418,000	99,658	0	65,000	0	5,059
	2002	700,000	608,000	99,658	0	36,000	0	6,029
S. Kronick Vice Chair	2004	1,002,917	1,325,100	52,763(9)	0	32,500	0	738,416(6)
	2003	983,333	1,843,500	99,658	0	65,000	0	5,059
	2002	887,500	386,100	99,658	0	36,000	0	6,029
R. Tysoe Vice Chair	2004	827,917	1,094,400	159,332(10)	0	32,500	0	738,416(6)
	2003	825,000	822,900	130,617	0	65,000	0	5,059
	2002	825,000	439,100	125,419	0	50,000	0	4,019

- (1) At January 29, 2005, the aggregate number of shares of restricted stock held by each of the Federated Named Executives and the aggregate value thereof (based on the closing market price of the common stock on January 28, 2005) were as follows: Mr. Lundgren: 101,163 shares, \$5,586,221; Mr. Cody: 33,953 shares, \$1,874,885; Mr. Cole: 16,744 shares, \$924,604; Ms. Grove: 17,279 shares, \$954,146; Ms. Kronick: 19,186 shares, \$1,059,451; and Mr. Tysoe: 38,372 shares, \$2,118,902. Dividends are paid in cash on these

shares at the same rate as the dividends received by other Federated stockholders.

(2) Consists of:

- (a) stock credits awarded under a stock credit plan that was implemented in March 2004 as a long-term incentive program, referred to as the Stock Credit Plan, and valued at the closing market price of Federated common stock on March 26, 2004, the date of the award; and
- (b) contributions under Federated's Profit Sharing 401(k) Investment Plan, referred to as the 401(k) plan. See Fiscal 2004 Long-Term Incentive Plan Award Opportunities Stock Credit Plan for additional information regarding the stock credit program and Retirement Program for additional information regarding the 401(k) plan.

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- (3) For fiscal 2004, the amount shown includes \$43,805 for executive discount on merchandise purchases and the applicable tax gross up amount.
- (4) For fiscal 2004, the amount shown includes \$1,973,742 representing the value of stock credits awarded under the Stock Credit Plan and \$5,307 of contributions under the 401(k) plan.
- (5) For fiscal 2004, the amount shown includes \$82,323 for executive discount on merchandise purchases and the applicable tax gross up amount.
- (6) For fiscal 2004, the amount shown includes \$733,109 representing the value of stock credits awarded under the Stock Credit Plan and \$5,307 of contributions under the 401(k) plan.
- (7) For fiscal 2004, the amount shown includes \$33,971 for executive discount on merchandise purchases and the applicable tax gross up amount.
- (8) For fiscal 2004, the amount shown includes \$20,954 for executive discount on merchandise purchases and the applicable tax gross up amount and \$15,867 for financial counseling.
- (9) For fiscal 2004, the amount shown includes \$15,813 for executive discount on merchandise purchases and the applicable tax gross up amount, \$15,200 for financial counseling and \$13,802 for use of automobile.
- (10) For fiscal 2004, the amount shown includes \$101,220 for executive discount on merchandise purchases and the applicable tax gross up amount.

**Fiscal 2004 Stock Option Grants**

The following table sets forth certain information regarding grants of stock options made during fiscal 2004 to the Federated Named Executives pursuant to the 1995 Equity Plan. No grants of stock appreciation rights were made during fiscal 2004 to any of the Federated Named Executives.

**OPTION GRANTS IN LAST FISCAL YEAR**

Name	Securities Underlying Options Granted (#)(2)	Individual Grants		Market Price on Grant Date \$/Share(1)	Expiration Date	Potential Realizable Value of Assumed Annual Rates of Stock Price Appreciation for Option Term		
		% of Total Options Granted to Employees in Fiscal Year(%)	Price (\$)/ Share			0% (\$)	5% (\$)	10% (\$)
T. Lundgren	137,500	6.6	50.01	50.01	3/26/14	0	4,324,515	10,959,171
T. Cody	32,500	1.56	50.01	50.01	3/26/14	0	1,022,158	2,590,349
T. Cole	32,500	1.56	50.01	50.01	3/26/14	0	1,022,158	2,590,349
J. Grove	32,500	1.56	50.01	50.01	3/26/14	0	1,022,158	2,590,349
S. Kronick	32,500	1.56	50.01	50.01	3/26/14	0	1,022,158	2,590,349
R. Tysoe	32,500	1.56	50.01	50.01	3/26/14	0	1,022,158	2,590,349

(1)

The market price is the closing price for shares of common stock on the NYSE on the business day immediately preceding the grant date.

- (2) Twenty-five percent of the option award vested on March 26, 2005, referred to as the option vesting date, and twenty-five percent will vest on each of the first, second and third anniversaries of the option vesting date.

See Report of the Compensation and Management Development Committee Stock Options for further information regarding grants of stock options made during fiscal 2004.

**Table of Contents*****Fiscal Year-End Option Values***

The following table sets forth certain information regarding the total number and aggregate value of options exercised by each of the Federated Named Executives during fiscal 2004 and the total number and aggregate value of options held by each of the Federated Named Executives at January 29, 2005.

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR  
AND FISCAL YEAR-END OPTION VALUES**

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year-End	Value of Unexercised In-the-Money Options at Fiscal Year-End
			(#) Exercisable/ Unexercisable	(\$) Exercisable/ Unexercisable(1)
T. Lundgren	0	0	731,250/ 603,488	13,445,094/ 9,716,998
T. Cody	75,000	1,679,188	198,750/ 220,610	1,686,838/ 3,181,367
T. Cole	64,000	1,408,435	205,750/ 186,215	3,669,288/ 2,757,620
J. Grove	22,750	517,882	182,750/ 183,424	3,199,790/ 2,723,514
S. Kronick	31,000	702,976	218,250/ 211,866	3,230,000/ 3,071,750
R. Tysoe	100,000	2,417,630	488,750/ 233,866	2,349,563/ 3,343,355

- (1) In-the-money options are options having a per share exercise price below the closing price of shares of common stock on the NYSE on January 28, 2005 (the last trading day in fiscal 2004). The dollar amounts shown represent the amount by which the product of such closing price and the number of shares purchasable upon the exercise of such in-the-money options exceeds the aggregate exercise price payable upon such exercise.

***Fiscal 2004 Long-Term Incentive Plan Award Opportunities Stock Credit Plan***

Under the Stock Credit Plan that was implemented in March 2004 as a long-term incentive program, a stock credit award was made to each of the Federated Named Executives. One-third of the stock credits awarded are subject to performance criteria. After giving effect to any reduction based on performance, the value of one-half the stock credits will be paid in cash in Spring 2008 and the value of the remaining one-half will be paid in cash in Spring 2009. In general, each stock credit is intended to represent the right to receive the value associated with one share of Federated common stock, including dividends paid on shares of Federated common stock during the period from the end of fiscal 2005 until such stock credit is settled in cash. The value in each case will be determined on the basis of the then-current 20-day average trading price of Federated common stock.

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The following table sets forth certain information with respect to award opportunities of the Federated Named Executives under Federated's long-term incentive plan for the fiscal 2004-2005 measurement period for the one-third of the award that is subject to reduction.

**LONG-TERM INCENTIVE PLAN AWARDS IN LAST FISCAL YEAR**

Name	Number of Shares, Units or Other Rights (#)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price Based Plans(1)		
			Threshold (#)	Target (#)(2)	Maximum (#)
T. Lundgren	19,250	2004-2005	0		19,250
T. Cody	7,150	2004-2005	0		7,150
T. Cole	7,150	2004-2005	0		7,150
J. Grove	7,150	2004-2005	0		7,150
S. Kronick	7,150	2004-2005	0		7,150
R. Tysoe	7,150	2004-2005	0		7,150

- (1) The actual number of units earned will be based on quantitative and qualitative performance relating to achievement of Federated's Four Priorities (Merchandise Assortments, Price Simplification, The Shopping Experience, and Marketing). The CMD Committee retains the discretion to determine the number of units earned. It is possible that none of the units will be earned following the performance period. The maximum number of units that could be earned is the number of units awarded at the beginning of the performance period.
- (2) There is no specified targeted level of performance and it is not possible to provide a representative amount based on the previous fiscal year's performance.

**Change-in-Control Agreements**

Federated has entered into change-in-control agreements, referred to as the Change-in-Control Agreements, with each of the Federated Named Executives. Under the Change-in-Control Agreements, if, prior to November 1, 2006, a change in control (as defined in the Change-in-Control Agreements) occurs and within three years thereafter Federated or, in certain circumstances, the executive terminates the executive's employment and, in the case of a termination by Federated, cause (as defined in the Change-in-Control Agreements) therefor does not exist, the executive would be entitled to a cash severance benefit equal to three times the sum of his or her current base salary (or, if higher, the executive's highest salary received for any year in the three full calendar years preceding the change in control) and target annual bonus (or, if higher, the executive's highest bonus received for any year in the three full calendar years preceding the change in control), payment of any awards under Federated's long-term incentive plan at target (if applicable, and prorated to the executive's participation during each performance period), the continuation of welfare benefits for three years (subject, but only as to welfare benefits, to a requirement in any applicable welfare benefits plan that the executive maintain actively at work status and to early termination on the date the executive secures other full-time employment) and three years of retirement plan credits (but not pursuant to Federated's qualified or non-qualified plans). The cash severance benefit payable under the Change-in-Control Agreements would be reduced by all amounts actually paid to the executive pursuant to any other employment or severance agreement or plan to which the executive and Federated are parties or in which the executive is a participant. In addition, the severance benefits under the Change-in-Control Agreements are subject to reduction in certain circumstances if the excise tax imposed under Section 280G of the Internal Revenue Code would reduce the net after-tax amount received

by the executive.

***Retirement Program***

Federated's retirement program, referred to as the Retirement Program, consists of a defined benefit plan and a defined contribution plan. As of January 1, 2005, approximately 70,700 employees, including the executive officers of Federated, participated in the Retirement Program.

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To allow the Retirement Program to provide benefits based on a participant's total compensation, Federated adopted a Supplementary Executive Retirement Plan, referred to as the SERP. The SERP, which is a nonqualified unfunded plan, provides to eligible executives retirement benefits based on compensation in excess of Internal Revenue Code maximums, as well as on amounts deferred under Federated's Executive Deferred Compensation Plan, referred to as the EDCP, in each case employing a formula that is based on the participant's years of vesting service and final average compensation, taking into consideration the participant's balance in the Cash Account Pension Plan and Retirement Profit Sharing Credits (as defined below). As of January 1, 2005, approximately 730 employees were eligible to receive benefits under the terms of the SERP. Federated has reserved the right to suspend or terminate supplemental payments as to any category of employee or former employee, or to modify or terminate any other element of the Retirement Program, in accordance with applicable law.

Under the Retirement Program's Cash Account Pension Plan, a participant retiring at normal retirement age is eligible to receive the amount credited to his or her pension account or the monthly benefit payments determined actuarially based on the amount credited to his or her pension account. Amounts credited to a participant's account consist of an opening cash balance equal to the single sum present value, using stated actuarial assumptions, of the participant's accrued normal retirement benefit earned at December 31, 1996, under the applicable predecessor pension plan, Pay Credits (generally, a percentage of eligible compensation credited annually based on length of service) and Interest Credits (credited quarterly, based on the 30 Year Treasury Bond rate for the November prior to each calendar year). In addition, if a participant retires at or after age 55 having, while employed, both reached age 55 and completed ten or more years of vesting service by December 31, 2001, the pension benefit payable in an annuity form, other than a single life annuity, will not be less than that which would have been payable from the predecessor pension plan under which such participant was covered on December 31, 1996.

Prior to the adoption of the Retirement Program, Federated's primary means of providing retirement benefits to employees was through defined contribution profit sharing plans. An employee's accumulated retirement profit sharing interests in the profit sharing plans, referred to as the Retirement Profit Sharing Credits, which accrued prior to the adoption of the pension plans, continue to be maintained and invested until retirement, at which time they are distributed.

With defined benefit plans in place, Federated continued, and presently expects to continue, to make contributions to the 401(k) plan. It is impractical to estimate the accrued benefits upon retirement under the 401(k) plan because the amount, if any, that will be contributed by Federated and credited to a participant in any year is determined by such variable factors, among others, as the amount of net income of Federated, participants' annual contributions to the 401(k) plan, the amount of matching contributions of Federated, and the earnings on participants' accounts.



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The following table shows the estimated hypothetical total annual benefits payable under the SERP benefit formula pursuant to the Cash Account Pension Plan, Retirement Profit Sharing Credits and the SERP to persons retiring at their normal retirement age in 2005 in specified eligible compensation and years of service classifications, assuming that a retiring participant under the Retirement Program elects a single life annuity distribution of his or her balance in the Cash Account Pension Plan and Retirement Profit Sharing Credits. Such benefits are not subject to any deduction for Social Security or other offset amounts; however, if the total annual benefits payable to a person pursuant to the Cash Account Pension Plan and the Retirement Profit Sharing Credits under the foregoing assumptions would exceed the amount set forth below, no benefit would be payable to such person under the SERP. Eligible compensation for this purpose includes amounts reflected in the Annual Compensation portion of the Summary Compensation Table under the headings Salary and Bonus, but excludes amounts reflected in such portion of such table under the heading Other Annual Compensation. With respect to the Annual Compensation portion of the Summary Compensation Table, the eligible compensation of each of the Federated Named Executives did not vary by more than 10% from the total amount of such executive's annual compensation.

**PENSION PLAN TABLE**

Final Average Compensation	Years of Service				
	15	20	25	30	35
\$ 250,000	\$ 47,817	\$ 63,756	\$ 79,695	\$ 95,634	\$ 95,634
300,000	59,067	78,756	98,445	118,134	118,134
350,000	70,317	93,756	117,195	140,634	140,634
400,000	81,567	108,756	135,945	163,134	163,134
450,000	92,817	123,756	154,695	185,634	185,634
500,000	104,067	138,756	173,445	208,134	208,134
750,000	160,317	213,756	267,195	320,634	320,634
1,000,000	216,567	288,756	360,945	433,134	433,134
1,250,000	272,817	363,756	454,695	545,634	545,634
1,500,000	329,067	438,756	548,445	658,134	658,134

Mr. Lundgren, Mr. Cody, Mr. Cole, Ms. Grove, Ms. Kronick and Mr. Tysoe have completed 23, 22, 32, 31, 31 and 17 years of vesting service, respectively. Pursuant to the terms of Mr. Tysoe's employment with Federated, Mr. Tysoe, whose actual employment commenced on March 1, 1987, is deemed to have commenced employment on February 19, 1981, for the purpose of calculating years of vesting service for benefit accrual. All benefits under the SERP, including the additional benefits payable to Mr. Tysoe, are payable out of the general corporate assets of Federated. The present value of the total amount of additional benefits due to Mr. Tysoe, assuming that he satisfies certain eligibility requirements, is estimated to be approximately \$245,000, as of January 29, 2005.

**Report of the Compensation and Management Development Committee*****Role of the CMD Committee***

The CMD Committee establishes and administers the compensation practices related to the senior executive officers of Federated, ensures appropriate succession plans for the CEO and key executive positions and periodically reviews and advises Federated on its diversity and inclusion initiatives, including those related to its employees, customers and vendors. When establishing and reviewing the compensation practices, the CMD Committee makes use of Federated resources and, when it deems appropriate, retains the services of independent compensation consultants. All members of the CMD Committee qualify:

as independent under the applicable listing standards of the New York Stock Exchange;

as non-employee directors under Rule 16b-3 of the Securities Exchange Act of 1934; and

as outside directors under Section 162(m) of the Internal Revenue Code of 1986.  
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***Compensation Philosophy***

Federated's compensation program is designed to support the needs of the business by:

*Providing Competitive and Reasonable Compensation Opportunities*

Federated's compensation levels and individual compensation programs are evaluated on an annual basis by the CMD Committee, with input from outside compensation consultants as needed. Pay data are validated against several benchmarks, including information from published survey data and specific pay levels of other large retail organizations.

*Focusing on Results and Strategic Initiatives*

Federated's compensation programs are based on the appropriate measures of success and reflect a combination of specific internal measurements (such as EBIT, sales and cash flow) and external measurements (such as customer satisfaction and stock price performance). A portion of the compensation program focuses on the strategic initiatives that will help differentiate Federated from other department store retailers and that are important in making Macy's and Bloomingdale's stores the customer's first choice in department store shopping.

*Fostering a Pay for Performance Culture*

A significant portion of an executive's compensation program is linked to variable compensation components. As a result, an individual's compensation level is dependent on individual and company performance, including stock price appreciation.

*Attracting and Retaining Key Executives*

Federated's executives are recognized as some of the most talented people in the retail industry, and its training and development programs have achieved national recognition. The compensation programs are designed to attract and retain high caliber executives who are key to the continued success of the business, who can provide consistent leadership and whose talents support strong succession planning.

*Providing a Strong Link to the Stockholders' Interests*

The combination of the core principles above appropriately ties Federated's performance with compensation and thereby aligns key executives with the interests of the stockholders.

Deductibility for federal income tax purposes under Section 162(m) is also considered in the design of compensation plans. The CMD Committee has taken what it believes to be appropriate steps to maximize the future deductibility of payments under Federated's 1992 Bonus Plan and of stock options awarded under the 1995 Equity Incentive Plan. The CMD Committee realizes that in order to retain the flexibility to provide compensation that meets the needs of the business, there may be portions of the total compensation program that may not be deductible under Section 162(m).

The current compensation program, which is a mix of short-term and long-term incentives, includes base salary, an annual cash incentive plan, and equity in the form of stock options, restricted stock and/or stock credits.

*Base Pay*

Base pay is a significant retention tool when managed appropriately. Base pay decisions for an individual take into account many factors including:

The individual's current and historical performance and contribution to Federated;

The individual's future potential with Federated;

The individual's role and unique skills;

Consideration of external market data for similar positions, adjusted for Federated's size, the scope of responsibilities and the uniqueness of the role.

**Table of Contents***Annual Cash Incentive Plan*

The annual cash incentive plan is designed to align the pay of the senior executives with Federated's annual performance. The actual amount of annual cash incentive earned each year is based on Federated's performance results against pre-determined performance measures. In fiscal 2004, the performance components were EBIT, sales and cash flow dollars.

In fiscal 2004, the components of the annual incentive plan for senior executives were structured and paid out as shown below.

<b>Bonus Component</b>	<b>% of Bonus</b>	<b>How Bonus is Earned</b>	<b>Bonus Payout for 2004</b>
EBIT \$	60%	Bonus begins to be earned when the pre-determined threshold result is achieved. This component has no maximum; bonus continues to be earned as the EBIT result increases.	Earned payout for performance above target.
Sales \$	20%	Bonus begins to be earned when the pre-determined target result is achieved. No bonus is earned for performance below target and there is a maximum result above which no additional bonus is earned for this component.	Earned payout for performance between target and maximum.
Cash Flow \$	20%	Bonus is earned when the pre-determined threshold result is achieved. There is a maximum result above which no additional bonus is earned for this component.	Earned maximum payout. Performance exceeded the requirement for a maximum payout.

The maximum payment that can be received by any participant in the annual incentive plan is \$7.0 million. For fiscal 2004, the bonus to the Chief Executive Officer was \$3,309,400, or 47% of this maximum bonus opportunity.

*Equity Compensation 1995 Equity Incentive Plan*

Each year the CMD Committee reviews the use of long-term incentives under Federated's 1995 Equity Plan. Grant types and levels are determined based on market data, emerging trends and other financial considerations, including the impact on stockholder dilution. Efforts to stem dilution over the last several years have led to a reduced reliance solely on stock option grants for long-term incentives. Federated's equity compensation programs in fiscal 2004 consisted primarily of stock options under the 1995 Equity Incentive Plan and a stock credit plan outside the 1995 Equity Incentive Plan. The CMD Committee does provide, from time-to-time, restricted stock grants on a limited basis for retention or performance reasons.

*Stock Options*

All stock options granted in fiscal 2004 were granted from the stockholder approved 1995 Equity Incentive Plan. Federated's option plan is reasonable and competitive and incorporates the following:

The term of the grants does not exceed 10 years;

The grant price is not less than the market price;

Grants do not include reload provisions; and

The repricing of options is prohibited, unless approved by the stockholders.

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Options granted in fiscal 2004 vest 25% per year over four years beginning with the first anniversary of the date of grant. Therefore, in order to exercise all options in a grant, the recipient must remain with Federated for four years after the grant. In fiscal 2004, approximately 1,140 employees were issued options.

Federated has continued to use stock options as a long-term incentive vehicle because:

Stock options align the interests of executives with those of the stockholders, support a pay-for-performance culture, foster employee ownership, and focus the management team on increasing value for the stockholder;

Stock options are performance based. All the value received by the recipient of a stock option is based on the growth of the stock price above the option price;

Stock options offer a balance to the compensation program the annual incentive plan focuses on financial objectives; the stock credit plan focuses on longer-term financial and operational performance; and the stock options focus on increases in stockholder value; and

Stock options have retentive value and provide a long-term focus.

*Stock Credit Plan*

In March 2004 Federated implemented the Stock Credit Plan to further align the interests of senior executives with those of the stockholders and to increase the focus on the achievement of Federated's Four Priorities Merchandise Assortments, Price Simplification, The Shopping Experience and Marketing. The Stock Credit Plan replaced 50% of the option grants and, as a result, the number of options that normally would have been granted to participants in fiscal years 2004 and 2005 were reduced by 50%. The number of stock credits was determined by converting the replaced options with stock credits at a ratio of three stock options to one stock credit. One-third of the stock credits are subject to performance criteria that have been established based on Federated's Four Priorities.

At the end of fiscal 2005, the CMD Committee will evaluate the performance results and may reduce the stock credits held by participants by up to one-third. The stock credits will then be subject to a two-year and three-year holding period and their ultimate value to the participants will be based on Federated's stock price performance. The value of one-half of the stock credit balance will be paid in cash in Spring 2008 and the value of the other half will be paid in Spring 2009. In each case, the value will be determined on the basis of the then-current 20-day average trading price of Federated common stock. This current design is scheduled to conclude at the end of fiscal 2005. In conjunction with the scheduled conclusion of this program, the CMD Committee will be reviewing the total compensation program elements. Although the exact components of the program will not be developed until later this year, Federated will continue to focus on delivering variable pay based on performance and a mix of short-term and long-term incentives. Any proposed changes determined as a result of the review would not be implemented until 2006.

*Restricted Stock*

The restricted stock granted in fiscal 2004 was granted from the stockholder approved 1995 Equity Incentive Plan. Under the provisions of this plan:

If the grant is performance based, the restrictions may lapse after one year; and

If the grant is not performance based, the restrictions may lapse after three years.

In the past, Federated has granted a limited number of restricted shares for retention and performance purposes.

***Compensation of Chairman, President and CEO***

With the assistance of outside compensation consultants, the CMD Committee reviews Mr. Lundgren's total compensation annually, or more frequently if appropriate. The CMD Committee reviews Mr. Lundgren's

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goals and objectives, evaluates his performance and establishes his compensation based on that evaluation. Mr. Lundgren's performance is evaluated based on many factors, including the following:

The performance of Federated versus the established annual objectives and the significant role Mr. Lundgren plays in the achievement of the overall objectives;

The ability to develop long-term strategic initiatives that will provide competitive advantages; and

The ability to provide exceptional leadership that results in a focus on essential business elements including integrity within the organization, succession planning to ensure a strong talent base, and an organization that understands the importance of delivering results and exceeding expectations.

After an evaluation of Mr. Lundgren's performance, the CMD Committee determines his total compensation. The components of Mr. Lundgren's compensation for fiscal 2004 are identified in the Summary Compensation Table.

***Employment Agreements***

*Mr. Terry Lundgren.* Upon his appointment as President, Chief Merchandising Officer and CEO in March 2003, Federated entered into an employment agreement with Mr. Lundgren with an expiration date of February 2007. Pursuant to that agreement, Mr. Lundgren's base salary was \$1,100,000. He was granted 250,000 stock options at an exercise price of \$25.58 per share, which was the closing price of the stock on the trading day immediately preceding the grant date of February 24, 2003. The grant has a 10-year term and 25% of the option award vested or is scheduled to vest on each of the first four anniversaries of the grant beginning on February 24, 2004. He was granted 50,000 shares of restricted stock, with the restrictions on 100% of the award scheduled to lapse on February 28, 2007. He was specifically designated as a participant in the annual cash incentive plan.

Mr. Lundgren's employment agreement was amended in January 2004 when Mr. Lundgren was promoted to Chairman and CEO. Pursuant to that amendment Mr. Lundgren's base salary was \$1,250,000. He was also granted options to purchase 137,500 shares of common stock at an exercise price of \$50.01 per share, which was the closing price of the stock on the trading day immediately preceding the grant date of March 26, 2004. The grant has a 10-year term and 25% of the option award vested or is scheduled to vest on each of the first four anniversaries of the grant beginning on March 26, 2005.

Mr. Lundgren's employment agreement was amended again in July 2004 to increase his base salary to \$1,255,000. This increase reflects a compensatory payment made following the elimination by Federated of a supplemental medical plan.

With the assistance of an outside compensation consultant, the CMD Committee reviewed Mr. Lundgren's compensation and amended Mr. Lundgren's employment agreement effective April 1, 2005, to increase his base salary to \$1,300,000. He was also granted options to purchase 275,000 shares of common stock at an exercise price of \$61.07 per share, which was the closing price of the stock on the trading day immediately preceding the grant date of March 25, 2005. The grant has a 10-year term and 25% of the option award is scheduled to vest on each of the first four anniversaries of the grant beginning on March 25, 2006.

Mr. Lundgren's employment agreement provides that if he is terminated by Federated for other than cause or by Mr. Lundgren for good reason he would be entitled to receive all salary and target annual bonuses until the expiration of the employment agreement. Under the terms of his agreement, cause is defined generally to include:

willful and material breaches of duties;

habitual neglect of duties; or

the final conviction of a felony.

Generally cause is not defined to include bad judgment or negligence, any act or omission believed by Mr. Lundgren in good faith to have been in or not opposed to the interests of Federated or any act or omission

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in respect of which a determination could properly have been made by the board that Mr. Lundgren met the applicable standard of conduct prescribed for indemnification or reimbursement under Federated's by-laws or the laws of the State of Delaware.

Under the terms of his agreement, "good reason" is defined generally to include:

assignment to Mr. Lundgren of any duties materially inconsistent with his position, authority, duties or responsibilities as contemplated in the agreement, or any other action by Federated which results in a material diminution in such position, authority, duties or responsibilities;

any material failure by Federated to comply with any of the provisions of the agreement;

failure of Mr. Lundgren to be reelected Chairman of the Board of Federated or to be reelected to membership on the board; or

any purported termination by Federated of Mr. Lundgren's employment otherwise than as expressly permitted by the agreement.

In addition, Mr. Lundgren's agreement contains non-compete, non-solicitation and mitigation clauses.

*Other Senior Executive Officers.* Federated has entered into employment agreements with each of the other Federated Named Executives. The agreements presently specify the following respective annual base salaries:

<b>Executive</b>	<b>Annual Base Salary</b>
Mr. Cody	755,000
Mr. Cole	755,000
Ms. Grove	755,000
Ms. Kronick	1,005,000
Mr. Tysoe	830,000

The agreements with these executives contain provisions that in the event of termination of the executive by Federated other than for "cause" or by the executive for "good reason" the executive would be entitled to receive base salary until the end of the term of the agreement. The terms "cause" and "good reason" have the same definitions as previously described above in the discussion of Mr. Lundgren's agreement. In addition, the agreements contain non-compete, non-solicitation and mitigation clauses.

**Conclusion**

The CMD Committee will continue to review existing compensation programs and implement new compensation programs as appropriate to ensure the compensation policies and practices of Federated are consistent with its goals and objectives, including increasing long-term stockholder value and providing valuable compensation to attract and retain key executives who are vital to the continued success of the business.

Respectfully submitted,

Meyer Feldberg, Chairperson  
Sara Levinson  
Joseph Neubauer  
Joseph A. Pichler

**Report of the Audit Committee**

The board has adopted a written Audit Committee Charter. All members of the Audit Committee are independent, as defined in Section 303.01(B)(2)(a) and (3) of the New York Stock Exchange's listing standards.



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The Audit Committee has reviewed and discussed with Federated's management and KPMG LLP the audited financial statements of Federated contained in Federated's Annual Report to stockholders for fiscal 2004. The Audit Committee has also discussed with KPMG LLP the matters required to be discussed pursuant to SAS No. 61 (Codification of Statements on Auditing Standards, Communications with Audit Committees).

The Audit Committee has received and reviewed the written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1 (titled, Independence Discussions with Audit Committees), and has discussed with KPMG LLP their independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the board that the audited financial statements be included in Federated's Annual Report on Form 10-K for fiscal 2004, filed with the SEC.

Respectfully submitted,

Marna C. Whittington, Chairperson

Earl G. Graves, Sr.

Joseph Neubauer

Karl M. von der Heyden

The Audit Committee has adopted policies and procedures for the pre-approval of all permitted non-audit services provided by Federated's independent registered public accounting firm. A description of such policies and procedures is attached as Annex I to this joint proxy statement/ prospectus and incorporated in this joint proxy statement/ prospectus by reference.

**Table of Contents****Stock Performance Graph**

	2000	2001	2002	2003	2004	2005
FD	\$ 100	\$ 107	\$ 100	\$ 63	\$ 114	\$ 136
S&P 500	\$ 100	\$ 99	\$ 83	\$ 64	\$ 86	\$ 91
S&P Retail Department Stores	\$ 100	\$ 129	\$ 140	\$ 93	\$ 125	\$ 148

(1) Constituents include Dillard's, Federated, Kohl's, May, Nordstrom, J.C. Penney and Sears.

**Beneficial Ownership of Federated Common Stock**

The following table sets forth information as to the beneficial ownership of each person known to Federated to own more than 5% of Federated's outstanding common stock:

	Name and Address	Number of Shares	Percent of Class
1.	AXA Financial, Inc. (referred to as AXA Financial) 1290 Avenue of the Americas New York, NY 10104	13,372,202	7.90%
2.	Barclays Global Investors Japan Trust and Banking Company Limited Barclays Global Investors, N.A. Barclays Global Fund Advisors Barclays Global Investors, LTD Barclays Life Assurance Company, Limited (and other affiliates) (collectively, referred to as Barclays) 45 Fremont Street San Francisco, CA 94105	13,205,043	7.81%
3.	Private Capital Management Bruce S. Sherman Gregg J. Powers (collectively, referred to as Private Capital) 8889 Pelican Bay Boulevard Naples, FL 34108	12,101,959	7.20%

1. According to information set forth in a Schedule 13G/A, dated February 14, 2005, referred to as the AXA Financial Schedule 13G, filed with the SEC by AXA Financial, as of December 31, 2004, AXA

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Financial s affiliates were the beneficial owners of 13,372,202 shares of common stock (approximately 7.9% of the total number of shares of common stock outstanding). According to the AXA Financial Schedule 13G, (a) 11,576,963 of such shares were beneficially owned by Alliance Capital Management L.P., referred to as Alliance, a subsidiary of AXA Financial, (b) 7,844 of such shares were beneficially owned by AXA Equitable Life Insurance Company, referred to as Equitable, a subsidiary of AXA Financial, (c) 1,700 of such shares were beneficially owned by Advest, Inc., referred to as Advest, a subsidiary of AXA Financial, (d) 30,400 of such shares were beneficially owned by AXA Konzern AG, referred to as AXA Konzern, an affiliate of AXA Financial, (e) 3,524 of such shares were beneficially owned by AXA Investment Managers Paris, referred to as AXA Investment Managers, an affiliate of AXA Financial, and (f) 1,148,689 of such shares were beneficially owned by AXA Rosenberg Investment Management LLC, referred to as AXA Rosenberg, an affiliate of AXA Financial. According to the AXA Financial Schedule 13G:

Alliance has (i) sole power to vote 603,402 shares described in clause (a) above, (ii) shared power to vote 938,753 of such shares, and (iii) sole power to dispose of 11,576,963 of such shares;

Equitable has sole power to vote 3,300 shares described in clause (b) above, and (ii) sole power to dispose of 7,844 of such shares;

Advest has sole power to vote and the sole power to dispose of 1,700 shares described in clause (c) above;

AXA Konzern has sole power to vote and the sole power to dispose of 30,400 shares described in clause (d) above;

AXA Investment Managers has sole power to vote and the sole power to dispose of 3,524 shares described in clause (e) above; and

AXA Rosenberg has (i) sole power to vote 148,689 shares described in clause (f) above, and (ii) shared power to dispose of 751,771 of such shares.

2. According to the information set forth in a Schedule 13G/A, dated January 10, 2005, referred to as the Barclays Schedule 13G, filed with the SEC by Barclays, as of December 31, 2004, Barclays was the beneficial owner of 13,205,043 shares of common stock (approximately 7.81% of the total number of shares outstanding). According to the Barclays Schedule 13G, (a) 9,539,148 of such shares (approximately 5.64% of the total number of shares of common stock outstanding) were beneficially owned by Barclays Global Investors, N.A., referred to as BGI, (b) 802,090 of such shares (approximately 0.47% of the total number of shares of common stock outstanding) were beneficially owned by Barclays Global Fund Advisors, referred to as BGFA, (c) 2,709,137 of such shares (approximately 1.60% of the total number of shares of common stock outstanding) were beneficially owned by Barclays Global Investors, LTD, referred to as BGIL, (d) 145,298 of such shares (approximately 0.09% of the total number of shares of common stock outstanding) were beneficially owned by Barclays Global Investors Japan Trust and Banking Company Limited, referred to as BGIJTBC, and (e) 9,370 of such shares (approximately 0.01% of the total number of shares of common stock outstanding) were beneficially owned by Barclays Life Assurance Company Limited, referred to as BLAC. According to the Barclays Schedule 13G:

BGI has (i) sole power to vote 8,268,838 of the shares described in clause (a) above, and (ii) the sole power to dispose of 9,539,148 shares described in clause (a) above;

BGFA has (i) sole power to vote 725,137 of the shares described in clause (b) above, and (ii) the sole power to dispose of 802,090 shares described in clause (b) above;

BGIL has (i) sole power to vote 2,698,737 of the shares described in clause (c) above, and (ii) the sole power to dispose of 2,709,137 of such shares;

BGIJTBC has sole power to vote and the sole power to dispose of 145,298 shares described in clause (d) above; and

BLAC has sole power to vote and the sole power to dispose of 9,370 shares described in clause (e) above.

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3. According to the information set forth in a Schedule 13G, dated February 14, 2005, referred to as Private Capital Schedule 13G, filed with the SEC by Private Capital, as of December 31, 2004, Private Capital was the beneficial owner of 12,101,959 shares of common stock (approximately 7.2% of the total number of shares of common stock outstanding). According to the Private Capital Schedule 13G, each of Private Capital Management, Bruce S. Sherman and Gregg J. Powers has shared power to vote and shared power to dispose of all 12,101,959 of such shares.

**Stock Ownership of Directors and Executive Officers**

The following table sets forth the shares of common stock beneficially owned (or deemed to be beneficially owned pursuant to the rules of the SEC) as of May 20, 2005, by each director of Federated, by each of the Federated Named Executives and by directors and executive officers of Federated as a group. The business address of each of the individuals named in the table is 7 West Seventh Street, Cincinnati, Ohio 45202.

Name	Number of Shares		Percent of Class
	(1)	(2)	
Meyer Feldberg	32,534.00	27,800.00	less than 1%
Earl G. Graves, Sr.	36,069.00	28,723.00	less than 1%
Sara Levinson	28,061.00	26,500.00	less than 1%
Joseph Neubauer	43,020.00	28,233.00	less than 1%
Joseph A. Pichler	26,900.00	23,000.00	less than 1%
Karl M. von der Heyden	35,200.00	26,500.00	less than 1%
Craig E. Weatherup	30,073.00	27,073.00	less than 1%
Marna C. Whittington	34,537.00	27,800.00	less than 1%
Terry J. Lundgren	1,190,596.94	1,044,113.00	less than 1%
Thomas G. Cody	391,858.11	349,985.00	less than 1%
Thomas L. Cole	336,112.00	309,840.00	less than 1%
Janet E. Grove	318,017.00	300,299.00	less than 1%
Susan D. Kronick	388,389.00	364,241.00	less than 1%
Ronald W. Tysoe	722,459.52	653,241.00	less than 1%
All directors and executive officers as a group	3,986,904.11	3,564,317.00	2.34%

(1) Aggregate number of shares of common stock currently held and which may be acquired within 60 days after May 20, 2005, through the exercise of options granted under the 1995 Executive Equity Incentive Plan as amended, referred to as the 1995 Equity Incentive Plan.

(2) Number of shares of common stock which may be acquired within 60 days after May 20, 2005, through the exercise of options granted under the 1995 Equity Plan.

**Table of Contents****Securities Authorized for Issuance Under Equity Compensation Plans**

The following table presents certain aggregate information, as of January 29, 2005, with respect to (i) the 1995 Equity Plan (on the line captioned "Equity compensation plans approved by security holders") and (ii) outstanding options that were granted to certain executives of Broadway Stores, Inc., formerly Carter Hawley Hale Stores, Inc., referred to as Broadway, or assumed by Federated, in connection with Federated's acquisition of Broadway in 1995 (on the line captioned "Equity compensation plans not approved by security holders").

Plan Category	Number of Securities	Weighted-Average	Number of Securities
	to be Issued Upon		Under Equity
	Exercise of	Exercise	(Excluding
	Outstanding	Price of	Securities
	Options,	Outstanding	Reflected
	Warrants and	Options,	in Column (a))
	Rights	Warrants	
		and Rights	
		(\$)	
	(a)	(b)	(c)
Equity compensation plans approved by security holders	19,579,974	40.93	6,278,218
Equity compensation plans not approved by security holders	5,400	37.85	0

The foregoing table does not reflect shares of restricted stock previously issued or remaining available for issuance under the 1995 Equity Plan. As of January 29, 2005, there were 272,278 shares of restricted stock outstanding that remained subject to possible forfeiture and 54,291 shares of common stock available for future issuance as restricted stock under the 1995 Equity Plan.

The foregoing table does not reflect (i) stock credits issued as long-term incentive awards under the 1992 Incentive Bonus Plan, as amended, referred to as the 1992 Bonus Plan, which has been approved by Federated's stockholders(1), or (ii) stock credits issued under the EDCP, the compensation program for the non-management directors, and the non-management directors' deferred compensation plan, which have not been approved by Federated's stockholders. Pursuant to amendments to the 1992 Bonus Plan, long-term incentive bonuses formerly payable in cash are now payable in the form of stock credits. Pursuant to the EDCP, eligible executives may elect to receive a portion of their cash compensation in the form of stock credits. Pursuant to the non-management directors' compensation program, Federated directors are required to receive 50% of their annual fees in the form of stock credits. In addition, pursuant to the non-management directors' deferred compensation plan, directors may elect to receive all or a portion of their remaining compensation in the form of stock credits.

Under the plans described in the immediately preceding paragraph, entitlements due to participants are expressed as dollar amounts and then converted to stock credits in amounts (i) equal to the number of shares of common stock that could be purchased by the applicable Plan at current market prices with the cash contributed to the plan that otherwise would have been payable to the participant (in the case of the EDCP, the non-management directors

compensation program and the non-management directors' deferred compensation plan) or (ii) equal to the number of shares of common stock that could be purchased at current market prices as of specified dates with 120% of the applicable bonus amount (in the case of the 1992 Incentive Bonus Plan). In general, each stock credit entitles the holder to receive one share of common stock three years after the issuance of the stock credit, or, in the case of the EDCP and the non-management directors' deferred compensation plan, upon the termination of the holder's employment or service with Federated, together with amounts equal to any dividends paid on one share of common stock. No specific number of shares are authorized for issuance under the deferred compensation plans or the 1992 Bonus Plan.

<sup>1</sup> The use of long-term incentive awards under the 1992 Bonus Plan has been discontinued by the CMD Committee for an indefinite period.

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**INFORMATION ABOUT MAY**

**Business**

***General***

May, a corporation organized under the laws of the State of Delaware in 1976, became the successor to The May Department Stores Company, a New York corporation, referred to as May NY, in a reincorporation from New York to Delaware pursuant to a statutory share exchange accomplished in 1996. As a result of the share exchange, May NY became a wholly-owned subsidiary of May. May NY was organized under the laws of the State of New York in 1910, as the successor to a business founded by David May, who opened his first store in Leadville, Colorado, in 1877.

***Department Stores***

May operates seven regional department store divisions nationwide under 12 long-standing and widely recognized trade names. Each department store division holds a leadership position in its region. At fiscal year-end 2004, May operated 491 department stores in 39 states and the District of Columbia. May plans to open eight department stores in 2005. The department store divisions and the geographic areas served are detailed below.

Lord & Taylor serves 21 geographic areas, including New York/ New Jersey Metro; Chicago; Boston; Philadelphia Metro; Washington, D.C. Metro; and Detroit.

Marshall Field s serves 26 geographic areas, including Chicago, Detroit, and Minneapolis.

Filene s and Kaufmann s serve 40 geographic areas, including Boston Metro, Pittsburgh, Cleveland, Southern Connecticut, Providence Metro, Hartford, Buffalo, Rochester, and Columbus.

Robinsons-May and Meier & Frank serve 16 geographic areas, including Los Angeles/ Orange County, Riverside/ San Bernardino, Phoenix, San Diego, Las Vegas, Portland/ Vancouver Metro, and Salt Lake City.

Hecht s and Strawbridge s serve 21 geographic areas, including Washington, D.C. Metro; Philadelphia Metro; Baltimore; Norfolk; Nashville; Richmond; Charlotte; Greensboro; and Raleigh-Durham.

Foley s serves 22 geographic areas, including Houston, Dallas/ Fort Worth, Denver, San Antonio, Austin, and Oklahoma City.

Famous-Barr, L.S. Ayres and The Jones Store serve 23 geographic areas, including St. Louis Metro, Kansas City Metro, and Indianapolis.

***Bridal Group***

David s Bridal, Inc. is the nation s largest retailer of bridal gowns and bridal-related merchandise and offers a variety of special occasion dresses and accessories. At fiscal year-end 2004, David s Bridal operated 239 stores in 45 states and Puerto Rico. After Hours Formalwear, Inc. is the largest tuxedo rental and sales retailer in the United States. During 2003, After Hours acquired 225 stores, including 125 Gingiss Formalwear and Gary s Tux Shop stores, 64 Desmond s Formalwear stores, and 25 Modern Tuxedo stores. At fiscal year-end 2004, After Hours operated 449 stores in 31 states. Priscilla of Boston, Inc. is one of the most highly recognized upscale bridal retailers in the United States. At fiscal year-end 2004, Priscilla of Boston operated 11 stores in nine states. May plans to open 18 David s Bridal stores and 20 After Hours stores in 2005.

***Employees***

May employs approximately 70,000 full-time and 62,000 part-time associates in 46 states, the District of Columbia, Puerto Rico and 10 offices overseas.



**Table of Contents****Competition**

May conducts its retail merchandising business under highly competitive conditions. May has numerous competitors at the national and local level including department stores, specialty, off-price, discount, Internet and mail-order retailers. Competition is characterized by many factors including price, quality, service location, reputation, advertising and credit availability. May believes that it is in a strong competitive position with regard to each of these factors.

**Credit Sales**

Sales at May's stores are made for cash or credit, including May's 30-day charge accounts and open-end credit plans for department store divisions, which include revolving charge accounts and revolving installment accounts. During the fiscal year ended January 29, 2005, 34.8% of net sales were made through May's department store credit plans. May National Bank of Ohio, referred to as MBO, is an indirectly wholly-owned and consolidated subsidiary of May. MBO extends credit to customers of May's seven department store divisions. In 2003, May received approval from the Office of the Comptroller of the Currency and completed its merger of May National Bank of Arizona into MBO.

**May Merchandising Company/ May Department Stores International, Inc.**

May Merchandising Company, referred to as MMC, an indirectly wholly-owned and consolidated subsidiary of May, identifies emerging fashion trends in both domestic brands and May's exclusive proprietary brand merchandise. MMC works closely with May's department store divisions and merchandise vendors to communicate emerging fashion trends, to develop meaningful merchandise assortments and negotiate the best overall terms for delivery of merchandise in a timely manner to its stores.

May Department Stores International, Inc., referred to as MDSI, a wholly-owned and consolidated subsidiary of May, is primarily a design and sourcing company. MDSI owns all trade names and marks associated with proprietary brand merchandise and develops, designs, sources, imports, and distributes the proprietary brand merchandise bearing those trade names and marks for May. MDSI has approximately 40-50 private labels in use at the department store divisions and employs approximately 880 persons worldwide. In addition to its corporate office in St. Louis, MDSI operates offices in New York City and ten countries.

**Directors of May**

**Nominees for Election** *Term expires at the 2008 annual meeting (term will expire at the 2006 annual meeting if stockholders approve the proposed amendment to May's certificate of incorporation)*

**Marsha J. Evans**

Mrs. Evans, age 57, has been president and chief executive officer of The American Red Cross since August 2002. Mrs. Evans served as the national executive director of Girl Scouts of the USA from 1998 until she assumed her current position. She served with the United States Navy for 29 years, where she was commissioned ensign in 1968 and attained the designation of rear admiral before retiring in 1998. Prior to retirement, she served as superintendent of the Naval Postgraduate School in Monterey, Calif., and as director of the George C. Marshall European Center for Security Studies. She also serves on the boards of Lehman Brothers Holdings, Inc., and Weight Watchers International, Inc. Mrs. Evans has been a director since 1998.

**David B. Rickard**

Mr. Rickard, age 58, is executive vice president, chief financial officer and chief administrative officer of CVS Corporation, a retail pharmacy chain. Prior to assuming his position at CVS in 1999, he served as senior vice president and chief financial officer of RJR Nabisco Holdings Corporation from 1997 to 1999. He held several senior executive positions at Grand Metropolitan PLC from 1991 to 1997, and at Kraft Foods, Inc. from 1975 to 1991. Mr. Rickard also serves as a director of Harris Corporation and is a member of the Financial Accounting Standards Advisory Council. Mr. Rickard has been a director since January 2005.

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**Joyce M. Roché**

Ms. Roché, age 58, is the president and chief executive officer of Girls Incorporated, a national nonprofit research, education and advocacy organization. Prior to assuming her position at Girls Incorporated in September 2000, Ms. Roché was an independent marketing consultant from 1998 to August 2000. She served as president and chief operating officer of Carson, Inc. from 1996 to 1998 and also held senior marketing positions with Carson, Inc., Revlon, Inc., and Avon, Inc. Ms. Roché is also a director of Anheuser-Busch Companies, Inc., SBC Communications, Inc., and Tupperware Corporation. Ms. Roché has been a director since 2003.

**R. Dean Wolfe**

Mr. Wolfe, age 61, is the executive vice president of acquisitions and real estate of May. He joined May in 1972. He served as executive vice president of real estate from 1986 to 1996, when he was appointed to his current position. Mr. Wolfe has been a director since 1997.

***Continuing Directors Term expires at the 2006 annual meeting***

**John L. Dunham**

Mr. Dunham, age 58, is the chairman, president and chief executive officer of May. He joined May in 1976 and held a number of operations positions in various divisions until 1987, when he was named chairman of Sibley's. He was named chairman of G. Fox in 1989 and was promoted to chairman of May Merchandising Company in 1993. He became executive vice president and chief financial officer in May 1996 and vice chairman and chief financial officer in November 1999. He became president in May 2001, president and acting chairman and chief executive officer in January 2005 and assumed his current position on March 18, 2005. Mr. Dunham has been a director since 1997.

**Helene L. Kaplan**

Mrs. Kaplan, age 71, has been Of Counsel to the law firm of Skadden, Arps, Slate, Meagher & Flom LLP since 1990. She is a director of MetLife, Inc. Mrs. Kaplan also serves as a trustee or director of many nonprofit cultural, educational, and scientific organizations. Mrs. Kaplan has been a director since 1985.

**Michael R. Quinlan**

Mr. Quinlan, age 60, is chairman of the board of trustees of Loyola University Chicago and chairman emeritus, McDonald's Corporation. He joined McDonald's in 1963 and served as chief executive officer from 1987 to 1998 and as chairman from 1990 to 1999. He served as chairman of the executive committee of the board from 1999 to 2002. Mr. Quinlan is also a director of Dun & Bradstreet Corporation and Warren Resources, Inc. Mr. Quinlan has been a director since 1993.

***Continuing Directors Term expires at the 2007 annual meeting***

**James M. Kilts**

Mr. Kilts, age 57, is the chairman, president and chief executive officer of The Gillette Company. Prior to assuming his position at Gillette in February 2001, he served as president and chief executive officer of Nabisco, Inc. from 1998 to 2000. He held several positions with Philip Morris Companies, Inc., including president of Kraft Foods U.S.A. from 1989 to 1994 and executive vice president-worldwide food of Philip Morris from 1994 to 1997. Mr. Kilts serves on the boards of Gillette, MetLife, Inc., Whirlpool Corporation, the Grocery Manufacturers of America, and Knox College. Mr. Kilts has been a director since 1998.

**Russell E. Palmer**

Mr. Palmer, age 70, is the chairman and chief executive officer of The Palmer Group, a corporate investment firm. He is the retired managing partner and chief executive officer of Touche Ross International (now Deloitte and Touche LLP) and the retired dean of The Wharton School and Reliance Professor of

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Management and Private Enterprise at the University of Pennsylvania. Mr. Palmer is also a director of Honeywell International Inc. Mr. Palmer has been a director since 1984.

**William P. Stiritz**

Mr. Stiritz, age 70, is chairman of the boards of Energizer Holdings, Inc. and Ralcorp Holdings, Inc. He served as chairman of the board, president and chief executive officer of Agribrands International, Inc. from 1998 to May 2001 and as chief executive officer of Ralston Purina Company from 1981 to 1997. Mr. Stiritz is also a director of Ball Corporation and Vail Resorts, Inc. Mr. Stiritz has been a director since 1983.

***Attendance at Meetings***

The board held nine meetings during 2004. Each incumbent director attended at least 75% of the aggregate of the total number of:

board meetings held during the period for which the director held office; and

meetings held by all board committees on which the director served during the period that the director served. Overall, the directors' attendance averaged 97%.

***Director Attendance at Annual Meetings***

It is May's policy that all directors should attend the annual meeting of stockholders. All directors attended the 2004 annual meeting, except for Mrs. Evans and Mr. Whitacre.

***Communications with the Board***

You may send correspondence to May's board of directors, any of the committees of the board or to any individual director to the following address: Board of Directors, The May Department Stores Company, c/o Corporate Secretary, 611 Olive Street, St. Louis, MO 63101-1799. The corporate secretary will review the correspondence and give a summary to the board or the director to whom it is addressed.

***Director Compensation***

Management directors receive no compensation or fees for serving as a director or for attending board or committee meetings. Non-management directors receive both cash compensation and stock compensation.

Cash compensation includes:

a \$40,000 annual fee, plus an additional \$5,000 fee if the director is a committee chairman (\$10,000 for the audit committee chairman);

\$3,000 for each board meeting attended; and

\$2,000 for each committee meeting attended.

Directors may defer all or any portion of their cash compensation under a deferred compensation plan that is substantially similar to May's deferred compensation plan for management associates.

Stock compensation includes:

a one-time grant of 3,000 shares of restricted common stock upon first being elected to the board. These shares are subject to forfeiture for five years and to restrictions on transferability while the director serves on the board; and

an annual grant equivalent to \$80,000 of restricted common stock, which is not transferable while the director serves on the board. Instead of shares of restricted stock, a director may elect to have \$80,000 of deferred stock units credited to his or her account under the deferred compensation plan, and a

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director who has received three annual grants may choose to receive this component of compensation in the form of cash.

***Director Independence***

May has now, and has had for many years, a majority of directors who are independent. Under the NYSE rules, a director qualifies as independent if the board affirmatively determines that he or she has no material relationship with May, either directly or as a partner, stockholder or officer of an organization that has a relationship with May. To assist it in making determinations of independence, the board has adopted in the Board of Directors Governance Guidelines (the Governance Guidelines) categorical independence standards. Under our standards, the following relationships do not prevent a director from being independent:

ownership, by itself, of a significant amount of May common stock; or

employment by the director as an executive officer:

with a company or firm doing business with May during a fiscal year, when that business does not exceed the greater of \$1 million or 2% of the company's or firm's consolidated gross revenues during the year; or

with an organization to which May makes charitable contributions during a fiscal year, when May's contributions do not exceed the greater of \$1 million or 2% of the consolidated gross revenues of that organization during the year; or

with an entity to which May makes payments for property or services, when the rates or charges involved in the transaction are determined by competitive bids, or the transaction involves the rendering of services as a common carrier or public utility, at rates or charges fixed in conformity with law or governmental authority; or payments during a fiscal year by May to a law firm with which the director is affiliated (as partner or of counsel) for legal services provided to May, so long as:

May does not pay fees to the firm for legal services performed by the director or his or her immediate family for May; and

the fees paid by May to the firm do not exceed the greater of \$1 million or 2% of the firm's gross revenues for the fiscal year.

The board has determined that each of Mrs. Evans, Mrs. Kaplan, Ms. Roché, and Messrs. Kilts, Palmer, Quinlan, Rickard, and Stiritz are independent.

***Other Provisions***

The Governance Guidelines also provide that:

no non-management director shall serve as a director after the annual meeting following the director's 72nd birthday;

any non-management director who experiences a significant change in occupation, a chief executive officer who leaves the position of chief executive officer, or a director who violates any of May's business and ethics policies should tender a resignation from the board for consideration by the nominating and governance committee;

any management director, other than the chief executive officer, shall retire from the board when he or she ceases to be employed by May;

the board may hire outside consultants and experts as it deems necessary;

the chief executive officer is encouraged to bring members of management to board meetings from time to time to provide management insight into items being discussed at a meeting, make

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presentations on matters that involve the manager, and bring managers with significant potential into contact with the board;

the board will establish committees to assist the board in overseeing the company's affairs;

with respect to the chief executive officer succession, the board will establish such procedures as it deems necessary or appropriate from time to time, including establishing an ad hoc committee;

the board will monitor and review management development efforts;

all new directors will participate in May's orientation program for new directors;

each director will participate in continuing education to maintain the necessary level of expertise to perform his or her responsibilities as a director;

the board will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively; and

the board will adopt a code of business conduct and ethics for directors, officers, and employees (including the chief executive officer, chief financial officer, and chief accounting officer) addressing conflicts of interest; corporate opportunities; confidentiality; fair dealing; protection and proper use of company assets; compliance with laws, rules, and regulations; and encouraging the reporting of any illegal or unethical behavior. The board will approve all waivers of the code for executive officers and directors; and any such waivers will be disclosed to shareholders.

***Non-Management Directors Meetings***

In the past, May's non-management directors periodically met in executive session without members of management present. Now, under the Governance Guidelines, the non-management directors meet in executive session after each regularly scheduled board meeting. Prior to January, 2005, at the beginning of each executive session, the non-management directors designated one or more of its members to preside at that session. The presiding director then briefed the chief executive officer regarding the executive session after the meeting. In January, 2005, the non-management directors designated Russell E. Palmer as lead director. As lead director, Mr. Palmer will preside at executive sessions and perform other duties as the non-management directors request from time to time.

***Committees of the Board***

The following table provides current members and meeting information for each of the board committees. The board and the nominating and governance committee have determined that all committee members are independent within the meaning of the rules of the New York Stock Exchange.

Name	Audit	ECDC**	Finance	Nominating and Governance
Mrs. Evans	x		x	
Mrs. Kaplan			x*	x
Mr. Kilts		x*		x
Mr. Palmer	x*	x		
Mr. Quinlan	x	x		
Mr. Rickard	x		x	
Ms. Roché	x			x
Mr. Stirtz			x	x*

Fiscal 2004 meetings	6	6	2	3
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\* Chairman

\*\* Executive Compensation and Development Committee

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*The Audit Committee:*

appoints or replaces the independent auditor, subject to shareowner ratification, and is directly responsible for the compensation and oversight of the work of the independent auditor;

preapproves all auditing services and all non-audit services permitted by applicable law to be performed for the company by the independent auditor;

reviews the results of the company's quarterly reviews and year-end audit;

reviews and discusses with management and the independent auditor (i) the annual audited financial statements, and recommends to the board whether the audited financial statements should be included in the company's annual report on Form 10-K, and (ii) the quarterly financial statements prior to the filing of the company's quarterly report on Form 10-Q;

discusses with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the company's financial statements;

reviews and discusses reports from the independent auditor on all critical accounting policies and practices to be used; all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management; ramifications of the use of such alternative disclosures and treatments; and the treatment preferred by the independent auditor; and other material written communications to management, such as any management letter or schedule of unadjusted differences;

discusses with management the company's (i) earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, and (ii) major financial risk exposures and the steps management has taken to monitor and control such exposures;

discusses with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance-sheet structures on our financial statements;

discusses with the independent auditor the matters required to be discussed by Statement of Auditing Standards No. 61 relating to the conduct of the audit;

reviews disclosures made to the committee by the CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein, and any fraud involving management or other employees who have a significant role in our internal controls;

reviews and evaluates (i) the lead partner of the independent auditor engagement team and (ii) the qualifications, performance, and independence of the independent auditor;

obtains and reviews a report from the independent auditor at least annually regarding the independent auditor's internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, any steps taken to deal with any such issues, and all relationships between the independent auditor and the company;

ensures the rotation of audit partners as required by law, and considers whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent audit firm on a regular basis;

reviews and recommends to the board the company's policies for hiring employees or former employees of the independent auditor who participated in any capacity in the audit of the company;

discusses with the independent auditor the financial reporting issues and matters of audit quality and consistency on which they consulted their national office;

meets with the independent auditor prior to the audit to discuss the planning and staffing of the audit;

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oversees our internal audit function;

obtains from the independent auditor assurance that Section 10A(b) of the 1934 Act has not been violated;

reviews procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

discusses with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the company's financial statements or accounting policies;

meets with the general counsel, and outside counsel when appropriate, to review legal and regulatory matters, if any, that may have a material impact on the company's financial statements or compliance procedures; and

reviews annually our policies concerning sensitive payments and conflicts of interest.

The board has determined that all members of the committee are financially literate and that the Audit Committee chairman, Russell E. Palmer, meets the definition of audit committee financial expert. No member of the Audit Committee serves on more than three public company audit committees.

*The Executive Compensation and Development Committee:*

reviews and approves the goals and objectives relevant to CEO compensation, evaluates the CEO's performance, and sets the CEO's compensation level;

recommends to the board matters relating to incentive compensation plans and equity-based plans, including reviewing and approving any changes in any stock related plan;

reviews and recommends to the board May's overall compensation programs;

assures that the board is updated at least annually on management development efforts to ensure development of a pool for adequate and orderly management succession;

recommends to the board nominees for all executive officers and for all members of the profit sharing plan committee, the retirement committees, and the long-term disability plan committee; and

serves as the committee under May's stock option plans, stock appreciation rights plan, executive incentive compensation plan for corporate executives, executive incentive compensation plan for company principals (with power to delegate certain powers to a management committee thereunder in accordance with the terms of the plan), deferred compensation plan, and restricted stock plan for management employees.

*The Finance Committee reviews and recommends to the board:*

our financial policies, our long-range financial plans and targets, our capital expenditure program, specific debt and equity placement activities, and financial aspects of proposed acquisitions or divestitures;

our external financial relationships and financial public relations and communication programs; and

the retirement and profit sharing plans' funding, our investments, and insurance and risk management programs.

*The Nominating and Governance Committee:*

recommends to the board nominees for directors and for chairmen and members of committees of the board, including developing criteria for the selection of non-management directors and procedures to solicit and review potential nominees;



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advises the board with respect to criteria relating to director tenure and non-management director compensation;

oversees the performance of the board and all directors; and

takes a leadership role in shaping the corporate governance of the company by developing and reviewing periodically the Board's Governance Guidelines and considering any other corporate governance issues that arise from time to time and developing appropriate recommendations for the board.

***Director Nomination Procedures***

When considering candidates for director, the nominating and governance committee gives primary consideration to the following qualifications:

outstanding and recognized competence in general management, as well as possible specialization in one or more of the following fields: advertising, ecology, economics, finance, management development, marketing, public affairs, science or the professions;

an age at the time of first election to the board which generally would permit such person to serve May for not less than seven years prior to retirement pursuant to the board's retirement policy;

a willingness and availability to commit the time and energies necessary to satisfy the requirements of the board and committee memberships; and

a commitment to represent May stockholders as a whole, without any particular constituency among the stockholders.

Candidates may come to the attention of the committee through many sources, including current directors, officers, third party search firms, stockholders, and other persons. In evaluating candidates, the committee considers the attributes of the candidate (including the criteria for candidates described above) and the needs of the board. The committee reviews all candidates in the same manner regardless of the source of the recommendation. Any candidate must state in advance his or her willingness and interest in service on the board and provide sufficient background information to enable the committee to assess his or her qualifications. In addition, May's by-laws permit stockholders to nominate directors for consideration at an annual stockholders' meeting. To do so, the stockholder must give notice in writing to The May Department Stores Company, 611 Olive Street, St. Louis, MO 63101-1799, Attention: Corporate Secretary. The nomination must comply with the advance notice provisions in May's by-laws. You may obtain a copy of the notice procedures from the corporate secretary.

Mr. Rickard was recommended to the nominating and governance committee by a current independent director and committee member, Mr. Kilts, and a former independent director and committee member, William Perez, both of whom had worked with Mr. Rickard in the past and had personal knowledge of his experience and skills. Management obtained and reviewed additional background information, and members of management, including the chief executive officer, the president and the chief financial officer, the chairman of the audit committee and representatives from Deloitte & Touche LLP conducted in-person or telephonic interviews with Mr. Rickard and reported back to the committee. After completing this evaluation process, the committee recommended Mr. Rickard to the full board for nomination.

***Corporate Governance Guidelines and Code of Business Conduct and Ethics***

May is committed to good corporate governance. The board has had corporate governance standards in place for many years to promote May's governance practices, in the form of written board and committee charters. May reviews its governance standards annually and revises the charters when necessary to respond to changing regulatory requirements and evolving best practices. In evaluating governance choices, the board considers the task to be more than one of form—more than simply adopting procedural rules. Rather, the board considers the task to be one of substance—one of building strong, high-functioning work groups whose

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members trust and challenge one another and engage directly with senior managers and with each other on critical issues facing the company.

Over the past three years, the board and each board committee have reviewed May's corporate governance practices in response to the Sarbanes-Oxley Act of 2002, the related SEC rules, and the new listing standards of the New York Stock Exchange (NYSE). In most instances, May already had in place procedures that complied with the new requirements. May's review of its corporate governance practices is an on-going process.

**Stockholder Access**

You can view the Board of Directors Governance Guidelines, the charters for the board committees, and May's Policy on Business Conduct in the corporate governance section of May's website at [www.mayco.com](http://www.mayco.com). May intends to disclose any amendments to the Policy on Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the NYSE on the governance section of its Web site.

**Compliance with Section 16(a) of the Exchange Act**

Section 16(a) of the Exchange Act requires executive officers and directors to file reports of holdings and transactions in May common stock with the SEC. Based on a review of copies of reports provided to the company, May believes that all executive officers and directors satisfied their reporting requirements for fiscal 2004.

**Executive Officers of May****List of Officers**

The names, ages and current positions of the executive officers of May are listed below. All executive officers listed below were elected at the 2005 annual meeting of the May board of directors. They are expected to serve as executive officers until the next annual meeting of the May board of directors.

Name	Age	Position and Officers
John L. Dunham	58	Chairman, President and Chief Executive Officer
William P. McNamara	54	Vice Chairman
Thomas D. Fingleton	57	Executive Vice President and Chief Financial Officer
Jay H. Levitt	47	Chief Executive Officer and President, May Merchandising Company and May Department Stores International
R. Dean Wolfe	60	Executive Vice President
Alan E. Charlson	56	Senior Vice President and General Counsel
Martin M. Doerr	50	Senior Vice President
Lonny J. Jay	62	Senior Vice President
Brian L. Keck	52	Senior Vice President
Jan R. Kniffen	56	Senior Vice President
Gregory A. Ott	45	Senior Vice President
Richard A. Brickson	57	Secretary and Senior Counsel
J. Per Brodin	43	Vice President

**Brief History of Officers**

*John L. Dunham* has been chairman, president and chief executive officer since March 18, 2005; prior thereto he served as president and acting chairman and chief executive officer from January 2005 to

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March 2005, as president from April 2001 to January 2005 and as executive vice president and chief financial officer from 1996 to April 2001.

*William P. McNamara* has been vice chairman of May since February 2000; prior thereto he served as president of May Merchandising Company from 1998 to February 2000.

*Thomas D. Fingleton* has been executive vice president and chief financial officer since April 2001; prior thereto he served as executive vice president of May from May 2000 to April 2001 and as chairman of Hecht's from 1991 to May 2000.

*Jay H. Levitt* has been chief executive officer and president of May Merchandising Company and May Department Stores International since July 2002; prior thereto he served as president of May Merchandising Company and May Department Stores International from July 2001 to July 2002 and as president and chief executive officer of Robinsons-May from 1999 to July 2001.

*R. Dean Wolfe* has been executive vice president of acquisitions and real estate since 1996; prior thereto he served as executive vice president of real estate from 1986 to 1996.

*Alan E. Charlson* has been senior vice president and general counsel since January 2001; prior thereto he served as senior vice president and chief counsel from 1998 to January 2001 and as senior counsel from 1988 to 1998.

*Martin M. Doerr* has been senior vice president of taxes since September 1999; prior thereto he served as a vice president of May from 1992 to 1999.

*Lonny J. Jay* has been senior vice president of planning and reporting since April 1986.

*Brian L. Keck* has been senior vice president of human resources since April 2000; prior thereto he served as chairman of Meier & Frank from 1997 to April 2000.

*Jan R. Kniffen* has been senior vice president and treasurer since May 1991.

*Gregory A. Ott* has been senior vice president of strategy and new business development since October 2003; prior thereto he served as a senior engagement manager with an international strategic planning and consulting firm.

*Richard A. Brickson* has been secretary and senior counsel since 1988.

*J. Per Brodin* has been vice president of accounting and reporting since June 2002; prior thereto he served as director of May's corporate accounting and reporting from March 2002 to June 2002 and was associated with a public accounting firm from 1989 to 2002.

**Table of Contents****Executive Compensation****Three Year Compensation Summary**

The following table summarizes the compensation of certain executive officers, referred to as the May Named Executives, for May's last three fiscal years for services rendered in all capacities to May and its subsidiaries.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Annual Compensation(2)		Long-Term Compensation			
		Salary(5)	Bonus(6)	Awards(3)(4)		Payouts	
				Restricted Stock Awards	Stock Options	Long-Term Incentive Payouts(2)(7)	All Other Compensation(2)(8)
J. L. Dunham Chairman, President and Chief Executive Officer(1)	2004	\$ 1,041,677	\$ 0	\$ 3,388,000	165,000	\$ 78,841	\$ 509,667
	2003	\$ 950,000	\$ 267,188	\$ 0	60,000	\$ 51,846	\$ 9,145
	2002	\$ 931,250	\$ 89,063	\$ 346,800	60,000	\$ 39,551	\$ 4,643
R. D. Wolfe Executive Vice President	2004	\$ 897,500	\$ 0	\$ 616,000	37,500	\$ 40,074	\$ 259,667
	2003	\$ 865,000	\$ 195,750	\$ 429,500	32,500	\$ 37,848	\$ 9,145
	2002	\$ 837,500	\$ 63,750	\$ 0	32,500	\$ 29,578	\$ 4,643
W. P. McNamara Vice Chairman	2004	\$ 828,750	\$ 0	\$ 2,156,000	45,000	\$ 36,838	\$ 259,667
	2003	\$ 801,250	\$ 182,250	\$ 0	40,000	\$ 34,447	\$ 9,145
	2002	\$ 760,000	\$ 58,125	\$ 1,213,800	40,000	\$ 26,750	\$ 4,643
T. D. Fingleton Executive Vice President and Chief Financial Officer	2004	\$ 758,750	\$ 0	\$ 2,156,000	37,500	\$ 34,006	\$ 259,667
	2003	\$ 735,000	\$ 166,500	\$ 0	32,500	\$ 108,500	\$ 9,145
	2002	\$ 712,500	\$ 187,455	\$ 0	32,500	\$ 87,545	\$ 4,643
J. H. Levitt President and CEO May Merchandising Company	2004	\$ 690,000	\$ 0	\$ 847,000	35,000	\$ 31,058	\$ 9,667
	2003	\$ 671,250	\$ 151,875	\$ 0	35,000	\$ 28,968	\$ 9,145
	2002	\$ 653,750	\$ 49,500	\$ 0	35,000	\$ 23,522	\$ 4,643
E. S. Kahn Former Chairman and Chief Executive Officer(1)	2004	\$ 1,500,000	\$ 0	\$ 0	85,000	\$ 0	\$ 9,667
	2003	\$ 1,500,000	\$ 675,000	\$ 0	85,000	\$ 132,494	\$ 9,145
	2002	\$ 1,487,500	\$ 225,000	\$ 7,088,000	585,000	\$ 103,646	\$ 4,643

- (1) Eugene S. Kahn resigned from his position as Chairman and Chief Executive Officer on January 14, 2005. The board of directors named John L. Dunham as Chairman and Chief Executive Officer in addition to his duties as President. See discussion of the separation arrangements for Mr. Kahn in Report of the Executive Compensation and Development Committee beginning on page 161.

- (2) Total Cash Compensation. As supplemental information, the following table shows the total cash compensation (Salary, Bonus and Long-term Incentive Payouts, and, for 2004, the 2004 special bonus paid for the acquisition and assimilation of Marshall Field's included in All Other Compensation) paid to the May Named Executives for the fiscal year listed.

<b>Year</b>	<b>Mr. Dunham</b>	<b>Mr. Wolfe</b>	<b>Mr. McNamara</b>	<b>Mr. Fingleton</b>	<b>Mr. Levitt</b>	<b>Mr. Kahn</b>
2004	\$ 1,620,508	\$ 1,187,574	\$ 1,115,588	\$ 1,042,756	\$ 721,058	\$ 1,500,000
2003	\$ 1,269,034	\$ 1,098,598	\$ 1,017,947	\$ 1,010,000	\$ 852,093	\$ 2,307,494
2002	\$ 1,059,864	\$ 930,828	\$ 844,875	\$ 987,500	\$ 726,772	\$ 1,816,146

- (3) Restricted Stock in the Summary Compensation Table is valued at the closing price of May common stock on the date the shares were granted. Each grant is subject to performance-based or time-based restrictions. Restrictions on performance-based awards are released only if May meets certain earnings performance standards; shares are forfeited in whole or on a pro rata basis if the standards are not achieved. Restrictions on time-based awards are released after specified time periods if the executive continues to be employed by May.

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As of January 29, 2005, the value (at \$33.40 per share) of all the performance-based and time-based restricted stock held by the May Named Executives was as follows:

	<b>Mr. Dunham</b>	<b>Mr. Wolfe</b>	<b>Mr. McNamara</b>	<b>Mr. Fingleton</b>	<b>Mr. Levitt</b>	<b>Mr. Kahn</b>
Shares	140,000	45,000	110,000	90,000	44,500	150,000
Value						
(from)	\$ 2,505,000	\$ 83,500	\$ 0	\$ 0	\$ 0	\$ 2,505,000
(to)	\$ 4,676,000	\$ 1,503,000	\$ 3,674,000	\$ 3,006,000	\$ 1,486,300	\$ 5,010,000

Each grant described in the Summary Compensation Table consisted of performance-based restricted stock or a combination of performance-based and time-based restricted stock. Mr. Dunham's 2004 grant may vest 10,000 shares in 2005, 50,000 shares in 2006 and 50,000 shares in 2007; Mr. Dunham's 2002 grant may vest 5,000 shares in each of 2003 and 2004; Mr. Wolfe's 2004 grant may vest 20,000 shares in 2006; Mr. Wolfe's 2003 grant may vest 15,000 shares in 2005 and 5,000 shares in 2006; Mr. McNamara's 2004 grant may vest 10,000 shares in 2006, 30,000 shares in each of 2007 and 2008; Mr. McNamara's 2002 grant may vest 5,000 shares in each of 2003 to 2005 and 15,000 shares in 2006; Mr. Fingleton's 2004 grant may vest 20,000 shares in 2006 and 25,000 shares in each of 2007 and 2008; Mr. Levitt's 2004 grant may vest 3,500 shares in 2006 and 12,000 shares in each of 2007 and 2008; Mr. Kahn's 2002 grant may vest 50,000 shares in each of 2004-2007.

Each May Named Executive forfeited all of their shares of performance-based restricted stock that would otherwise have vested in each of 2003 through 2005.

Dividends are paid in cash on these shares at the same rate as the dividends received by all May stockholders. The plan under which these shares were granted provides that restricted stock grants become fully vested and all restrictions are waived when a change in control, as defined in the plan, occurs.

- (4) Stock Options represent non-qualified 10-year options under May's 1994 Stock Incentive Plan. The plan provides that all outstanding options become fully exercisable upon the occurrence of a change in control, as defined in the plans.
- (5) The table reflects salary paid or deferred during the respective fiscal years shown. Annual salary changes normally occur on May 1 of each year.
- (6) Bonus reflects the annual portion of the bonus payable under May's executive incentive compensation plan for corporate executives. The bonuses were either paid or were deferred under May's deferred compensation plan. All deferrals would be distributed to participants in lump sum cash payments immediately following a change in control, as defined in the plan.
- (7) Long-term Incentive Payouts represent the long-term portion of the bonus payable under the executive incentive compensation plan for corporate executives. Such amounts were either paid or deferred under May's deferred compensation plan.
- (8) All Other Compensation represents the effective matching allocation to the named individual's accounts in May's profit sharing plan. In addition, for 2004, the amount includes a special bonus paid for the acquisition and assimilation of Marshall Field's for Mr. Dunham (\$500,000), Mr. Wolfe (\$250,000), Mr. McNamara (\$250,000) and Mr. Fingleton (\$250,000).



**Table of Contents*****Fiscal 2004 Stock Option Grants***

The following table sets forth certain information regarding grants of stock options made during fiscal 2004 to the May Named Executives.

**OPTION GRANTS IN LAST FISCAL YEAR**

<b>Name</b>	<b>Options Granted(1)</b>	<b>Percent of Total Options Granted</b>	<b>Exercise or Base Price(2)</b>	<b>Expiration Date</b>	<b>Grant Date Present Value(3)</b>
John L. Dunham	75,000	1.7%	\$ 27.8900	5/12/2014	\$ 573,000
	90,000	2.1%	\$ 27.8900	5/12/2014	\$ 687,600
R. Dean Wolfe	37,500	0.9%	\$ 27.8900	5/12/2014	\$ 286,500
William P. McNamara	45,000	1.0%	\$ 27.8900	5/12/2014	\$ 343,800
Thomas D. Fingleton	37,500	0.9%	\$ 27.8900	5/12/2014	\$ 286,500
Jay H. Levitt	35,000	0.8%	\$ 27.8900	5/12/2014	\$ 267,400
Eugene S. Kahn	85,000	2.0%	\$ 27.8900	5/12/2014	\$ 649,400

- (1) With the exception of Mr. Dunham's 90,000 share grant, one-fourth of the options become exercisable on May 12 in each of 2005, 2006, 2007 and 2008. One-third of the options of Mr. Dunham's 90,000 share grant became exercisable on April 30, 2005, and one-third become exercisable on April 30 in each of 2006 and 2007.
- (2) The exercise price is the market price on the date the options were granted.
- (3) The Grant Date Present Values were determined using the Black-Scholes option pricing model. The estimated values under the model are based on assumptions as to variables such as option term, interest rates, stock price volatility, and dividend yield. The actual value, if any, the option holder may realize will depend on the excess of the actual market price of the stock over the exercise price on the date the option is exercised. The Grant Date Present Value calculation is presented in accordance with SEC proxy disclosure requirements, and May has no way to determine whether the Black-Scholes model can properly determine the value of an option. There is no assurance that the value that may be realized by the option holder will be at or near the value estimated by the Black-Scholes model. The model assumes: (a) an option term of 10 years, which represents the length of time between the grant date of options under May's plans and the latest possible exercise date by the May Named Executives; (b) an interest rate that represents the interest rate on a U.S. Treasury Bond with a maturity date corresponding to that of the option's term; (c) stock price volatility calculated based on daily stock price changes during the year prior to the grant date; and (d) dividends at the rate of \$0.97 per share, the annual dividend rate with respect to a share of stock on the grant date.

**Table of Contents*****Fiscal Year-End Option Values***

The following table sets forth certain information regarding the total number and aggregate value of options exercised by each of the May Named Executives during fiscal 2004 and the total number and aggregate value of options held by each of the May Named Executives at January 29, 2005.

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR  
AND FISCAL YEAR-END OPTION VALUES**

Name	Shares		Total Number of Unexercised Options Held		Value of Unexercised In-the-Money Options(2)	
	Acquired	Total Gain	Exercisable	Unexercisable	Exercisable	Unexercisable
	on Exercise	Realized(1)				
John L. Dunham	5,603	\$ 65,029	315,929	252,500	\$ 1,034,270	\$ 1,441,500
R. Dean Wolfe	12,431	\$ 147,135	280,045	86,250	\$ 1,121,737	\$ 494,981
William P. McNamara	4,143	\$ 31,862	223,288	105,000	\$ 687,723	\$ 602,850
Thomas D. Fingleton	11,603	\$ 151,194	175,390	86,250	\$ 523,301	\$ 494,981
Jay H. Levitt	32,050	\$ 290,510	94,322	87,500	\$ 13,824	\$ 503,388
Eugene S. Kahn	20,718	\$ 98,640	989,635	462,500	\$ 2,273,603	\$ 1,222,513

(1) The amounts realized reflect the appreciation on the date of exercise (based on the excess of the fair market value of the shares on the date of exercise over the exercise price). However, because the May Named Executives may keep the shares they acquired upon the exercise of the option (or sell them at different prices), these amounts do not reflect cash realized upon the sale of those shares.

(2) In-the-Money Options are options outstanding at the end of the fiscal year for which the fair market value of the company's common stock at the end of the last fiscal year (\$33.40 per share) exceeded the exercise price of the options.

***Executive Stock Ownership Guidelines***

May encourages all executives to align their interests with May's stockholders by making a personal investment in May stock. May adopted minimum stock ownership guidelines in 1994 for its top management group. Executives can satisfy these minimum guidelines through direct stock ownership, profit sharing plan share equivalents, and deferred compensation plan stock units. May expects executives to meet these minimum guidelines within five years of when the guidelines first apply to them.

Executive Level	Ownership Guideline (Multiple of Base Salary)
Chief Executive Officer	5.0 times
Corporate Senior Management Committee(1)	3.5 times
Presidents, Chairmen and Vice Chairmen of Operating Divisions	2.5 times
Corporate Executive Vice Presidents and Senior Vice Presidents and the Senior Management Committees of Operating Divisions	1.5 times

- (1) Includes five executive officers. The chief executive officer, who is also a member of the senior management committee, is covered by the CEO guideline above.

***Change-in-Control Agreements***

May has severance agreements with each of Messrs. Dunham, Wolfe, McNamara, Fingleton and Levitt. For a detailed description of these agreements, see *The Merger* *Interests of May Directors and Executive Officers in the Merger* *Executive Employment and Severance Agreements* beginning on page 83.

**Table of Contents*****Employment Agreements***

The five May Named Executives who are currently executive officers of May have written employment contracts. The agreements presently specify the following base salaries and contract term:

<b>Executive</b>	<b>Salary</b>	<b>Contract Term</b>
Mr. Dunham	\$ 1,150,000	4/30/07
Mr. Wolfe	\$ 900,000	5/31/07
Mr. McNamara	\$ 835,000	4/30/07
Mr. Fingleton	\$ 765,000	4/30/08
Mr. Levitt	\$ 695,000	4/30/07

The agreements contain non-compete, non-solicitation and mitigation clauses. In addition, the agreements contain provisions that in the event of termination of the executive by May other than for cause the executive would be entitled to receive base salary until the later of the end of the executive's non-compete period and the end of the term of the agreement.

In addition, Mr. Dunham and Mr. Wolfe have consulting contracts with May. Each contract commences at the end of the term of their employment agreement and extends for a period of two years. The contracts provide for consulting fees (\$375,000/year for Mr. Dunham and \$450,000/year for Mr. Wolfe) and contain non-compete and non-solicitation clauses.

Mr. Kahn, former chairman and chief executive officer of May, has a written employment contract with a term that extends to April 30, 2006. As a result of his January 14, 2005 resignation, Mr. Kahn's active employment under his employment agreement with May and his service on the board of directors terminated on January 14, 2005. The two-year non-compete and non-solicitation period provided for in Mr. Kahn's employment agreement commenced on January 15, 2005, and will extend to January 14, 2007. The executive compensation and development committee of the board of directors is negotiating separation arrangements with Mr. Kahn.

***Retirement Plans***

May has a noncontributory retirement plan that covers associates at least age 21 who are paid for 1,000 or more hours per year.

In addition, May has a supplementary retirement plan that covers associates who, at one time, had compensation in a calendar year equal to twice the amount of wages then subject to the payment of old age, survivor, and disability insurance Social Security taxes. Participants become entitled to a single life annuity retirement benefit equal to:

2% of the average of the participant's highest three out of five fiscal years of final annual salary and bonus multiplied by their years of service, up to a maximum of 25 years; reduced by

primary Social Security benefits, company-provided benefits under May's retirement and profit sharing plans, and, if appropriate, amounts to reflect early retirement.

The minimum benefit under the supplementary retirement plan is the amount of company-provided benefits that would be payable under May's retirement and profit sharing plans determined without regard to any statutory limits, less the amount of these benefits actually payable under those plans. If there is a change in control, as defined in the plan, the supplementary retirement plan provides that vesting would be accelerated in limited circumstances and benefits would not be forfeitable.

The expense for May's retirement plans for fiscal 2004 for all associates totaled \$97 million.

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The following table shows the estimated aggregate annual benefits payable under these retirement plans to eligible associates in specified compensation and years of service classifications, assuming normal retirement at age 65 in 2004. The May Named Executives had, as of December 31, 2004, the following years of service for purposes of the retirement plans: John L. Dunham, 28 years; R. Dean Wolfe, 32 years; William P. McNamara, 32 years; Thomas D. Fingleton, 26 years; Jay H. Levitt, 17 years; and Eugene S. Kahn, 14 years.

**Pension Plan Table**

Average Annual Earnings	Years of Service				
	15	20	25	30	35
\$1,000,000	\$ 245,680	\$ 320,991	\$ 375,854	\$ 286,258	\$ 301,089
1,200,000	\$ 302,348	\$ 396,491	\$ 462,706	\$ 355,184	\$ 370,436
1,300,000	\$ 330,682	\$ 434,269	\$ 507,231	\$ 390,754	\$ 406,211
1,600,000	\$ 415,684	\$ 547,605	\$ 642,372	\$ 499,011	\$ 515,098
1,900,000	\$ 500,686	\$ 660,941	\$ 777,510	\$ 607,274	\$ 623,983
2,200,000	\$ 585,687	\$ 774,276	\$ 912,652	\$ 715,535	\$ 732,870
2,500,000	\$ 670,689	\$ 887,612	\$ 1,047,792	\$ 823,796	\$ 841,756
2,800,000	\$ 755,691	\$ 1,000,948	\$ 1,182,933	\$ 932,055	\$ 950,644
3,000,000	\$ 812,359	\$ 1,076,505	\$ 1,273,026	\$ 1,004,230	\$ 1,023,234

**Profit Sharing Plan**

Associates of May who are at least age 21, with one year of service of at least 1,000 hours of paid employment, may participate in May's profit sharing plan. During 2004, 69,814 associates invested \$108.2 million in the plan. Of this amount, \$33.7 million was invested in May common stock. In addition, May will credit \$60.2 million of May common stock and ESOP stock to associates' accounts as a result of the plan's matching formula.

The plan links its benefits to May's performance each year and to the value of the common stock. Generally, May matches employee contributions up to the first 5% of pay for each pay period that an associate invests in the plan. In 2004, associates made \$63.8 million of matchable contributions to the plan. The effective matching rate for 2004 was 94.0%. The effective matching rate has averaged 76.1% over the last five years.

**Bonus Program**

During fiscal 2004, each of the May Named Executives became eligible to receive a potential long-term cash award for the three fiscal years ending in fiscal 2006 under May's Executive Incentive Compensation Plan for Corporate Executives. The following table shows the maximum long-term cash awards payable for that period under the plan.

**LONG-TERM INCENTIVE PLAN AWARDS  
IN LAST FISCAL YEAR**

Name	Performance or Other Period Until Maturation or Payout	Estimated Maximum Future Payouts Under Non-Stock- Price-Based Plan(1)
John L. Dunham	2004-2006	\$ 879,681
R. Dean Wolfe	2004-2006	\$ 408,675
William P. McNamara	2004-2006	\$ 378,525
Thomas D. Fingleton	2004-2006	\$ 346,800
Jay H. Levitt	2004-2006	\$ 315,150

Eugene S. Kahn	2004-2006	\$	1,350,000
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(1) Payouts may range from \$0 to the award values shown above. The estimate above assumes that the individual remains eligible to participate throughout the three-year period, that the maximum performance goals have been met, and that the stock price has increased sufficiently to result in the maximum stock price adjustment.

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**Report of the Executive Compensation and Development Committee**

Each member of the Executive Compensation and Development Committee, referred to as the ECD Committee, is an independent, non-management director. We review and approve, among other things, the compensation payable to each of the executive officers named in the summary compensation table.

***2004 Compensation Review and 2005 Changes to Senior Executive Compensation Program Review Process and Findings***

In early 2004, the ECD Committee recommended a redesign of May's senior management compensation program to the board. The goal was to give the ECD Committee and the board more flexibility in the program's design and administration. Specifically, the Committee wanted to:

allow the ECD Committee to set and change specific details of the program (e.g., measures, weightings and award opportunities) over time to respond to business needs and ensure appropriate sensitivity to stockholders' interests;

design a plan that would be easier for participants to understand; and

include a higher percentage of annual compensation that is performance based.

The stockholders approved the proposed amendments to the incentive plan in May 2004, and the ECD Committee engaged Sibson Consulting to work with the ECD Committee and management to develop the details of the new program.

Sibson Consulting collected information on competitive pay practices of 14 companies in May's retail peer group, using proxy disclosures and a confidential survey of retail competitors conducted by the Hay Group. The ECD Committee also reviewed data on general emerging compensation trends across all industries, and the results of confidential interviews with members of the ECD Committee, with members of the company's senior management group and with participants in the divisions.

The ECD Committee found that, overall, May's total compensation falls within a competitive range. The most significant differences found in May's program are that:

base salaries were generally above the competitive market median;

May's program had lower than competitive annual incentive opportunities as a percent of base salary;

May's program had a more limited range of payouts around target performance;

May's program had a narrower range of performance that is considered for performance-based awards;

May uses more performance restricted stock (as compared to time restricted stock) than the competitive market; and

May used three long-term vehicles, while most of the competitive market used two.

The ECD Committee also determined that some aspects of the existing program were not well understood by participants, making the program less effective than it could be.

***Updated Compensation Philosophy***

The ECD Committee developed an updated compensation philosophy and plan that accomplishes the objectives of the project, responds to several of the competitive practice findings and should result in the following changes in executive behavior:

increased emphasis on annual results;

increased intensity to achieve both store-for-store sales and earnings growth; and

greater buy-in by executives in the divisions to more competitive and aggressive store-for-store sales growth strategies.



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The updated compensation philosophy will guide the ECD Committee and management as they consider the compensation of senior executives:

**Pay Prominence**

Incentive pay will be highly prominent in May's executive compensation design, allowing for significantly increased payouts when performance exceeds internal targets and peer performance and significantly reduced payouts when performance is poorer.

Performance schedules will allow for a broad range of performance and payouts around target.

Performance measures and goals will be explicit and controllable by participants.

Annual incentive pay will be more prominent for division principals than for the corporate senior management committee, whose compensation will have more balance between annual and longer-term performance.

May's performance-based compensation program will complement other reasons executives stay at May, including the company's reputation and financial stability, the work environment and career opportunities.

**Comparative framework**

May will use a broad group of retail comparators to benchmark pay levels (department store peers and prominent specialty retailers).

May will place more emphasis on its key retail comparators when comparing design practices and company performance.

**Pay positioning and mix**

Base salaries and total pay opportunities will be targeted at the median of the retail peer group for positions with similar responsibility. Mix of annual and long-term incentive opportunities may be adjusted based on business needs.

When performance is above or below target, pay will be sufficiently variable to result in pay levels commensurately above or below median.

**Stock ownership**

May expects executives to hold stock in order to sustain a long-term link between executive and shareowner interests. May's executive compensation program will include:

explicit ownership guidelines for executives;

annual communication about actual stock ownership versus the guidelines; and

equity programs intended to build stock ownership over time.

**Performance measurement**

Performance measures within May's variable pay components will reflect the business priorities and have the following characteristics:

reinforce strong balances growth in revenue, earnings and stock market performance; and

represent a balanced emphasis on key financial and operational drivers, growth that will result in current and future profits and ultimate shareowner value creation.

The Committee and the company may also choose to reward executives for progress against agreed-upon strategic initiatives (e.g., integration of an acquisition, division combinations) through additional incentive opportunities or variations in equity grants.

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Performance measurement for division principals will be based primarily on their own division's annual performance, although they will be tied to overall corporate longer term performance through equity awards.  
Goal setting

May's overall approach to goal setting will encourage exceeding performance of key competitors as well as generating sustained year-over-year improvement.

***Summary of Program Changes Beginning in 2005***

As a result of the comprehensive study and of implementation of the compensation philosophy, the ECD Committee recommended that, beginning in 2005, May implement the following key changes:  
manage the growth of base salaries toward the competitive median range, and, over time, to 100% of the median, on average;

increase the percentage of annual compensation that is performance based, by:  
shifting the current long-term cash bonus opportunity into the annual cash bonus opportunity, and positioning the annual opportunities closer to the competitive median;

placing a balanced emphasis on both store-for-store sales and earnings growth when determining payouts; and

paying no award for performance below threshold;  
provide additional upside opportunities for superior performance, by increasing the maximum payout from 90% to 120% of salary (with higher opportunities for Mr. Dunham), noting that the 120% maximum positions the annual bonus opportunity closer to the competitive median;

shift the senior management committee's performance restricted stock from a three-year earnings per share basis to an annual earnings per share basis; and

manage total compensation to market median.

Generally, bonuses will be calculated on the pre-2005 basis and on the new basis, and the executive will get the higher of the two calculations. The ECD Committee anticipates that the new basis will generally produce the higher calculation.

***2004 Compensation***

Compensation for senior executives in 2004 was composed of a base salary, bonus opportunities (a significant potential portion of the total compensation) and long-term stock-related incentives. We review compensation based on our compensation philosophy, on company performance, and on competitive practices.

***Base Salary.***

We review base salaries annually. They may be increased after our review based on:  
the individual's contribution to the company, including changes in responsibilities;

competitive pay levels; and

management's recommendations.

As a result of this overall review, salary rates for the May Named Executives increased on May 1, 2004, an average of 3.6% over the rates in effect at the beginning of fiscal 2004. The salary rate for Mr. Kahn had not changed since May 2002.

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*Bonus Opportunities.*

May has performance-based bonus plans covering approximately 4,700 associates. Each plan links a major portion of the associates' potential pay to the associates' performance and to May's performance. Before 2005, the bonus opportunities for the senior executives and executive officers included both annual and long-term opportunities. Each May Named Executive participates in the executive incentive compensation plan for corporate executives.

*Annual Bonus.*

For 2004, the May Named Executives became eligible for annual bonuses of up to 45% (78.75% for Mr. Dunham) of base salary. We determined their bonuses based on whether May achieved certain predetermined performance levels (threshold, target or maximum) for (i) earnings per share (EPS) and (ii) return on net assets (RONA) over the year.

The annual bonus may be adjusted in two ways:  
downward, in our discretion; and

upward or downward, automatically, based on May's performance relative to the EPS and RONA performance of a predetermined group of competitors consisting of Dillard's, Federated Department Stores, J.C. Penney, Kohl's, Nordstrom, Target, and Sears. For both the annual and long-term bonuses, May's relative rank was determined based on publicly available information about the competitor group, adjusted for comparability. Our independent public accounting firm subjected the information to certain agreed upon procedures.

While return on equity is the company's principal measure in evaluating its performance for shareowners and its ability to invest shareowners' funds profitably, the bonus plans use RONA in evaluating this element of bonus opportunity to facilitate industry comparisons without having to make adjustments for financial leverage among the competitor group. In 2004:

May achieved below the threshold performance level we set for EPS; and

May achieved below the threshold performance level we set for RONA.

Based on these results, no annual bonus awards were paid to any of the May Named Executives.

*Long-Term Bonus.*

For the three-fiscal-year period that ended in 2004, the May Named Executives became eligible for long-term bonuses of up to 45% (78.75% for Mr. Dunham) of average base salary. We determined their bonuses based on (a) whether May achieved certain predetermined performance levels (threshold, target or maximum) for (i) compound growth rate for EPS and (ii) average RONA over the three-fiscal-year period, and (b) the change in stock price over the three-fiscal-year period.

The long-term bonus may be adjusted in two ways:  
downward, in our discretion; and

upward or downward, automatically, based on May's performance compared to the EPS and RONA performances of the competitor group, and predetermined levels of changes in May's common stock price over the period.

For the three-year period that ended with fiscal 2004:

May achieved below the threshold level of performance we set for compound EPS growth;

May achieved below the threshold performance level we set for average RONA, but May's performance, relative to the average RONA performance of the competitor group, ranked fourth, so that the long-term bonus based on average RONA performance was adjusted to the threshold level; and

May's common stock price decreased by 7.5% over the period, resulting in a 7.5% decrease in bonus.

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Based on these results, the long-term bonuses awarded for the three-year period that ended with fiscal 2004 represented 8.1% of average base salary for Mr. Dunham, and 4.6% of average base salary for each of the other May Named Executives.

In addition, the committee approved special 2004 bonuses of \$500,000 for Mr. Dunham and \$250,000 each for Mr. McNamara, Mr. Fingleton and Mr. Wolfe for the successful acquisition and assimilation of Marshall Field's.

### *Long-term Stock-related Incentives.*

May provides long-term stock-related incentives through stock options and restricted stock. These incentives are designed to attract, retain, and motivate management associates, and relate their compensation directly to May's stock performance. May grants stock options at fair market value on the grant date. They have value to the executive only if May's stock price increases. We establish guidelines for the grant of options for all executives, and we specifically approve any grants to the executive officers. We base the guidelines for annual grants on competitive practices and position levels. We approve restricted stock grants in special circumstances.

The May Named Executives received annual stock option grants in 2004 consistent with normal annual grant levels previously established for them. Mr. Dunham received a special stock option grant in 2004, and each of Mr. Dunham, Mr. Wolfe, Mr. McNamara, Mr. Fingleton and Mr. Levitt received restricted stock grants in conjunction with extensions of their employment agreements. We made no other special option or restricted stock grants to the May Named Executives in 2004.

### *Compensation Arrangement for the CEO*

The base salary rate for Mr. Kahn did not change in 2003 or 2004. For 2004, Mr. Kahn was eligible for an annual bonus of up to 90% of base salary and, for the three-fiscal-year-period that ended in 2004, Mr. Kahn was eligible for a long-term bonus of up to 90% of his average base salary over that period. As a result of his January 14, 2005 resignation, Mr. Kahn's active employment under his employment agreement with May and his service on the board of directors terminated on January 14, 2005. The committee is in the process of negotiating separation arrangements with Mr. Kahn. The two-year non-compete and non-solicitation period provided for in Mr. Kahn's employment agreement commenced on January 15, 2005, and will extend to January 14, 2007. Under the terms of his employment agreement, Mr. Kahn continues to receive his base salary during the non-compete period.

### *Additional Information*

Tax laws and IRS regulations limit the tax deductibility of executive compensation in excess of \$1 million. Certain exceptions permit tax deductions on this compensation, including exceptions for performance-based compensation. Our policy continues to be that May should attempt, whenever reasonably possible, to qualify future compensation to be tax deductible.

### *Executive Compensation and Development Committee:*

James M. Kilts, Chairman

Russell E. Palmer

Michael R. Quinlan

### **Report of the Audit Committee**

The Audit Committee of The May Department Stores Company Board of Directors (the Committee) is composed of independent directors and operates under a written charter adopted by the Board of Directors. The charter is available on the company's website at [www.mayco.com](http://www.mayco.com).

Management is responsible for the company's internal controls and preparing the company's consolidated financial statements. The company's independent accountants are responsible for performing an independent

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audit of the consolidated financial statements in accordance with standards of the public company accounting oversight board and issuing a report thereon. The Committee is responsible for overseeing the conduct of these activities and, subject to shareowner ratification, the appointment of the company's independent accountants. As stated above and in the Committee's charter, the Committee's responsibility is one of oversight. The Committee does not provide any expert or special assurance as to the company's financial statements concerning compliance with laws, regulations, or generally accepted accounting principles. In performing its oversight function, the Committee relies, without independent verification, on the information and the representations made by management and the independent auditors.

The Committee reviewed and discussed the company's consolidated financial statements as of and for the fiscal year ended January 29, 2005 with management and the independent public accountants. Management represented to the Committee that the company's consolidated financial statements were prepared in accordance with generally accepted accounting principles.

The Committee discussed with the independent public accountants the matters required to be discussed by Statement on Auditing Standards No. 61, Communications with Audit Committees, as amended.

The Committee received and reviewed the written disclosures and the letter from the independent public accountants required by Independence Standard No. 1, Independence Discussions with Audit Committees, as amended, and have discussed with the independent public accountants their independence.

During fiscal year 2004, the company retained its independent public accountants, Deloitte & Touche LLP, to provide audit services of \$4.3 million and non-audit services of \$0.8 million. The Committee has determined that the nature and extent of non-audit services provided by Deloitte & Touche is compatible with maintaining auditor independence.

Based on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the financial statements referred to above be included in the company's Annual Report on Form 10-K/A.

***Audit Committee Members***

Russell E. Palmer, Chairman

Marsha J. Evans

Michael R. Quinlan

David B. Rickard

Joyce M. Roché

***Pre-Approval Policy***

The Audit Committee has adopted the following pre-approval policies for fees and services provided by the independent public accountant:

management will not engage Deloitte & Touche to perform any service (audit or non-audit) without advance approval of the Audit Committee; subject to the de minimis exceptions allowed by Sarbanes-Oxley;

management intends to use Deloitte & Touche for performing only those non-audit services it deems are appropriate. Such services will be of a nature and extent that it would not be prohibited by law, SEC rules or professional standards, will not place Deloitte & Touche in a management role, will not impair the auditor's capacity for objective and impartial judgment, and will be limited to those areas that management believes appropriately use Deloitte & Touche's expertise; and

at least annually, the Audit Committee will review the fees associated with the services provided by Deloitte & Touche. This review shall include, but need not be limited to (a) the nature, scope, and magnitude of each service and the fees charged therefore, and (b) consideration of the possible effect of the performance of such services upon the independence of Deloitte & Touche.

**Table of Contents****Stock Performance Graph**

	1999	2000	2001	2002	2003	2004
May	\$ 100	124	123	72	120	126
S&P-Dept. Stores(1)	\$ 100	131	144	99	135	159
S&P-500	\$ 100	100	85	66	88	93

(1) The companies included in the S&P Retail Department Stores Index are Dillard's, Federated, J.C. Penney, Kohl's, May, Nordstrom and Sears.

**Beneficial Ownership of May Common Stock**

The following table sets forth information as to the beneficial ownership of each person known to May to own more than 5% of May's outstanding common stock, based on reports filed with the SEC in February, 2005 in the case of Capital Research and Management Company and Dodge & Cox, and based on reports from the plan administrator, in the case of May's Profit Sharing Plan:

Name and Address of Beneficial Owner	Number of Shares Owned	% of Outstanding Shares Owned(1)	% of Voting Power(2)
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	30,173,000	10.1%	9.7%
Dodge & Cox One Sansome Street 35th Floor San Francisco, CA 94104	37,713,862	12.6%	12.1%
May's Profit Sharing Plan Common Stock	10,834,374	3.6%	3.5%
ESOP preference shares(3)	371,457	100%	4.0%

(1) On May 20, 2005, there were 299,443,318 shares of May common stock outstanding.

(2) On May 20, 2005, May's voting securities carried 311,993,938 votes and consisted of 299,443,318 outstanding shares of common stock and 371,457 ESOP preference shares, which carry 12,550,620 votes.

(3) These shares carry 12,550,620 votes.

**Table of Contents****Stock Ownership of Directors and Executive Officers**

The following table shows all May stock and stock-based holdings beneficially owned, as of May 20, 2005, by May's directors, the May Named Executives, and all directors and current executive officers as a group. All individuals have sole voting and investment power over the shares beneficially owned, unless otherwise noted.

Name	Shares Beneficially Owned(1)	Options Exercisable within 60 Days	Deferred Stock Units
John L. Dunham	177,129	395,576	70,978
Marsha J. Evans	3,000	0	30,144
Helene L. Kaplan	20,889	0	21,665
James M. Kilts	5,178	0	30,686
Russell E. Palmer	7,490	0	22,217
Michael R. Quinlan	5,715	0	20,573
David B. Rickard	3,929	0	2,085
Joyce M. Roché	3,200	0	13,298
William P. Stiritz	11,650	0	47,297
R. Dean Wolfe	268,641	301,364	0
Thomas D. Fingleton	144,206	209,140	18,109
Jay H. Levitt	55,172	129,322	52,423
William P. McNamara	108,038	264,538	43,092
Eugene S. Kahn	374,169	1,178,917	133,470
Directors and Current Executive Officers as a Group(2)	1,067,940	1,715,861	405,020

(1) The total number of shares beneficially owned by each individual and group constitutes less than 1% of the outstanding shares. For the executive officers, the total includes interests in shares owned by May's profit sharing plan. Participants may direct the voting of the shares held by the plan and share voting and investment power with the plan's trustee.

(2) Includes 21 individuals. Does not include the holdings for Mr. Kahn, who is not currently an executive officer.

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**PRO FORMA FINANCIAL DATA**

**UNAUDITED PRO FORMA FINANCIAL STATEMENTS OF FEDERATED**

The following unaudited pro forma financial statements of Federated give effect to the merger