



140 BROADWAY NEW YORK, NY 10005

ALAN M. SILVERMAN,
Ph. D. CFA
(212) 320-3060

June 25, 2004

COMPANY SUMMARY

Retail:

Federated (FD - \$50) is generally regarded as an obsolete retailer unlikely to produce significant earnings increases in the foreseeable future. Our analysis of the firm is far more positive, since industry-wide trends and internal improvements are expected to fuel significant profit increases for at least the next three years.

Two major factors impacting total consumer spending are expected to provide significant stimulus to Federated's volume. The most important is a resumption of a long-term trend toward trading up to better quality merchandise. This results in a more profitable mix of business for the company and the addition of customers who have been shopping at other retailers. Additionally, a shift in product mix toward apparel (away from cars and home-related goods) is helping both sales and margins.

The well-publicized negatives such as higher energy prices, lower mortgage refinancing, and less stimulus from tax cuts are minor in scope and importance. On balance, company profits are likely to exceed \$4 per share in the current fiscal year. Even more positively, a robust rise is anticipated next year, bringing earnings to approximately \$4.75 per share.

Analyst's Certification: I Alan M. Silverman certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. I do have a long position in J.C Penney.