

FEDERATED DEPARTMENT STORES INC /DE/

Form 10-K/A

November 15, 2002

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment to

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

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

**Commission File Number
1-13536**

Federated Department Stores, Inc.

**7 West Seventh Street
Cincinnati, Ohio 45202
(513) 579-7000
and
151 West 34th Street
New York, New York 10001
(212) 494-1602**

Incorporated in Delaware

I.R.S. No. 13-3324058

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

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

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

None

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

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

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

Documents Incorporated by Reference

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

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

EXPLANATORY NOTE

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

Item 1. Business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 2. Properties.

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

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Item 3. Legal Proceedings.

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

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

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

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

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

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

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

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

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

Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

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

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At February 2, 2002, the Company had contractual obligations as follows:

	Obligations Due by Period				
	Total	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
Short-term debt	\$ 1,006	\$ 1,006	\$	\$	\$
Long-term debt					
3,808 705 403 2,700					
Capital lease obligations					
100 12 21 16 51					
Operating leases					
2,671 162 304 281 1,924					
Off-balance sheet financings					
500 500					
Letters of credit					
68 68					

\$8,153 \$1,748 \$1,030 \$700 \$4,675

Management believes the department store business and other retail businesses will continue to consolidate. Accordingly, the Company intends from time to time to consider additional acquisitions of, and investments in, department stores and other complementary assets and companies. Acquisition transactions, if any, are expected to be financed through a combination of cash on hand and from operations and the possible issuance from time to time of long-term debt or other securities.

Management believes that, with respect to its current operations, cash on hand and funds from operations, together with its credit facilities and other capital resources, will be sufficient to cover its reasonably foreseeable working capital, capital expenditure and debt service requirements in both the near term and over the longer term. The Company's ability to generate funds from operations may be affected by numerous factors, including general economic conditions and levels of consumer confidence and demand; however, the Company expects to be

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

Critical Accounting Policies

Allowance for Doubtful Accounts

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

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Merchandise Inventories

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

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

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

Long-Lived Asset Impairment and Restructuring Charges

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

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

Self-Insurance Reserves

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

Pension and Other Employee Benefit Plans

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

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Discontinued Operations

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

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

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

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

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

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

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

New Pronouncements

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

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

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

Outlook

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

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Item 8. Consolidated Financial Statements and Supplementary Data.

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

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	Page
Management's Report	F-2
Independent Auditors' Report	
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Consolidated Statements of Operations for the 52 weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000	
F-4	
Consolidated Balance Sheets at February 2, 2002 and February 3, 2001	
F-5	
Consolidated Statements of Changes in Shareholders' Equity for the 52 weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000	
F-6	
Consolidated Statements of Cash Flows for the 52 weeks ended February 2, 2002, the 53 weeks ended February 3, 2001 and the 52 weeks ended January 29, 2000	
F-7	
Notes to Consolidated Financial Statements	
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PART IV

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

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

1. Financial Statements:

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

2. Financial Statement Schedules:

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

3. Exhibits:

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

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

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

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

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

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

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

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

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

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Exhibit Number	Description	Document if Incorporated by Reference
10.3.5	Fifth Amendment, dated as of April 30, 1995, to the Pooling and Servicing Agreement Exhibit 10.6.5 to the 1995 Form 10-K	
10.3.6	Sixth Amendment, dated as of July 27, 1995, to the Pooling and Servicing Agreement Exhibit 10.6.6 to the 1995 Form 10-K	
10.3.7	Seventh Amendment, dated as of May 14, 1996, to the Pooling and Servicing Agreement Exhibit 10.6.7 to the Company's Annual Report on Form 10-K (File No. 1-13536) for the fiscal year ended February 1, 1997 (the 1996 Form 10-K)	
10.3.8	Eighth Amendment, dated as of March 3, 1997, to the Pooling and Servicing Agreement Exhibit 10.6.8 to the 1996 Form	
-----	Unfunded Commitment Borrower (in thousands)	
-----	Covanta Energy Corp., Revolver	
-----	\$1,000 Cricket Communications, Inc., Revolver	
-----	\$1,000 DeCrane Aircraft Holdings, Inc., Revolver	
-----	\$1,000 Eastman Kodak Co., Delayed Draw \$1,177 Transport Industries, L.P., Delayed Draw \$ 482	
-----	Trump Entertainment Resorts Holdings, L.P., Delayed Draw \$ 998 Warner Chilcott Co., Inc.,	
-----	Donovex Delayed Draw \$ 331 Warner Chilcott Co., Inc., Dovobet Delayed Draw \$ 66 5. Transfer	
-----	Agents Pioneer Investment Management Shareholder Services, Inc. ("PIMSS"), a wholly owned	
-----	indirect subsidiary of UniCredito Italiano, through a sub-transfer agency agreement with Mellon	
-----	Investor Services LLC, provides substantially all transfer agent and shareowner services related to	
-----	the Trust's common shares at negotiated rates. Deutsche Bank Trust Company Americas is the	
-----	transfer agent, registrar, dividend paying agent and redemption agent with respect to the Trust's	
-----	Auction Market Preferred Shares ("AMPS"). The Trust pays Deutsche Bank Trust Company	
-----	Americas an annual fee, as is agreed to from time to time by the Trust and Deutsche Bank Trust	
-----	Company Americas, for providing such services. 6. Trust Shares There are an unlimited number of	
-----	common shares of beneficial interest authorized. Of the 24,330,240 common shares of beneficial	
-----	interest outstanding at November 30, 2005, PIM owned 5,240 shares. 37 Pioneer Floating Rate Trust	
-----	NOTES TO FINANCIAL	
-----	STATEMENTS 11/30/05 (continued)	
-----	Transactions in common shares of	
-----	beneficial interest for the period December 23, 2004 (commencement of investment operations) to	
-----	November 30, 2005 were as follows:	
-----	Shares issued in connection with	
-----	initial public offering 22,550,000 Shares issued from underwriters' over-allotment option exercised	
-----	1,775,000 Shares outstanding at beginning of period 5,240 ----- Shares outstanding at end of	
-----	period 24,330,240 =====	
-----	Offering costs of \$973,000 incurred in connection with the Trust's offering of common shares have	
-----	been charged to paid-in capital. The Trust may classify or reclassify any unissued common shares of	
-----	beneficial interest into one or more series of preferred shares of beneficial interest. On March 28,	
-----	2005, the Trust reclassified and issued 9,380 common shares into three series of AMPS as follows:	
-----	Series M7-3,130, Series W7-3,125 and Series TH7-3,125. Offering costs of \$401,907 and	
-----	underwriting discounts of \$2,345,000 have been charged to paid-in capital. Dividends on Series M7,	
-----	Series W7 and Series TH7 are cumulative at a rate which is reset every seven days based on the	
-----	results of an auction. Dividend rates ranged from 2.98% to 4.00% during the period ended November	
-----	30, 2005. The Trust may not declare dividends or make other distributions on its common shares or	
-----	purchase any such shares if, at the time of the declaration, distribution or purchase, asset coverage	
-----	with respect to the outstanding preferred shares would be less than 200%. The AMPS are redeemable	
-----	at the option of the Trust, in whole or in part, on any dividend payment date at \$25,000 per share plus	
-----	any accumulated or unpaid dividends, whether or not declared. The AMPS are also subject to	
-----	mandatory redemption at \$25,000 per share plus any accumulated or unpaid dividends, whether or	
-----	not declared, if certain requirements relating to the composition of the assets and liabilities of the	
-----	Trust as set forth in the Agreement and Declaration of Trust are not satisfied. 38 Pioneer Floating	
-----	Rate Trust -----	
-----	The holders of AMPS have voting	
-----	rights equal to the holders of the Trust's common shares (one vote per share) and will vote together	
-----	with holders of the common shares as a single class. However, holders of AMPS are also entitled to	
-----	elect two of the Trust's Trustees. In addition, the Investment Company Act of 1940, as amended,	
-----	requires that along with approval by shareowners that might otherwise be required, the approval of	
-----	the holders of a majority of any outstanding preferred shares, voting separately as a class, would be	
-----	required to (a) adopt any plan of reorganization that would adversely affect the preferred shares and	

(b) take any action requiring a vote of security holders, including, among other things, changes in the Trust's subclassification as a closed-end investment company or changes in its fundamental investment restrictions. 7. Subsequent Event Subsequent to November 30, 2005, the Board of Trustees of the Trust declared a dividend from undistributed net investment income of \$0.115 per common share and from net short term capital gains of \$0.048453 per common share payable December 30, 2005, to common shareowners of record on December 12, 2005. For the period December 1, 2005 to December 31, 2005, dividends declared on preferred stock totaled \$753,310 in aggregate for the three outstanding preferred share series. CEO CERTIFICATION DISCLOSURE (unaudited) The Trust's Chief Executive Officer has submitted to the New York Stock Exchange the annual CEO certification as required by Section 303A.12(a) of the NYSE Listed Company Manual. In addition, the Trust has filed with the Securities and Exchange Commission the certification of its Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act. 39 Pioneer Floating Rate Trust

----- REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM

----- To the Shareholders and Board of Trustees of Pioneer Floating Rate Trust: We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Pioneer Floating Rate Trust (the "Trust") as of November 30, 2005, and the related statements of operations, changes in net assets and the financial highlights for the period from December 23, 2004 (commencement of operations) to November 30, 2005. These financial statements and financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Trust's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of November 30, 2005, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audit provides a reasonable basis for our opinion. In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Pioneer Floating Rate Trust at November 30, 2005, the results of its operations, changes in net assets and the financial highlights for the period from December 23, 2004 (commencement of operations) to November 30, 2005, in conformity with U.S. generally accepted accounting principles. /s/ Ernst + Young LLP Boston, Massachusetts January 20, 2006 40 Pioneer Floating Rate Trust -----

----- ADDITIONAL INFORMATION (unaudited) During the period, except as discussed below, there have been no material changes in the Trust's investment objective or fundamental policies that have not been approved by the shareowners. There have been no changes in the Trust's charter or By-Laws that would delay or prevent a change in control of the Trust which have not been approved by the shareowners. Except as discussed below, there have been no changes in the principal risk factors associated with investment in the Trust. There have been no changes in the persons who are primarily responsible for the day-to-day management of the Trust's portfolio. Notice is hereby given in accordance with Section 23(C) of the Investment Company Act of 1940 that the Trust may purchase, from time to time, its common shares in the open market. Additional Information Regarding the Trust's Investment Policies The Trust's Board of Trustees has authorized the Trust to enter into cross currency interest rate swaps and invest in commercial mortgage-backed securities. Cross Currency Interest Rate Swaps The Trust may, but is not required to, use various currency and interest rate transactions to earn income, facilitate portfolio management and mitigate risks. The Board has authorized the use of cross currency interest rate swaps, in addition to other instruments that the Fund may use for these purposes. A swap contract is an agreement to exchange the return generated by one instrument for another. Payment streams typically are calculated by reference to a specified rate, such as an index, interest or currency rate, for an agreed upon transaction amount and time period. For example, with an interest rate swap, the Trust might agree to swap the return generated by a floating interest rate for the return generated by a fixed interest rate. The Trust might enter into such a transaction if the

Trust's subadviser anticipated that the prevailing floating rate was likely to decline and believed that converting it to a fixed rate would enhance the Trust's return. Currency swaps usually involve the delivery of the entire principal value of one designated currency in exchange for the other designated currency. The Trust might use a currency swap to lock in the exchange rate on the principal of a loan

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denominated in euro if the subadviser believed that the value of the euro might decline relative to the U.S. dollar. Cross currency interest rate swap agreements combine features of currency swap agreements and interest rate swap agreements. The cross currency interest rate swaps in which the Trust may enter generally will involve both the exchange of currency and the payment of interest streams with reference to one currency based on a specified index in exchange for receiving interest streams with reference to the other currency. Such swaps may involve initial and final exchanges that correspond to the agreed upon transaction amount. For example, the payment stream on a specified amount of euro based on a European market floating rate might be exchanged for a U.S. oriented floating rate on the same principal amount converted into U.S. dollars. The risks of various types of swap agreements, strategic transactions and derivatives are described in the Trust's prospectus. The use of swap agreements is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Depending on the state of currency and interest rates in general, the Trust's use of cross currency interest rate swaps could enhance or harm the Trust's overall performance. To the extent there are lower prevailing interest rates or currency valuations in the local market relative to those in the U.S., the value of the swap could decline, which could result in a decline in the Trust's net asset value. In connection with these transactions, the Trust relies on the other party to the transaction to perform its obligations pursuant to the underlying agreement. If there were a default by the other party, the Trust would have contractual remedies, but could incur delays in obtaining, or be unable to obtain, the expected benefit of the transaction. The entire principal value of a currency swap is subject to the risk that the other party to the swap will default on its delivery obligations. Although the Trust may enter into currency-related transactions to reduce currency exchange risks, changes in currency exchange rates may result in poorer overall performance for the Trust than if it had not engaged in such transactions. Moreover, there may be an imperfect correlation between the Trust's portfolio holdings of securities and the instruments that the Trust uses to hedge interest rate or currency exposure. An imperfect correlation of this type may prevent the 42 Pioneer Floating Rate Trust

----- Trust from achieving the intended hedge or expose the Trust to the risk of currency exchange loss. Mortgage-Backed Securities The Trust may invest in mortgage-backed and mortgage-related securities, including securities with respect to which the underlying mortgages are on commercial properties. These securities may include mortgage pass-through certificates and multiple-class pass-through securities, and mortgage derivative securities such as real estate mortgage investment conduits ("REMICs"), pass-through certificates, collateralized mortgage obligations ("CMOs") and stripped mortgage-backed securities ("SMBS"), interest only mortgage-backed securities, principal only mortgage-backed securities, commercial mortgage-backed securities and other types of mortgage-backed securities that may be available in the future. A mortgage-backed security is an obligation of the issuer backed by a mortgage or pool of mortgages or a direct interest in an underlying pool of mortgages. Some mortgage-backed securities, such as CMOs, make payments of both principal and interest at a variety of intervals; others make semi-annual interest payments at a predetermined rate and repay principal at maturity (like a typical bond). Mortgage-backed securities are based on different types of mortgages including those on commercial real estate or residential properties. Mortgage-backed securities often have stated maturities of up to thirty years when they are issued, depending upon the length of the mortgages underlying the securities. In practice, however, unscheduled or early payments of principal and interest on the underlying mortgages may make the securities' effective maturity shorter than this, and the prevailing interest rates may be higher or lower than the current yield of the Trust's portfolio at the time the Trust receives the payments for reinvestment (prepayment risk). During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration (the estimated period until the security is paid in full) and reduce the value of the security (extension risk). To the extent the Trust invests significantly in mortgage-related securities, its exposure to prepayment and extension risks may be greater than if it invested in other fixed income securities. 43 Pioneer Floating Rate Trust

----- Mortgage-backed securities may have less potential for capital appreciation than comparable fixed income securities, due to the

likelihood of increased prepayments of mortgages as interest rates decline. If the Trust buys mortgage-backed securities at a premium, mortgage foreclosures and prepayments of principal by mortgagors (which may be made at any time without penalty) may result in some loss of the Trust's principal investment to the extent of the premium paid. Certain mortgage-backed securities may only pay principal at maturity or may only represent the right to receive payments of principal or interest on underlying pools of mortgage or government securities, but not both. The value of these types of instruments may change more drastically than debt securities that pay both principal and interest during periods of changing interest rates. Principal only mortgage-backed securities generally increase in value if interest rates decline, but are also subject to the risk of prepayment. Interest only instruments generally increase in value in a rising interest rate environment when fewer of the underlying mortgages are prepaid. The value of mortgage-backed securities may also change due to shifts in the market's perception of issuers. In addition, regulatory or tax changes may adversely affect the mortgage securities markets as a whole. Non-governmental mortgage-backed securities may offer higher yields than those issued by government entities, but also may be subject to greater price changes than governmental issues. 44 Pioneer Floating Rate Trust

----- FACTORS CONSIDERED BY
THE INDEPENDENT TRUSTEES IN APPROVING THE MANAGEMENT CONTRACT

----- The Investment Company Act of 1940 requires that both the Board of Trustees and a majority of the Independent Trustees (collectively "the Trustees") voting separately annually approve the Trust's management contract (the "Management Contract") between the Trust and Pioneer Investment Management, Inc., the Trust's adviser (the "Investment Adviser"). The Investment Adviser has retained Highland Capital Management, L.P. (the "Sub-adviser") to act as sub-adviser to the Trust pursuant to a sub-advisory agreement between the Investment Adviser and the Sub-adviser (the "Sub-advisory Agreement"). The Trustees have determined that the terms of the Management Contract and the Sub-advisory Agreement are fair and reasonable and that renewal of these contracts will enable the Trust to receive quality investment advisory services at a cost deemed reasonable and is in the best interests of the Trust and its shareowners. In making such determinations, the Independent Trustees relied upon the assistance of counsel to the Independent Trustees and counsel to the Trust. Throughout the year, the Independent Trustees regularly met in executive session separately from the Interested Trustees of the Trust and any officer of the Investment Adviser, or its affiliates. While the Trustees, including the Independent Trustees, act on all major matters relating to the Trust, a significant portion of the activities of the Board of Trustees (including certain of those described herein) is conducted through committees, the members of which are comprised exclusively of Independent Trustees. Such committee meetings are attended by officers of the Trust or the Investment Adviser to the extent requested by the members of the committee. In evaluating the Management Contract and Sub-advisory Agreement, the Trustees conducted a review that was specifically focused upon the renewal of the Management Contract and Sub-advisory Agreement, and relied upon their knowledge, resulting from their meetings throughout the year, of the Investment Adviser, its services and the Trust. Both in meetings specifically dedicated to renewal of the Management Contract and at other meetings during the course of the year, the Trustees, including the Independent Trustees, received materials relating to the Investment Adviser's investment and management services under the Management Contract. These materials included (i) information on the investment performance of the Trust, a peer group of funds and an index, in each case selected by the Independent Trustees for this purpose, (ii) the general investment outlook in the markets in which the Fund invests, (iii) the procedures employed to determine the value of 45 Pioneer Floating Rate Trust

----- FACTORS CONSIDERED BY
THE INDEPENDENT TRUSTEES IN APPROVING THE MANAGEMENT CONTRACT

(continued) ----- each of the Trust's assets, (iv) the Investment Adviser's management of the relationships with the Trust's unaffiliated service providers, (v) the record of compliance with the Trust's investment policies and restrictions and with the Trust's Code of Ethics and the structure and responsibilities of the Investment Adviser's compliance department, (vi) the nature, cost and character of non-investment management services provided by the Investment Adviser and its affiliates, (vii) the disclosures included in the Trust's prospectus and reports to shareowners, (viii) the investment and compliance staff and operations of the Subadviser, (ix) an analyses of the benefits and costs of the use of leverage through the issuance of the Trust's preferred shares and the sensitivity of such analysis to changes in interest rates and (x) the discount or premium of the market price of the Trust's common stock relative to its net asset value and measures that are or could be taken to address any discount. Specifically, in connection with the Independent Trustees' review of the Management Contract and the Sub-advisory Agreement, the Independent Trustees requested and the Investment Adviser provided additional information in order to evaluate the quality of the Investment Adviser's and Sub-adviser's services and the

reasonableness of the fee under the Management Contract and the Sub-advisory Agreement. Among other items, this information included data or analyses of (1) investment performance for the year to date period ended June 30, 2005 for the Trust and a peer group selected by the Independent Trustees for this purpose, (2) management and other fees incurred by a peer group of funds selected by the Independent Trustees for this purpose, (3) the advisory fees of comparable portfolios of other clients of the Investment Adviser and the Sub-adviser, (4) expense ratios for the Trust and a peer group of funds selected by the Independent Trustees for this purpose, (5) the overall organization of the Investment Adviser, (6) the Investment Adviser's and the Sub-adviser's financial results and condition, including, in the case of the Investment Adviser, its and certain of its affiliates profitability from services performed for the Trust, (7) transfer agency fees and administrative reimbursements paid to the Investment Adviser or affiliates, (8) investment management staffing, and (9) operating expenses paid to third parties. 46 Pioneer Floating Rate Trust

----- The following summarizes factors considered by the Trustees in connection with reviewing the information described above and their renewal of the Trust's Management Contract and Sub-advisory Agreement. The Trustees did not identify any single factor as all-important or controlling, and the summary does not detail all the matters that were considered. A. Ancillary Benefits to Shareowners. The Trustees considered what was believed to be the benefits to shareowners of investing in a closed-end fund that is part of an established group of open and closed-end funds. The Trustees also noted that the relationship of the market price relative to the Trust's net assets attributed to its common shares was comparable relative to other closed-end funds with similar investment approaches. B. Compliance and Investment Performance. The Trustees determined that the Investment Adviser had policies and systems reasonably designed to achieve compliance with the Trust's investment objectives and regulatory requirements. The Trustees also reviewed the Trust's investment performance based upon total return, as well as the Trust's performance compared to both the performance of a peer group and an index, in each case selected by the Independent Trustees for this purpose. The Trust's performance, based upon total return, was in the first quintile of the peer group for the year to date period ended June 30, 2005. (In all quintile rankings referred to throughout this discussion first quintile is most favorable to the Trust's shareowners. Thus, highest relative performance would be first quintile and lowest relative expenses also would be first quintile.) The Trustees considered the yield (gross of expenses) to the Trust's common shareholders compared to the yield (as of June 30, 2005) of the CFSB Leveraged Loan index. The Trustees also considered the activities of the Investment Adviser in monitoring the investment and compliance operations of the Sub-adviser. The Trustees concluded the Trust had conducted investment operations for too short a period to evaluate performance. C. The Investment Adviser's Personnel and Methods. The Trustees reviewed the background of members of the team responsible for the daily management of the Trust and the Trust's investment objective and discipline. The Independent Trustees also have had discussions with senior management of the Investment Adviser responsible for investment operations. Among other things, the 47 Pioneer Floating Rate Trust

----- FACTORS
CONSIDERED BY THE INDEPENDENT TRUSTEES IN APPROVING THE MANAGEMENT
CONTRACT (continued) -----

Trustees considered the number, education and experience of the Sub-adviser's investment staff. The Trustees concluded that the Investment Adviser and the Sub-adviser have the quality and depth of personnel and the well-developed methods essential to performing its duties under the Management Contract and the Sub-advisory Agreement. D. Nature and Quality of Other Services. The Trustees considered the nature, quality, cost and extent of other services provided to shareowners of the Trust, including administrative and shareowner services performed by the Investment Adviser under the Management Contract. The Trustees also considered the reasonableness of the arrangements for reimbursement of the Investment Adviser's out-of-pocket costs and expenses, including overhead, for certain administrative services that the Investment Adviser is not required to provide under the Management Contract. The Trustees also considered the nature and extent of the other services provided by the Investment Adviser's affiliates under other contracts and its supervision of third party service providers. Based on these considerations, the Trustees concluded that the nature, quality, cost and extent of such services are satisfactory and reliable and serve the shareowners of the Trust well. E. Management Fee and Expenses. The Trustees considered the Investment Adviser's fee under the Management Contract relative to the management fees charged by a peer group of funds selected by the Independent Trustees for this purpose using data provided by an independent third party. The Trustees noted that, although the peer group was small, the Trust's management fee was the lowest in the peer group. The Trustees determined that the fee under the Management Contract was reasonable and fair in light of both the overall nature and quality of services provided by the Investment Adviser and the fees charged by the funds in the peer group. The Trustees also evaluated

the fee under the Sub-advisory Agreement and the portion of the fee under the Management Contract retained by the Investment Adviser and determined that they were consistent with other sub-advised funds. The Trustees also considered the Trust's expense ratio and expense ratios of a peer group of funds selected by the Independent Trustees for this purpose. The Trustees noted that, although the peer group was small, the Trust's expense ratio was favorable compared to the expense ratios of the peer funds. The Trustees concluded that 48 Pioneer Floating Rate Trust

----- the Trust's overall expense ratio (after expense limitations) was reasonable compared to that of comparable funds. F. Profitability. The Trustees considered the level of the Investment Adviser's profits with respect to the management of the Pioneer funds, including details with respect to the Trust. This consideration included a review of the Investment Adviser's methodology in allocating certain of its costs to the management of each fund. The Trustees also considered the financial results realized by the Investment Adviser in connection with the operation of the Trust. They further considered the profits realized by the Investment Adviser and its affiliates from non-fund businesses that may benefit from or be related to the Trust's business. The Trustees considered the Investment Adviser's profit margins in comparison with the limited available industry data. The Trustees concluded that the Investment Adviser's profits from management of the Pioneer funds, including the financial results derived from the Trust, bear a reasonable relationship to the services rendered and are fair for the management of the Trust. G. Economies of Scale. The Trustees considered whether the Trust has appropriately benefited from any economies of scale, and whether there is potential for realization of any further economies of scale. Since the Trust is a closed-end fund and its size is relatively stable and at the level of assets that was anticipated when the management fee was initially set, the Trustees concluded that economies of scale were not a relevant consideration. H. Other Benefits to the Investment Adviser. The Trustees also considered the character and amount of fees paid by the Trust, other than under the Management Contract, for services provided by the Investment Adviser and affiliates. The Trustees further considered the revenues and profitability of the Investment Adviser's businesses other than the fund business, including the Investment Adviser's institutional investment advisory business. The Trustees considered the intangible benefits that accrue to the Investment Adviser and its affiliates by virtue of its relationship with the Trust and the Pioneer funds as a group. The Trustees concluded that all these types of benefits accruing to the Investment Adviser were reasonable in the context of the overall relationship between the Investment Adviser and the Trust. 49 Pioneer Floating Rate Trust

----- FACTORS CONSIDERED BY
THE INDEPENDENT TRUSTEES IN APPROVING THE MANAGEMENT CONTRACT

(continued) ----- Conclusion. The Trustees, in light of the Investment Adviser's and Sub-adviser's overall performance, considered it appropriate to continue to retain the management services of the Investment Adviser and the Sub-adviser. Based on their evaluation of all material factors deemed relevant and the advice of independent counsel, the Trustees concluded that the Management Contract with the Trust and the Sub-advisory Agreement are fair and reasonable and voted to approve the continuation of the Management Contract and the Sub-advisory Agreement for another year. 50 Pioneer Floating Rate Trust ----- TRUSTEES, OFFICERS

AND SERVICE PROVIDERS -----

Investment Adviser Pioneer Investment Management, Inc. Custodian Brown Brothers Harriman & Co. Independent Registered Public Accounting Firm Ernst & Young LLP Legal Counsel Wilmer Cutler Pickering Hale and Dorr LLP Transfer Agent Pioneer Investment Management Shareholder Services, Inc. Shareowner Services and Sub-Transfer Agent Mellon Investor Services LLC Preferred Share Auction/Transfer Agent and Registrar Deutsche Bank Trust Company Americas Investment Sub-Advisor Highland Capital Management, L.P. Sub-Administrator Princeton Administrators, L.P. Trustees and Officers The Trust's Board of Trustees provides broad supervision over the Trust's affairs. The officers of the Trust are responsible for the Trust's operations. The Trust's Trustees and officers are listed below, together with their principal occupations during the past five years. Trustees who are interested persons of the Trust within the meaning of the Investment Company Act of 1940 are referred to as Interested Trustees. Trustees who are not interested persons of the Trust are referred to as Independent Trustees. Each of the Trustees may serve as a trustee of each of the 91 U.S. registered investment portfolios for which Pioneer Investment Management, Inc. ("Pioneer") serves as investment adviser (the "Pioneer Funds"). The address for all Interested Trustees and all officers of the Fund is 60 State Street, Boston, Massachusetts 02109. The Trust's statement of additional information provides more detailed information regarding the Trust's Trustees and is available upon request, without charge, by calling 1-800-225-6292. Proxy Voting Policies and Procedures of the Trust are available without charge, upon request, by calling our toll free number (1-800-225-6292). Information regarding how the Trust voted proxies relating to portfolio securities

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during the most recent 12-month period ended June 30 is publicly available to shareowners at www.pioneerfunds.com and on the SEC's web site at <http://www.sec.gov>. 51 Pioneer Floating Rate Trust ----- INTERESTED TRUSTEES

----- Positions Held Length of Service
Name and Age With the Trust and Term of Office John F. Cogan, Jr. (79)* Chairman of the Trustee since Board, November, 2004. Trustee and President Term expires in 2007.

Osbert M. Hood (53)** Trustee and Trustee since Executive Vice June, 2003. President Term expires in 2005. **Mr. Hood is an Interested Trustee because he is an officer or director of Pioneer and certain of its affiliates.

Other Directorships Held Name and Age Principal Occupation During Past Five Years by this Trustee John F. Cogan, Jr. (79)* Deputy Chairman and a Director of Pioneer Global Chairman and Director of Asset Management S.p.A. ("PGAM"); Non-Executive ICI Mutual Insurance Chairman and a Director of Pioneer Investment Company; Director Management USA Inc. ("PIM-USA"); Chairman and a of Harbor Global Director of Pioneer; Director of Pioneer Alternative Company, Ltd. Investment Management Limited (Dublin); President and a Director of Pioneer Alternative Investment Management (Bermuda) Limited and affiliated funds; President and Director of Pioneer Funds Distributor, Inc. ("PDF"); President of all of the Pioneer Funds; and of Counsel (since 2000, partner prior to 2000), Wilmer Cutler Pickering Hale and Dorr LLP (counsel to PIM-USA and the Pioneer Funds). *Mr. Cogan is an Interested Trustee because he is an officer or director of Pioneer and certain of its affiliates.

Osbert M. Hood (53)** President and Chief Executive Officer, PIM-USA since None May 2003 (Director since January 2001); President and Director of Pioneer since May 2003; Chairman and Director of Pioneer Investment Management Shareholder Services, Inc. ("PIMSS") since May 2003; Executive Vice President of all of the Pioneer Funds since June 2003; Executive Vice President and Chief Operating Officer of PIM-USA, November 2000 to May 2003. **Mr. Hood is an Interested Trustee because he is an officer or director of Pioneer and certain of its affiliates. 52 Pioneer Floating Rate Trust ----- INDEPENDENT TRUSTEES

----- Positions Held
Length of Service Name, Age and Address With the Trust and Term of Office David R. Bock (61)** Trustee Trustee since 3050 K. Street NW, October, 2004. Washington, DC 20007 Term expires in 2007. ----- Mary K. Bush (57) Trustee Trustee since 3509 Woodbine Street, November, 2004. Chevy Chase, MD 20815 Term expires in 2006. ----- Margaret B.W. Graham (58) Trustee Trustee since 1001 Sherbrooke Street West, November, 2004. Montreal, Quebec, Canada Term expires in 2005. H3A 1G5

----- Other Directorships Held Name, Age and Address Principal Occupation During Past Five Years by this Trustee David R. Bock (61)** Senior Vice President and Chief Financial Officer, I-trax, Director of The Enterprise 3050 K. Street NW, Inc. (publicly traded health care services company) Social Investment Washington, DC 20007 (2001 - present); Managing Partner, Federal City Capital Company (privately-held Advisors (boutique merchant bank) (1995 - 2000; 2002 affordable housing to 2004); Executive Vice President and Chief Financial finance company); Officer, Pedestal Inc. (internet-based mortgage trading Director of New York company) (2000 - 2002). Mortgage Trust (publicly traded mortgage REIT) **Mr. Bock became a Trustee of the Fund on January 1, 2005.

Mary K. Bush (57) President, Bush International (international financial Director of Brady 3509 Woodbine Street, advisory firm) Corporation (industrial Chevy Chase, MD 20815 identification and specialty coated material products manufacturer), Millennium Chemicals, Inc. (commodity chemicals), Mortgage Guaranty Insurance Corporation, and R.J. Reynolds Tobacco Holdings, Inc. (tobacco)

Margaret B.W. Graham (58) Founding Director, The Winthrop Group, Inc. (consulting None 1001 Sherbrooke Street West, firm); Professor of Management, Faculty of Management, Montreal, Quebec, Canada McGill University. H3A 1G5

53 Pioneer Floating Rate Trust -----
INDEPENDENT TRUSTEES -----
Positions Held Length of Service Name, Age and Address With the Trust and Term of Office Marguerite A. Piret (57) Trustee Trustee since One Boston Place, 28th Floor, November, 2004.

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Boston, MA 02108 Term expires in 2006.

----- Stephen K. West (77) Trustee
Trustee since 125 Broad Street, November, 2004. New York, NY 10004 Term expires in 2007.

----- John Winthrop (69) Trustee
Trustee since One North Adgers Wharf, November, 2004. Charleston, SC 29401 Term expires in 2005. ----- Other Directorships Held
Name, Age and Address Principal Occupation During Past Five Years by this Trustee Marguerite A. Piret (57) President and Chief Executive Officer, Newbury, Piret & Director of New America One Boston Place, 28th Floor, Company, Inc. (investment banking firm) High Income Fund, Inc. Boston, MA 02108 (closed-end investment company)

Stephen K. West (77) Senior Counsel, Sullivan & Cromwell, (law firm) Director, The Swiss 125 Broad Street, Helvetia Fund, Inc. New York, NY 10004 (closed-end investment company) and AMVESCAP PLC (investment managers)

John Winthrop (69) President, John Winthrop & Co., Inc. None One North Adgers Wharf, (private investment firm) Charleston, SC 29401

54 Pioneer Floating Rate Trust -----
EXECUTIVE OFFICERS -----

Positions Held Length of Service Name and Age With the Trust and Term of Office Dorothy E. Bourassa (57) Secretary Since October, 2004. Serves until her successor is chosen and qualified, or until her resignation or removal by the Board.

----- Christopher J. Kelley (40)
Assistant Secretary Since October, 2004. Serves until his successor is chosen and qualified, or until his resignation or removal by the Board.

----- David C. Phelan (48) Assistant
Secretary Since October, 2004. Serves until his successor is chosen and qualified, or until his resignation or removal by the Board.

----- Other Directorships Held Name
and Age Principal Occupation During Past Five Years by this Officer Dorothy E. Bourassa (57) Secretary of PIM-USA; Senior Vice President - Legal None of Pioneer; and Secretary/Clerk of most of PIM-USA's subsidiaries; and Secretary of all of the Pioneer Funds since September 2003 (Assistant Secretary from November 2000 to September 2003).

Christopher J. Kelley (40) Assistant Vice President and Senior Counsel of None Pioneer since July 2002; Vice President and Senior Counsel of BISYS Fund Services, Inc. (April 2001 to June 2002); Senior Vice President and Deputy General Counsel of Funds Distributor, Inc. (July 2000 to April 2001); and Assistant Secretary of all Pioneer Funds since September 2003.

David C. Phelan (48) Partner, Wilmer Cutler Pickering Hale and Dorr LLP; None Assistant Secretary of all Pioneer Funds since September 2003.

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Pioneer Floating Rate Trust -----
EXECUTIVE OFFICERS -----

Positions Held Length of Service Name and Age With the Trust and Term of Office Vincent Nave (60) Treasurer Since October, 2004. Serves until his successor is chosen and qualified, or until his resignation or removal by the Board.

----- Mark E. Bradley (46) Assistant
Treasurer Since November, 2004. Serves until his successor is chosen and qualified, or until his resignation or removal by the Board.

----- Luis I. Presutti (40) Assistant
Treasurer Since October, 2004. Serves until his successor is chosen and qualified, or until his resignation or removal by the Board.

----- Other Directorships Held Name
and Age Principal Occupation During Past Five Years by this Officer Vincent Nave (60) Vice President - Fund Accounting, Administration None and Custody Services of Pioneer; and Treasurer of all of the Pioneer Funds.

----- Mark E.
Bradley (46) Deputy Treasurer of Pioneer since 2004; Treasurer None and Senior Vice President, CDC IXIS Asset Management Services from 2002 to 2003; Assistant Treasurer and Vice President, MFS Investment Management from 1997 to 2002; and Assistant Treasurer of all of the Pioneer

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Funds since November 2004.

----- Luis I. Presutti (40) Assistant Vice President - Fund Accounting, None Administration and Custody Services of Pioneer; and Assistant Treasurer of all of the Pioneer Funds.

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----- Positions Held Length of Service
Name and Age With the Trust and Term of Office Gary Sullivan (47) Assistant Treasurer Since October, 2004. Serves until his successor is chosen and qualified, or until his resignation or removal by the Board. ----- Katherine Kim Sullivan (31) Assistant Treasurer Since October, 2004. Serves until her successor is chosen and qualified, or until her resignation or removal by the Board.

----- Martin J. Wolin (38) Chief Compliance Since October, 2004. Officer Serves until his successor is chosen and qualified, or until his resignation or removal by the Board. The outstanding capital stock of PFD, PIM and PIMSS is indirectly wholly owned by UniCredito Italiano S.p.A. ("UniCredito Italiano"), one of the largest banking groups in Italy. PIM, the Trust's investment adviser, provides investment management and financial services to mutual funds, institutional and other clients. Other Directorships Held Name and Age Principal Occupation During Past Five Years by this Officer Gary Sullivan (47) Fund Accounting Manager - Fund Accounting, None Administration and Custody Services of Pioneer; and Assistant Treasurer of all of the Pioneer Funds since May 2002.

----- Katherine Kim Sullivan (31) Fund Administration Manager - Fund Accounting, None Administration and Custody Services since June 2003; Assistant Vice President - Mutual Fund Operations of State Street Corporation from June 2002 to June 2003 (formerly Deutsche Bank Asset Management); Pioneer Fund Accounting, Administration and Custody Services (Fund Accounting Manager from August 1999 to May 2002); and Assistant Treasurer of all Pioneer Funds since September 2003.

----- Martin J. Wolin (38) Chief Compliance Officer of Pioneer (Director of None Compliance and Senior Counsel from November 2000 to September 2004); and Chief Compliance Officer of all of the Pioneer Funds since 2004.

----- The outstanding capital stock of PFD, PIM and PIMSS is indirectly wholly owned by UniCredito Italiano S.p.A. ("UniCredito Italiano"), one of the largest banking groups in Italy. PIM, the Trust's investment adviser, provides investment management and financial services to mutual funds, institutional and other clients. 57 -----

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----- This page for your notes. 60

----- HOW TO CONTACT PIONEER

----- We are pleased to offer a variety of convenient ways for you to contact Mellon for assistance or information. You can call Mellon Investor Services LLC for: Account Information 1-800-710-0935 Telecommunications Device for the Deaf (TDD) 1-800-231-5469 Or write to Mellon Investor Services LLC: For Write to General inquiries, lost dividend checks P.O. Box 3315 South Hackensack, NJ 07606-1915 Change of address, account consolidation P.O. Box 3316 South Hackensack, NJ 07606-1916 Lost stock certificates P.O. Box 3317 South Hackensack, NJ 07606-1917 Stock transfer P.O. Box 3312 South Hackensack, NJ 07606-1912 Dividend reinvestment plan (DRIP) P.O. Box 3338 South Hackensack, NJ 07606-1938 For additional information, please contact your investment advisor or visit our web site www.pioneerfunds.com. The Trust files a complete statement of investments with the Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareowners may view the filed Form N-Q by visiting the Commission's web site at <http://www.sec.gov>. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Trust's Chief Executive Officer-Finance and Administration is required by the New York Stock Exchange's Listing Standards to file annually with the Exchange a certification that he is not aware of any violation by the Trust of the Exchange's Corporate Governance Standards applicable to the Trust. The Trust has signed such certification. ITEM 2. CODE OF ETHICS. (a) Disclose whether, as of the end of the period covered by the report, the registrant has adopted a code

of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party. If the registrant has not adopted such a code of ethics, explain why it has not done so. The registrant has adopted, as of the end of the period covered by this report, a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer and controller. (b) For purposes of this Item, the term "code of ethics" means written standards that are reasonably designed to deter wrongdoing and to promote: (1) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; (2) Full, fair, accurate, timely, and understandable disclosure in reports and documents that a registrant files with, or submits to, the Commission and in other public communications made by the registrant; (3) Compliance with applicable governmental laws, rules, and regulations; (4) The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and (5) Accountability for adherence to the code. (c) The registrant must briefly describe the nature of any amendment, during the period covered by the report, to a provision of its code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, and that relates to any element of the code of ethics definition enumerated in paragraph (b) of this Item. The registrant must file a copy of any such amendment as an exhibit pursuant to Item 10(a), unless the registrant has elected to satisfy paragraph (f) of this Item by posting its code of ethics on its website pursuant to paragraph (f)(2) of this Item, or by undertaking to provide its code of ethics to any person without charge, upon request, pursuant to paragraph (f)(3) of this Item. The registrant has made no amendments to the code of ethics during the period covered by this report. (d) If the registrant has, during the period covered by the report, granted a waiver, including an implicit waiver, from a provision of the code of ethics to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, that relates to one or more of the items set forth in paragraph (b) of this Item, the registrant must briefly describe the nature of the waiver, the name of the person to whom the waiver was granted, and the date of the waiver. Not applicable. (e) If the registrant intends to satisfy the disclosure requirement under paragraph (c) or (d) of this Item regarding an amendment to, or a waiver from, a provision of its code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and that relates to any element of the code of ethics definition enumerated in paragraph (b) of this Item by posting such information on its Internet website, disclose the registrant's Internet address and such intention. Not applicable. (f) The registrant must: (1) File with the Commission, pursuant to Item 10(a), a copy of its code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, as an exhibit to its annual report on this Form N-CSR; (2) Post the text of such code of ethics on its Internet website and disclose, in its most recent report on this Form N-CSR, its Internet address and the fact that it has posted such code of ethics on its Internet website; or (3) Undertake in its most recent report on this Form N-CSR to provide to any person without charge, upon request, a copy of such code of ethics and explain the manner in which such request may be made. See Item 10(2) ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT. (a) (1) Disclose that the registrant's board of trustees has determined that the registrant either: (i) Has at least one audit committee financial expert serving on its audit committee; or (ii) Does not have an audit committee financial expert serving on its audit committee. The registrant's Board of Trustees has determined that the registrant has at least one audit committee financial expert. (2) If the registrant provides the disclosure required by paragraph (a)(1)(i) of this Item, it must disclose the name of the audit committee financial expert and whether that person is "independent." In order to be considered "independent" for purposes of this Item, a member of an audit committee may not, other than in his or her capacity as a member of the audit committee, the board of trustees, or any other board committee: (i) Accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer; or (ii) Be an "interested person" of the investment company as defined in Section 2(a)(19) of the Act (15 U.S.C. 80a-2(a)(19)). Ms. Marguerite A. Piret, an independent trustee, is such an audit committee financial expert. (3) If the registrant provides the disclosure required by paragraph (a)(1) (ii) of this Item, it must explain why it does not have an audit committee financial expert. Not applicable. ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES. (a) Disclose, under the caption AUDIT FEES, the aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or

engagements for those fiscal years. Audit Fees Fees for audit services provided to the Trust, including fees associated with the initial and updated filings of its Form N-2 and issuance of various comfort and bring down letters letters, totaled approximately \$83,500 in 2005. (b) Disclose, under the caption AUDIT-RELATED FEES, the aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported under paragraph (a) of this Item. Registrants shall describe the nature of the services comprising the fees disclosed under this category. Audit-Related Fees Fees for the Trust's audit-related services totaled approximately \$14,500 in 2005. These services included issuance of agreed upon procedures report to the rating agencies. (c) Disclose, under the caption TAX FEES, the aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning. Registrants shall describe the nature of the services comprising the fees disclosed under this category. Tax Fees Fees for tax compliance services, primarily for tax return, totaled \$6,800 in 2005. (d) Disclose, under the caption ALL OTHER FEES, the aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported in paragraphs (a) through (c) of this Item. Registrants shall describe the nature of the services comprising the fees disclosed under this category. Other Fees There were no other services provided to the Trust during the fiscal year ended November 30, 2005 and 2004. (e) (1) Disclose the audit committee's pre-approval policies and procedures described in paragraph (c)(7) of Rule 2-01 of Regulation S-X. PIONEER TrustS APPROVAL OF AUDIT, AUDIT-RELATED, TAX AND OTHER SERVICES PROVIDED BY THE INDEPENDENT AUDITOR SECTION I - POLICY PURPOSE AND APPLICABILITY The Pioneer Trusts recognize the importance of maintaining the independence of their outside auditors. Maintaining independence is a shared responsibility involving Pioneer Investment Management, Inc ("PIM"), the audit committee and the independent auditors. The Trusts recognize that a Trust's independent auditors: 1) possess knowledge of the Trusts, 2) are able to incorporate certain services into the scope of the audit, thereby avoiding redundant work, cost and disruption of Trust personnel and processes, and 3) have expertise that has value to the Trusts. As a result, there are situations where it is desirable to use the Trust's independent auditors for services in addition to the annual audit and where the potential for conflicts of interests are minimal. Consequently, this policy, which is intended to comply with Rule 210.2-01(C)(7), sets forth guidelines and procedures to be followed by the Trusts when retaining the independent audit firm to perform audit, audit-related tax and other services under those circumstances, while also maintaining independence. Approval of a service in accordance with this policy for a Trust shall also constitute approval for any other Trust whose pre-approval is required pursuant to Rule 210.2-01(c)(7)(ii). In addition to the procedures set forth in this policy, any non-audit services that may be provided consistently with Rule 210.2-01 may be approved by the Audit Committee itself and any pre-approval that may be waived in accordance with Rule 210.2-01(c)(7)(i)(C) is hereby waived. Selection of a Trust's independent auditors and their compensation shall be determined by the Audit Committee and shall not be subject to this policy.

SECTION II - POLICY -----

----- SERVICE SERVICE CATEGORY DESCRIPTION

SPECIFIC PRE-APPROVED SERVICE SUBCATEGORIES CATEGORY -----

----- I. AUDIT Services that are directly o Accounting research assistance SERVICES related to performing the o SEC consultation, registration independent audit of the Trusts statements, and reporting o Tax accrual related matters o Implementation of new accounting standards o Compliance letters (e.g. rating agency letters) o Regulatory reviews and assistance regarding financial matters o Semi-annual reviews (if requested) o Comfort letters for closed end offerings -----

----- II. Services which are not o AICPA attest and agreed-upon procedures AUDIT-RELATED prohibited under Rule o Technology control assessments SERVICES 210.2-01(C)(4) (the "Rule") o Financial reporting control assessments and are related extensions of o Enterprise security architecture the audit services support the assessment audit, or use the knowledge/expertise gained from the audit procedures as a foundation to complete the project. In most cases, if the Audit-Related Services are not performed by the Audit firm, the scope of the Audit Services would likely increase. The Services are typically well-defined and governed by accounting professional standards (AICPA, SEC, etc.) -----

----- AUDIT COMMITTEE APPROVAL POLICY AUDIT COMMITTEE REPORTING POLICY ----- o "One-time"

pre-approval o A summary of all such for the audit period for all services and related fees pre-approved specific service reported at each regularly subcategories. Approval of the scheduled Audit Committee independent auditors as meeting. auditors for a Trust shall constitute pre approval

for these services. ----- o "One-time" pre-approval o A summary of all such for the Trust fiscal year within services and related fees a specified dollar limit (including comparison to for all pre-approved specified dollar limits) specific service subcategories reported quarterly. o Specific approval is needed to exceed the pre-approved dollar limit for these services (see general Audit Committee approval policy below for details on obtaining specific approvals) o Specific approval is needed to use the Trust's auditors for Audit-Related Services not denoted as "pre-approved", or to add a specific service subcategory as "pre-approved" ----- SECTION III - POLICY DETAIL, CONTINUED -----

----- SERVICE CATEGORY SERVICE CATEGORY SPECIFIC PRE-APPROVED SERVICE SUBCATEGORIES DESCRIPTION -----

----- III. TAX SERVICES Services which are not o Tax planning and support prohibited by the Rule, o Tax controversy assistance if an officer of the Trust o Tax compliance, tax returns, excise determines that using the tax returns and support Trust's auditor to provide o Tax opinions these services creates significant synergy in the form of efficiency, minimized disruption, or the ability to maintain a desired level of confidentiality. -----

----- AUDIT COMMITTEE APPROVAL POLICY AUDIT COMMITTEE REPORTING POLICY -----

----- o "One-time" pre-approval o A summary of for the Trust fiscal year all such services and within a specified dollar limit related fees (including comparison to specified dollar limits) reported quarterly. o Specific approval is needed to exceed the pre-approved dollar limits for these services (see general Audit Committee approval policy below for details on obtaining specific approvals) o Specific approval is needed to use the Trust's auditors for tax services not denoted as pre-approved, or to add a specific service subcategory as "pre-approved" ----- SECTION III - POLICY DETAIL, CONTINUED -----

----- SERVICE CATEGORY SERVICE CATEGORY SPECIFIC PRE-APPROVED SERVICE SUBCATEGORIES DESCRIPTION -----

----- IV. OTHER SERVICES Services which are not o Business Risk Management support prohibited by the Rule, o Other control and regulatory A. SYNERGISTIC, if an officer of the Trust compliance projects UNIQUE QUALIFICATIONS determines that using the Trust's auditor to provide these services creates significant synergy in the form of efficiency, minimized disruption, the ability to maintain a desired level of confidentiality, or where the Trust's auditors posses unique or superior qualifications to provide these services, resulting in superior value and results for the Trust. -----

----- AUDIT COMMITTEE APPROVAL POLICY AUDIT COMMITTEE REPORTING POLICY -----

----- o "One-time" pre-approval o A summary of for the Trust fiscal year within all such services and a specified dollar limit related fees (including comparison to specified dollar limits) reported quarterly. o Specific approval is needed to exceed the pre-approved dollar limits for these services (see general Audit Committee approval policy below for details on obtaining specific approvals) o Specific approval is needed to use the Trust's auditors for "Synergistic" or "Unique Qualifications" Other Services not denoted as pre-approved to the left, or to add a specific service subcategory as "pre-approved" -----

----- SECTION III - POLICY DETAIL, CONTINUED -----

----- SERVICE CATEGORY SERVICE CATEGORY SPECIFIC PROHIBITED SERVICE SUBCATEGORIES DESCRIPTION -----

----- PROHIBITED SERVICES Services which result 1. Bookkeeping or other services in the auditors losing related to the accounting records or independence status financial statements of the audit under the Rule. client* 2. Financial information systems design and implementation* 3. Appraisal or valuation services, fairness* opinions, or contribution-in-kind reports 4. Actuarial services (i.e., setting actuarial reserves versus actuarial audit work)* 5. Internal audit outsourcing services* 6. Management functions or human resources 7. Broker or dealer, investment advisor, or investment banking services 8. Legal services and expert services unrelated to the audit 9. Any other service that the Public Company Accounting Oversight Board determines, by regulation, is impermissible -----

----- AUDIT COMMITTEE APPROVAL POLICY AUDIT COMMITTEE REPORTING POLICY -----

----- o These services are not to be o A summary of all performed with the exception of the(*) services and related services that may be permitted fees reported at each if they

would not be subject to audit regularly scheduled procedures at the audit client (as Audit Committee meeting defined in rule 2-01(f)(4)) level will serve as continual the firm providing the service. confirmation that has not provided any restricted services. -----

GENERAL AUDIT COMMITTEE APPROVAL POLICY: o For all projects, the officers of the Trusts and the Trust's auditors will each make an assessment to determine that any proposed projects will not impair independence. o Potential services will be classified into the four non-restricted service categories and the "Approval of Audit, Audit-Related, Tax and Other Services" Policy above will be applied. Any services outside the specific pre-approved service subcategories set forth above must be specifically approved by the Audit Committee. o At least quarterly, the Audit Committee shall review a report summarizing the services by service category, including fees, provided by the Audit firm as set forth in the above policy.

----- (2) Disclose the percentage of services described in each of paragraphs (b) through (d) of this Item that were approved by the audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X. Non-Audit Services Beginning with non-audit service contracts entered into on or after May 6, 2003, the effective date of the new SEC pre-approval rules, the Trust's audit committee is required to pre-approve services to affiliates defined by SEC rules to the extent that the services are determined to have a direct impact on the operations or financial reporting of the Trust. For the years ended November 30, 2005 and 2004, there were no services provided to an affiliate that required the Trust's audit committee pre-approval. (f) If greater than 50 percent, disclose the percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees. N/A (g) Disclose the aggregate non-audit fees billed by the registrant's accountant for services rendered to the registrant, and rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for each of the last two fiscal years of the registrant. The aggregate non-audit fees for the Trust and affiliates, as previously defined, totaled \$21,300 in 2005. The Trust's audit committee of the Board of Trustees has considered whether the provision of non-audit services that were rendered to the Affiliates (as defined) that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence. (h) Disclose whether the registrant's audit committee of the board of trustees has considered whether the provision of non-audit services that were rendered to the registrant's investment adviser (not including any subadviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence. The Trust's independent auditor, Ernst & Young LLP ("E&Y"), has advised the Audit Committee of the Trust's Board of Trustees that E&Y's Spanish affiliate (E&Y Spain) performed certain non-audit work for Pioneer Global Investments Limited ("PGIL"), an affiliate of the Trusts investment adviser. The services involved the receipt and disbursement of monies transferred to E&Y Spain by PGIL in payment of individual payroll and related income tax withholdings due on returns prepared by E&Y Spain for certain PGIL employees located in Spain from February 2001 to October 2005. E&Y became auditors of the Trust in May 2002. These payroll and tax services were discontinued in November 2005. The annual fee received by E&Y Spain for all such services totaled approximately 9,000 Euro per year. E&Y has informed the Audit Committee that based on its internal reviews and the de minimus nature of the services provided and fees received, E&Y does not believe its independence with respect to the Trust has been impaired or that it is disqualified from acting as independent auditors to the Trust. N/A Item 5. Audit Committee of Listed Registrants (a) If the registrant is a listed issuer as defined in Rule 10A-3 under the Exchange Act (17 CFR 240.10A-3), state whether or not the registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act (15 U.S.C. 78c(a)(58)(A)). If the registrant has such a committee, however designated, identify each committee member. If the entire board of directors is acting as the registrants audit committee as specified in Section 3(a)(58)(B) of the Exchange Act (15 U.S.C. 78c(a)(58)(B)), so state. The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act (15 U.S.C. 78c(a)(58)(A)). (b) If applicable, provide the disclosure required by Rule 10A-3(d) under the Exchange Act (17 CFR 240.10A-3(d)) regarding an exemption from the listing standards for audit committees. N/A Item 6. Schedule of Investments. File Schedule I Investments in securities of unaffiliated issuers as of the

close of the reporting period as set forth in 210.12- 12 of Regulation S-X [17 CFR 210.12-12], unless the schedule is included as part of the report to shareholders filed under Item 1 of this Form. Included in Item 1 ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES. A closed-end management investment company that is filing an annual report on this Form N-CSR must, unless it invests exclusively in non-voting securities, describe the policies and procedures that it uses to determine how to vote proxies relating to portfolio securities, including the procedures that the company uses when a vote presents a conflict between the interests of its shareholders, on the one hand, and those of the company's investment adviser; principal underwriter; or any affiliated person (as defined in Section 2(a)(3) of the Investment Company Act of 1940 (15 U.S.C. 80a-2(a)(3)) and the rules thereunder) of the company, its investment adviser, or its principal underwriter, on the other. Include any policies and procedures of the company's investment adviser, or any other third party, that the company uses, or that are used on the company's behalf, to determine how to vote proxies relating to portfolio securities. Not applicable, the Fund does not invest in voting securities. Item 8. Portfolio Managers of Closed-End Management Investment Companies. (a)(1) As of the date of this report, day-to-day management of the fund's portfolio is the responsibility of Mark Okada and Joe Dougherty. Mr. Okada, Executive Vice President and Chief Investment Officer, joined Highland in 1993. Mr. Dougherty, Senior Vice President and Senior Portfolio Manager, joined Highland in 1998. (a)(2) Other Accounts Managed by the Portfolio Managers. The table below indicates, for each portfolio manager of the fund, information about the accounts other than the fund over which the portfolio manager has day-to-day investment responsibility. All information on the number of accounts and total assets in the table is as of November 30, 2005. For purposes of the table, "Other Pooled Investment Vehicles" may include investment partnerships, undertakings for collective investments in transferable securities ("UCITS") and other non-U.S. investment funds and group trusts, and "Other Accounts" may include separate accounts for institutions or individuals, insurance company general or separate accounts, pension funds and other similar institutional accounts. Certain funds and other accounts managed by the portfolio manager may have substantially similar investment strategies.

Name of Portfolio Manager	Type of Account	Number of Accounts Managed	Total Assets Managed (millions)	Assets Managed for which Advisory Fee is Performance-Based (millions)
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Mark Okada	Other Registered	7	\$4,080	0
	Investment Vehicles	10	\$4,939	0
	Other Pooled			
	Other Accounts			

Name of Portfolio Manager	Type of Account	Number of Accounts Managed	Total Assets Managed (millions)	Assets Managed for which Advisory Fee is Performance-Based (millions)
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Joe Dougherty	Other Registered	7	\$4,080	0
	Investment Vehicles			
	Other Pooled			
	Other Accounts			

Potential Conflicts of Interest. When a portfolio manager is responsible for the management of more than one account, the potential arises for the portfolio manager to favor one account over another. The principal types of potential conflicts of interest that may arise are discussed below. For the reasons outlined below, Pioneer does not believe that any material conflicts are likely to arise out of a portfolio manager's responsibility for the management of the fund as well as one or more other accounts. Although Pioneer has adopted procedures that it believes are reasonably designed to detect and prevent violations of the federal securities laws and to mitigate the potential for conflicts of interest to affect its portfolio management decisions, there can be no assurance that all conflicts will be identified or that all procedures will be effective in mitigating the potential for such risks. Generally, the risks of such conflicts of interests are increased to the extent that a portfolio manager has a financial incentive to favor one account over another. Pioneer has structured its compensation arrangements in a manner that is intended to limit such potential for conflicts of interests. The fund's

investment sub-adviser also has adopted certain compliance procedures which are designed to address these types of conflicts. However, there is no guarantee that such procedures will detect each situation in which a conflict might arise. o A portfolio manager could favor one account over another in allocating new investment opportunities that have limited supply, such as initial public offerings and private placements. If, for example, an initial public offering that was expected to appreciate in value significantly shortly after the offering was allocated to a single account, that account may be expected to have better investment performance than other accounts that did not receive an allocation of the initial public offering. Generally, investments for which there is limited availability are allocated based upon a range of factors including available cash and consistency with the accounts' investment objectives and policies. This allocation methodology necessarily involves some subjective elements but is intended over time to treat each client in an equitable and fair manner. Generally, the investment opportunity is allocated among participating accounts on a pro rata basis. Although Pioneer believes that its practices are reasonably designed to treat each client in an equitable and fair manner, there may be instances where a fund may not participate, or may participate to a lesser degree than other clients, in the allocation of an investment opportunity. o A portfolio manager could favor one account over another in the order in which trades for the accounts are placed. If a portfolio manager determines to purchase a security for more than one account in an aggregate amount that may influence the market price of the security, accounts that purchased or sold the security first may receive a more favorable price than accounts that made subsequent transactions. The less liquid the market for the security or the greater the percentage that the proposed aggregate purchases or sales represent of average daily trading volume, the greater the potential for accounts that make subsequent purchases or sales to receive a less favorable price. When a portfolio manager intends to trade the same security on the same day for more than one account, the trades typically are "bunched," which means that the trades for the individual accounts are aggregated and each account receives the same price. There are some types of accounts as to which bunching may not be possible for contractual reasons (such as directed brokerage arrangements). Circumstances may also arise where the trader believes that bunching the orders may not result in the best possible price. Where those accounts or circumstances are involved, Pioneer will place the order in a manner intended to result in as favorable a price as possible for such client. o A portfolio manager could favor an account if the portfolio manager's compensation is tied to the performance of that account to a greater degree than other accounts managed by the portfolio manager. If, for example, the portfolio manager receives a bonus based upon the performance of certain accounts relative to a benchmark while other accounts are disregarded for this purpose, the portfolio manager will have a financial incentive to seek to have the accounts that determine the portfolio manager's bonus achieve the best possible performance to the possible detriment of other accounts. Similarly, if Pioneer receives a performance-based advisory fee, the portfolio manager may favor that account, whether or not the performance of that account directly determines the portfolio manager's compensation. o A portfolio manager could favor an account if the portfolio manager has a beneficial interest in the account, in order to benefit a large client or to compensate a client that had poor returns. For example, if the portfolio manager held an interest in an investment partnership that was one of the accounts managed by the portfolio manager, the portfolio manager would have an economic incentive to favor the account in which the portfolio manager held an interest. o If the different accounts have materially and potentially conflicting investment objectives or strategies, a conflict of interest could arise. For example, if a portfolio manager purchases a security for one account and sells the same security for another account, such trading pattern may disadvantage either the account that is long or short. In making portfolio manager assignments, Pioneer seeks to avoid such potentially conflicting situations. However, where a portfolio manager is responsible for accounts with differing investment objectives and policies, it is possible that the portfolio manager will conclude that it is in the best interest of one account to sell a portfolio security while another account continues to hold or increase the holding in such security. (a)(3) Compensation of Portfolio Managers. Highland's financial arrangements with its portfolio managers, its competitive compensation and its career path emphasis at all levels reflect the value senior management places on key resources. Compensation may include a variety of components and may vary from year to year based on a number of factors including the relative performance of a portfolio managers underlying account, the combined performance of the portfolio managers underlying accounts, and the relative performance of the portfolio managers underlying accounts measured against other employees. The principal components of compensation include a base salary, a discretionary bonus, various retirement benefits and one or more of the incentive compensation programs established by Highland such as the Option It Plan and the Long-Term Incentive Plan. Base compensation. Generally, portfolio managers receive base compensation based on their seniority and/or their position with the firm, which may include the amount of assets supervised and other management roles within the firm. Discretionary compensation. In addition to base compensation, portfolio managers may receive

discretionary compensation, which can be a substantial portion of total compensation. Discretionary compensation can include a discretionary cash bonus as well as one or more of the following: o Option It Plan. The purpose of the Plan is to attract and retain the highest quality employees for positions of substantial responsibility, and to provide additional incentives to a select group of management or highly compensated employees of the Fund so as to promote the success of the Fund. o Long Term Incentive Plan. The purpose of the Plan is to create positive morale and teamwork, to attract and retain key talent, and to encourage the achievement of common goals. The Plan seeks to reward participating employees based on the increased value of Highland through the use of Long-term Incentive Units. Senior portfolio managers who perform additional management functions may receive additional compensation in these other capacities. Compensation is structured such that key professionals benefit from remaining with the firm. (a)(4) Share Ownership by Portfolio Managers. The following table indicates as of November 30, 2005 the value, within the indicated range, of shares beneficially owned by the portfolio managers of the fund.

----- Name of Portfolio Manager

Beneficial Ownership of the Fund*

----- Mark Okada D

----- Joe Dougherty C

----- *Key to Dollar Ranges A. None

B. \$1 - \$10,000 C. \$10,001 - \$50,000 D. \$50,001 - \$100,000 E. \$100,001 - \$500,000 F. \$500,001 -

\$1,000,000 G. Over \$1,000,000 Item 9. Purchases of Equity Securities by Closed-End Management

Investment Company and Affiliated Purchasers. (a) If the registrant is a closed-end management investment company, in the following tabular format, provide the information specified in paragraph

(b) of this Item with respect to any purchase made by or on behalf of the registrant or any affiliated purchaser, as defined in Rule 10b-18(a)(3) under the Exchange Act (17 CFR 240.10b-18(a)(3)), of

shares or other units of any class of the registrants equity securities that is registered by the registrant pursuant to Section 12 of the Exchange Act (15 U.S.C. 781). Instruction to paragraph (a). Disclose

all purchases covered by this Item, including purchases that do not satisfy the conditions of the safe harbor of Rule 10b-18 under the Exchange Act (17 CFR 240.10b-18), made in the period covered by

the report. Provide disclosures covering repurchases made on a monthly basis. For example, if the reporting period began on January 16 and ended on July 15, the chart would show repurchases for

the months from January 16 through February 15, February 16 through March 15, March 16 through April 15, April 16 through May 15, May 16 through June 15, and June 16 through July 15. During

the period covered by this report, there were no purchases made by or on behalf of the registrant or any affiliated purchaser as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934

(the Exchange Act), of shares of the registrants equity securities that are registered by the registrant pursuant to Section 12 of the Exchange Act. Item 10. Submission of Matters to a Vote of Security

Holders. Describe any material changes to the procedures by which shareholders may recommend nominees to the registrants board of directors, where those changes were implemented after the

registrant last provided disclosure in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule 14A (17 CFR 240.14a-101), or this Item. There have been no material changes to the procedures by

which the shareholders may recommend nominees to the registrants board of directors since the registrant last provided disclosure in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule

14(A) in its definitive proxy statement, or this Item. ITEM 11. CONTROLS AND PROCEDURES.

(a) Disclose the conclusions of the registrant's principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, about the effectiveness of the

registrant's disclosure controls and procedures (as defined in Rule 30a-2(c) under the Act (17 CFR 270.30a-2(c))) based on their evaluation of these controls and procedures as of a date within 90 days

of the filing date of the report that includes the disclosure required by this paragraph. The registrant's principal executive officer and principal financial officer have concluded, that the registrant's

disclosure controls and procedures are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this report. (b) Disclose whether or not

there were significant changes in the registrant's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective

actions with regard to significant deficiencies and material weaknesses. There were no significant changes in the registrant's internal controls or in other factors that could significantly affect these

controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. ITEM 12. EXHIBITS. File the exhibits listed

below as part of this Form. Letter or number the exhibits in the sequence indicated. (a) Any code of ethics, or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent

that the registrant intends to satisfy the Item 2 requirements through filing of an exhibit. (b) A separate certification for each principal executive officer and principal financial officer of the

registrant as required by Rule 30a-2 under the Act (17 CFR 270.30a-2). Filed herewith.

SIGNATURES [See General Instruction F] Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. (Registrant) Pioneer Floating Rate Trust By (Signature and Title)* /s/ John F. Cogan, Jr. John F. Cogan, Jr, President Date January 30, 2006 Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. By (Signature and Title)* /s/ John F. Cogan, Jr. John F. Cogan, Jr., President Date January 30, 2006 By (Signature and Title)* /s/ Vincent Nave Vincent Nave, Treasurer Date January 30, 2006 * Print the name and title of each signing officer under his or her signature.