FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. 0001056288-99-000003

(HTML Version on secdatabase.com)

FILER

FEDERATED INVESTORS INC /PA/

CIK:**1056288**| IRS No.: **251111467** | State of Incorp.:**PA** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **001-14818** | Film No.: **99574051**
SIC: **6770** Blank checks

Mailing Address
FEDERATED INVESTORS TOWER
PITTSBURGH PA 15222

Business Address
FEDERATED INVESTORS TOWER
PITTSBURGH PA 15222
4122881900

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____________ TO _____________

COMMISSION FILE NUMBER 1-14818

FEDERATED INVESTORS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

PENNSYLVANIA	25-1111467
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

FEDERATED INVESTORS TOWER
PITTSBURGH, PENNSYLVANIA 15222-3779

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

CLASS B COMMON STOCK, NO PAR VALUE	NEW YORK STOCK EXCHANGE
(TITLE OF EACH CLASS)	(NAME OF EACH EXCHANGE ON WHICH REGISTERED)

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if 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 the definitive proxy statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

The aggregate market value of the Class B Common Stock held by non-affiliates of the registrant as of March 22, 1999 was approximately $965,288,000, based on the last reported sales price of $16.375 as reported by the New York Stock Exchange. For purposes of this calculation, the registrant has deemed all of its executive officers and directors to be affiliates, but has made no determination as to whether any other persons are "affiliates" within the meaning of Rule 12b-2 under the Securities Exchange Act of 1934. The number of shares of Class B Common Stock outstanding on March 22, 1999 was 85,990,250 shares.

Documents incorporated by reference:

Selected portions of the 1998 Annual Report to Shareholders - Part I, Part II and Part IV of this Report. Selected portions of the 1999 Information Statement - Part III of this Report.

PART I

ITEM 1 - BUSINESS

OVERVIEW

Federated Investors, Inc. and its consolidated subsidiaries (collectively, "Federated") is a leading provider of investment management and related financial services. Federated sponsors, markets and provides investment advisory, distribution and administrative services primarily to mutual funds. Total assets under management at December 31, 1998 were $111.6 billion, primarily in funds managed, distributed and administered by Federated and in other non-fund products ("Managed Assets"), of which $2.6 billion were in separately managed accounts. Managed Assets at December 31, 1998 increased $19.0 billion since December 31, 1997.

Federated provided investment advisory services to 126 funds at December 31, 1998. These funds are offered through banks, broker/dealers and other financial intermediaries who use them to meet the needs of their customers; these customers include retail investors, corporations, and retirement plans. Federated also provides mutual fund administrative services to its managed funds and to funds sponsored by third parties, where Federated also acts as fund distributor. Federated provided these services for $28.2 billion of assets in funds sponsored by third parties, primarily banks, ("Administered Assets") as of December 31, 1998. In addition, Federated provides other services related to mutual funds including trade execution and clearing and retirement plan recordkeeping.

Total Managed Assets for each of the past three years are as follows:

<TABLE>
<CAPTION>

MANAGED ASSETS (DOLLARS IN MILLIONS)	As of December 31, 1998	1997	1996	Growth Rate 3 Yr. CAGR*	Growth Rate 1998
Money Market Funds/					
<S>	<C>	<C>	<C>	<C>	<C>
Cash Equivalents	$77,055	$63,622	$51,163	24%	21%
Fixed Income Funds	16,437	15,067	14,109	5%	9%
Equity Funds	15,503	11,710	7,594	43%	32%
Separate Accounts	2,558	2,141	1,976	20%	19%
Total Managed Assets	$111,553	$92,540	$74,842	22%	21%

</TABLE>

*Compound Annual Growth Rate

<TABLE>
<CAPTION>

Average Managed Assets for the past three years were as follows:

<S>	<C>	<C>	<C>	<C>
AVERAGE MANAGED ASSETS (DOLLARS IN MILLIONS)	Year ended December 31, 1998	1997	1996	Growth Rate 1998
Money Market Funds/				
Cash Equivalent	$69,074	$55,636	$44,223	24%
Fixed Income Funds	15,851	14,382	13,935	10%
Equity Funds	13,777	9,690	6,297	42%

Separate Accounts	2,334	1,872	1,683	25%
Total Average Managed Assets	$101,036	$81,580	$66,138	24%

</TABLE>

Federated's revenues from investment advisory, related administrative and other service fees provided under agreements with the funds and other entities, and other income over the last three years were as follows:

REVENUE

	Year ended December 31,			Growth Rate
(DOLLARS IN THOUSANDS)	1998	1997	1996	1998
Investment Advisory Fees	$277,331	$218,868	$179,221	27%
Administrative Service Fees	97,234	85,429	72,923	14%
Other Service Fees	124,599	88,163	60,331	41%
Other Income	22,963	11,259	9,318	104%
TOTAL REVENUE	$522,127	$403,719	$321,793	29%

BUSINESS STRATEGY

Federated pursues a multi-faceted business strategy having three broad objectives:

-To be widely recognized as a world class investment management company that offers highly competitive performance and disciplined risk management across a broad spectrum of products.

-To profitably expand market penetration by increasing its assets under management in each market where it chooses to apply its substantial distribution resources.

-To profitably expand its customer relationships by providing superior services designed to support the growth of Managed and Administered Assets.

Federated offers a wide range of products, including money market, fixed income and equity investments designed to meet the needs of investors with varying investment objectives. Federated has structured its investment process to meet the requirements of fiduciaries and others who use Federated's products to meet the needs of their customers. Fiduciaries typically have stringent demands related to portfolio composition, risk and investment performance.

Historically, Federated's mix of Managed Assets has been dominated by money market and other fixed income assets. More recently, in response to market demand and to diversify its managed assets, Federated has emphasized growth of its equity fund business and has broadened its range of equity products. In 1998, equity fund assets under management increased from $11.7 billion to $15.5 billion, an increase of $3.8 billion, or 32%. Equity assets are managed across a wide range of styles including value ($6.0 billion), equity income ($4.5 billion), growth ($1.5 billion), and international ($950 million) investments. Federated also manages assets in equity index funds ($2.4 billion) and asset allocation funds ($1.0 billion). These asset allocation funds may include fixed income assets.

Federated uses a team of portfolio managers led by a senior portfolio manager for each fund. Federated's investment research process combines disciplined quantitative screening along with rigorous fundamental analysis to identify attractive securities. Portfolios are continually reevaluated with respect to valuation, price and earnings estimate momentum, company fundamentals, market factors, economic conditions and risk controls in order to achieve specific investment objectives.

Federated's fixed income assets are managed in a wide range of sectors including mortgage-backed ($5.4 billion), high yield ($4.4 billion), tax-free ($2.2 billion), corporate ($2.2 billion), government ($2.2 billion), multi-sector ($1.4 billion) and international ($287 million). Federated's fixed income funds offer fiduciaries and others a broad range of highly defined products designed to meet many of their investment needs and requirements. Many of these fixed income funds are constrained by narrowly defined effective average maturity or duration bands within specific yield curves. These funds are limited to investments in specific areas such as municipal, government/government agency, corporate/asset-backed or mortgage-backed securities.

In other funds, debt securities from various areas are combined to form mixed category funds. In general, these funds are also constrained by an effective average maturity or duration range applied to the portfolio. Through these funds, Federated offers products that provide the benefit of diversification across fixed income areas while maintaining the average maturities and duration ranges that are particularly important to fiduciaries.

Federated is one of the largest U.S. managers of money market fund assets, with $77.1 billion in assets under management at December 31, 1998. Federated has developed expertise in managing cash for institutions, which typically have stringent requirements for regulatory compliance, relative safety, liquidity and competitive yields. Federated has managed money market funds for over twenty years and created the first institutional money market fund in 1976. Federated also manages retail money market fund products which are typically distributed through broker/dealers. Federated manages money market fund assets in a variety of asset classes including government ($41.6 billion), prime ($22.8 billion), and tax-free ($12.6 billion).

Federated's distribution strategy is to provide products geared to financial intermediaries, primarily banks, broker/dealers and investment advisers, and directly to institutions such as corporations and government entities. Through substantial investments in distribution over more than 20 years, Federated has developed selling relationships with more than 3,500 institutions and sells its products directly to another 500 corporations and government entities. Federated uses its large trained sales force of more than 190 representatives and managers across the United States to add new customer relationships and strengthen and expand existing relationships.

INVESTMENT PRODUCTS AND MARKETS

Federated's investment products are distributed in three principal markets: the bank trust market, the broker/dealer market, and the institutional market. The following chart shows Federated Managed Assets by market for the dates indicated:

<TABLE>
<CAPTION>

MANAGED ASSETS BY MARKET (DOLLARS IN MILLIONS)	As of December 31, 1998	1997	1996	Growth Rate 3 Yr. CAGR*	1998
<S>	<C>	<C>	<C>	<C>	<C>
Bank Trust Market	$58,891	$49,662	$40,123	22%	19%
Broker/Dealer Market	35,232	28,256	22,098	21%	25%
Institutional Market	13,993	11,343	9,750	33%	23%
Other Markets	3,437	3,279	2,871	1%	5%
Total Managed Assets	$111,553	$92,540	$74,842	22%	21%

</TABLE>

*Compound Annual Growth Rate

BANK TRUST MARKET. Federated pioneered the concept of providing cash management to bank trust departments through mutual funds over twenty years ago. In addition, Federated initiated a strategy to provide a broad range of equity and fixed-income funds, termed MultiTrust(TM), to meet the evolving needs of bank trust departments. Federated's bank trust customers invest the assets subject to their control, or upon direction from their customers, in one or more funds managed by Federated. Federated employs a dedicated sales force backed by a staff of support personnel to offer its products and services in the bank trust market.

Money market funds contain the majority of Federated's Managed Assets in the bank trust market. In allocating investments across various asset classes, investors typically maintain a portion of their portfolios in cash or cash equivalents, including money market funds, irrespective of trends in bond or stock prices. Federated also offers an extensive menu of equity and fixed income mutual funds structured for use in the bank trust market. As of December 31, 1998, Managed Assets in the bank trust market were comprised of $49.2 billion in money market funds and cash equivalents, $5.1 billion in fixed income funds and $4.6 billion in equity funds.

BROKER/DEALER MARKET. Federated distributes its products in this market through a large diversified group of approximately 2,000 national, regional, independent, and bank broker/dealers. Federated maintains a sales staff dedicated to this market, with a separate group focused on the bank broker/dealers. These sales representatives develop and maintain relationships with both the management and registered representatives of the broker/dealer. Broker/dealers use Federated's products to meet the needs of their customers, who are typically retail investors. Federated offers products with a variety of commission structures that enable brokers to offer their customers a choice of pricing options. Federated also offers money market mutual funds as cash management products designed for use in the broker/dealer market. As of December 31, 1998, Managed Assets in the broker/dealer market were comprised of $18.8 billion in money market funds, $8.8 billion in equity funds, and $7.6 billion in fixed income funds.

INSTITUTIONAL MARKET. Federated maintains a dedicated sales staff to focus on the distribution of its products to a wide variety of users: investment advisors, corporations, corporate and public pension funds, insurance companies, government entities, foundations, endowments, hospitals, and non-Federated investment companies. As of December 31, 1998, Managed Assets in the institutional market were comprised of $8.2 billion in money market funds, $2.2 billion in fixed income funds, $1.2 billion in equity funds and $2.4 billion in separate accounts.

Federated also seeks to supplement its growth by selectively pursuing acquisition and alliance opportunities. Through one such alliance, Federated is taking steps to broaden distribution to areas outside of the U.S. On November 24, 1998, Federated announced the signing of a shareholders agreement with LVM-Versicherungen, a large German insurance company, to create a joint venture company to be named Federated Asset Management GmbH ("Federated GmbH"), which will exclusively manage, distribute and market a family of mutual funds to insurance clients of LVM, as well as pursuing institutional separate accounts.

Federated has also completed three acquisitions between November, 1996 and May, 1997, which together resulted in an increase of approximately $4.8 billion in Managed Assets. Federated will seek to identify additional acquisitions and alliances that will enhance shareholder value by adding assets, complementary investment management expertise or distribution capabilities.

Federated's principal source of revenue is investment advisory fees earned by various subsidiaries and affiliates pursuant to investment advisory contracts with the funds. These subsidiaries and affiliates are registered as investment advisers under the Investment Advisers Act of 1940 (the "Advisers Act"). Investment advisers are compensated for their services in the form of investment advisory fees based upon the average daily net assets of the fund.

Federated provided investment advisory services to 126 funds as of December 31, 1998. The funds sponsored by Federated are domiciled in the U.S., with the exception of Federated International Funds PLC which is domiciled in Dublin, Ireland. Each of Federated's U.S.-domiciled funds (with the exception of a collective investment trust) is registered under the Investment Company Act of 1940 ("Investment Company Act") and under applicable federal and state laws. Each of the funds enters into an advisory agreement. The advisory agreements are subject to annual approval by the fund directors or trustees, including a majority of the directors who are not "interested persons" of the funds or Federated as defined under the Investment Company Act. Advisory agreements are subject to periodic review by the directors or trustees of the respective funds and amendments to such agreements must be approved by the fund shareholders. A significant portion of Federated's revenue is derived from these advisory agreements which generally are terminable upon 60 days notice.

Of these 126 funds, Federated's investment advisory subsidiaries managed 52 money market funds (and cash equivalents) totaling $77.1 billion in assets, 41 fixed income funds with $16.4 billion in assets and 33 equity funds with $15.5 billion in assets. Appendix "A" hereto lists all of these funds, including asset levels and date of inception.

Federated also serves as investment advisor to pension and other employee benefit plans, corporations, trusts, foundations, endowments, mutual funds sponsored by third parties, and other investors. These separate accounts totaled $2.6 billion in assets under management as of December 31, 1998. Fees for separate accounts are typically based on the value of assets under management pursuant to investment advisory agreements that may be terminated at any time.

Federated also provides a broad range of services to support the operation, administration, and distribution of Federated-sponsored funds. These services, for which Federated receives fees pursuant to administrative agreements with the funds, include legal support and regulatory compliance, audit, fund financial services, transfer agency services, and shareholder servicing and support. Federated also offers these services to institutions seeking to outsource all or part of their mutual fund service and distribution functions. Through various subsidiaries, Federated provides its experience and expertise in these areas to expand its relationships with key financial intermediaries, primarily banks, who sponsor proprietary mutual funds. Federated receives fees from these bank-sponsored funds for providing fund services.

The following chart shows period-end and average Administered Assets since 1996:

ADMINISTERED ASSETS	As of and for the year ended			
	December 31,			% Change
(DOLLARS IN MILLIONS)	1998	1997	1996	1998
Period End Administered Assets	$28,165	$46,999	$35,574	-40%
Average Administered Assets	53,136	42,965	26,197	24%

The decrease in year-end 1998 Administered Assets was due primarily to the termination of certain administration contracts due to internalization of these functions by banks who developed the ability to provide mutual fund services through acquisitions. These customers collectively accounted for less than 2% of 1998 total revenue.

In addition, certain Funds sponsored by Federated have adopted distribution plans which, subject to applicable law, provide for payment to Federated for the reimbursement of marketing expenses, including sales commissions paid to broker/dealers. These distribution plans are implemented through a distribution agreement between Federated and the Fund. Although the specific terms of each such agreement vary, the basic terms of the agreements are similar. Pursuant to the agreements, Federated acts as underwriter for the fund and distributes shares of the Fund through unaffiliated dealers. Each distribution plan and agreement is initially approved by the directors or trustees of the respective Funds and is reviewed for approval annually.

Federated also provides retirement plan recordkeeping services and trade execution and settlement services through its various subsidiaries.

COMPETITION

The mutual fund industry is highly competitive. According to the Investment Company Institute, at the end of 1998, there were over 7,300 registered open-end investment companies, of varying sizes and investment policies, whose shares are currently being offered to the public both on a load and no-load basis. In addition to competition from other mutual fund managers and investment advisers, Federated and the mutual fund industry compete with investment alternatives offered by insurance companies, commercial banks, broker/dealers and other financial institutions.

Competition for sales of mutual fund shares is influenced by various factors, including investment performance in terms of attaining the stated objectives of the particular funds and in terms of fund yields and total returns; advertising and sales promotional efforts; and type and quality of services.

Changes in the mix of customers for mutual fund distribution and administrative services are expected to continue. Competition for fund administration services is extremely high. In addition to competing with other service providers, banks sponsoring mutual funds may choose to internalize certain service functions. Consolidation within the banking industry also impacts the fund administration business as merging bank funds typically choose a single fund administration provider. Due to the relatively lower revenues, changes in the amount of Administered Assets generally have less impact on Federated's results of operations than changes in the amount of Managed Assets.

REGULATORY MATTERS

Substantially all aspects of Federated's business are subject to federal and state regulation which, depending upon the nature of any non-compliance, could result in the suspension or revocation of licenses or registration, including broker/dealer licenses and registrations and transfer agent registrations, as well as the imposition of civil fines and penalties and in certain limited circumstances prohibition from acting as an adviser to registered investment companies. Federated's advisory companies are registered with the Securities Exchange Commission (the "Commission") under the Advisers Act and with certain states. All of the mutual funds managed, distributed, and administered by Federated are registered with the Commission under the Investment Company Act. Certain wholly owned subsidiaries of Federated are registered as broker-dealers with the Commission under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and with various states and are members of the National Association of Securities Dealers (the "NASD"). Their activities are regulated by the Commission, the NASD, and the various states in which they are registered. These subsidiaries are required to meet capital requirements established by the Commission pursuant to the Exchange Act. Two other subsidiaries are registered with the Commission as transfer agents. Federated Investors Trust Company is regulated by the State of New Jersey. Federated believes that it and its subsidiaries are in substantial compliance with all applicable laws and regulations. Amendments to current laws and regulations or newly-promulgated laws and regulations governing Federated's operations could have a material adverse impact on Federated.

The federal and state laws and regulations applicable to most aspects of Federated's business are primarily intended to benefit or protect Federated's customers and the funds' shareholders and generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict Federated from carrying on its business in the event that it fails to comply with such laws and regulations. In such event, the possible sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of broker/dealer licenses and registrations and transfer agent registrations, censure and fines.

EMPLOYEES

At December 31, 1998, Federated employed 1,891 persons. Federated considers its relationships with its employees to be satisfactory.

FORWARD-LOOKING INFORMATION

THIS ANNUAL REPORT ON FORM 10-K AND THE 1998 ANNUAL REPORT TO SHAREHOLDERS CONTAIN CERTAIN "FORWARD- LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE STATEMENTS INVOLVE CERTAIN UNKNOWN RISKS AND UNCERTAINTIES, INCLUDING, AMONG OTHERS THOSE DISCUSSED UNDER THE CAPTION "RISK FACTORS AND CAUTIONARY STATEMENTS" BELOW, THAT COULD CAUSE ACTUAL RESULTS, LEVELS OF ACTIVITY, PERFORMANCE, OR ACHIEVEMENTS OF FEDERATED, OR INDUSTRY RESULTS, TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE, OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS. FEDERATED CAUTIONS READERS NOT TO PLACE UNDUE RELIANCE ON ANY SUCH FORWARD LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE MADE, AND SHOULD BE READ IN CONJUNCTION WITH THE RISK DISCLOSURE BELOW. FEDERATED WILL NOT UNDERTAKE AND SPECIFICALLY DECLINES ANY OBLIGATION TO RELEASE PUBLICLY THE RESULT OF ANY REVISIONS WHICH MAY BE MADE TO ANY FORWARD LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE OF SUCH STATEMENTS OR REFLECT THE OCCURRENCE OF ANTICIPATED OR UNANTICIPATED EVENTS. AS A RESULT OF THE FOREGOING, AND OTHER FACTORS, NO ASSURANCE CAN BE GIVEN AS TO FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE, OR ACHIEVEMENTS OF FEDERATED, AND NEITHER FEDERATED NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF SUCH STATEMENTS.

RISK FACTORS AND CAUTIONARY STATEMENTS

POTENTIAL ADVERSE EFFECTS OF INCREASED COMPETITION IN THE INVESTMENT MANAGEMENT BUSINESS. The investment management business is highly competitive. Federated competes in the distribution of mutual funds with other independent fund management companies, national and regional broker/dealers, commercial banks, insurance companies, and other institutions. Many of these competitors have substantially greater resources and brand recognition than Federated. Competition is based on various factors, including business reputation; the investment performance of funds managed or administered by Federated; quality of service; the strength and continuity of management and selling relationships; marketing and distribution services offered; the range of products offered; and fees charged. See "Business--Competition."

Many of Federated's fund products are designed for use by institutions such as banks, insurance companies and other corporations. A large portion of Federated's Managed Assets, particularly money market and fixed income Managed Assets, are held by institutional investors. Because most institutional mutual funds are sold without sales commissions at either the time of purchase or the time of redemption, institutional investors may be more inclined to move their assets among various institutional funds than investors in retail mutual funds. Of Federated's 126 managed funds, 91 are sold without sales commission. Institutions are sensitive to fund investment performance, consistent adherence to investment objectives, quality of service and pricing. Federated believes that competitive pressures in the institutional fund market are increasing as a result of (i) the entry of well known managers from the retail investment industry and of low-fee investment managers, (ii) mergers and consolidation occurring in the banking industry, (iii) increased offering of proprietary funds by institutional investors such as banks, and (iv) regulatory changes affecting banks and other financial service firms.

A significant portion of Federated's revenue is derived from providing mutual funds to its bank trust market, comprising over 1,400 banks and other financial institutions. Future profitability of Federated will be affected by its ability to retain its share of this market, and could also be adversely affected by the general consolidation which is occurring in the banking industry as well as by proposed legislation and regulatory changes. In addition, bank consolidation trends could not only cause changes in Federated's customer mix, but could also affect the scope of services provided and fees received by Federated, depending upon the degree to which banks internalize administrative functions attendant to proprietary mutual funds.

POTENTIAL ADVERSE EFFECTS OF A DECLINE IN SECURITIES MARKETS. Changes in economic or market conditions may adversely affect the profitability and performance of and demand for Federated's investment products and services. The ability of Federated to compete and grow is dependent, in part, on the relative attractiveness of the types of investment products Federated offers and its investment philosophies and market strategies under prevailing market conditions. A significant portion of Federated's revenue is derived from investment advisory fees, which are based on the value of Managed Assets and vary with the type of asset being managed, with higher fees, for example, generally earned on equity and fixed income funds than on money market funds. Consequently, significant fluctuations in the prices of securities held by, or the level of redemptions from, the funds advised by Federated may affect materially the amount of Managed Assets and thus Federated's revenue, profitability and ability to grow. Substantially all of Federated's Managed Assets are in open end funds, which permit investors to redeem their investment at any time.

POTENTIAL ADVERSE AFFECTS ON MONEY MARKET FUNDS RESULTING FROM INCREASES IN INTEREST RATES. Approximately 35% of Federated's revenue in 1998 was from managed money market funds. Assets in these funds are largely from institutional investors. In a period of rapidly rising interest rates, institutional investors may redeem shares in money market funds to invest directly in market issues offering higher yields. These redemptions would reduce Managed Assets, thereby reducing Federated's advisory fee revenue. Federated has been actively diversifying its products to expand its Managed Assets in equity mutual funds which may be less sensitive to interest rate increases. There can be no assurance that Federated will continue to be successful in these diversification efforts.

ADVERSE EFFECTS OF POOR FUND PERFORMANCE. Success in the investment management and mutual fund business is largely dependent on the funds' investment performance relative to market conditions and performance of competing funds. Good performance generally stimulates sales of the funds' shares and tends to keep redemptions low. Sales of funds generate higher revenues (which are largely based on assets of the funds). Good performance also attracts private institutional accounts to Federated. Conversely, relatively poor performance tends to result in decreased sales, increased redemptions of the funds' shares, and the loss of private institutional accounts, with corresponding decreases in revenues to Federated. Failure of the funds to perform well could, therefore, have a material adverse effect on Federated.

ADVERSE EFFECTS OF TERMINATION OR FAILURE TO RENEW FUND AGREEMENTS ON FEDERATED'S REVENUES AND PROFITABILITY. A substantial majority of Federated's revenues are derived from investment management agreements with the funds that, as required by law, are terminable on 60 days' notice. In addition, each such investment management agreement must be approved and renewed annually by each fund's board, including disinterested members of the board, or its shareholders, as required by law. Generally, Federated's administrative servicing agreements with bank proprietary fund customers have an initial term of three years with a provision for automatic renewal unless notice is otherwise given and provide for termination for cause. Failure to renew or termination of a significant number of these agreement could have a material adverse impact on Federated. In addition, as required by the Investment Company Act, each investment advisory agreement with a mutual fund automatically terminates upon its "assignment," although new investment advisory agreements may be approved by the mutual fund's directors or trustees and shareholders. A sale of a sufficient number of shares of Federated's voting securities to transfer control of Federated could be deemed an "assignment" in certain circumstances. An assignment, actual or constructive, will trigger these termination provisions and may adversely affect Federated's ability to realize the value of these assets.

POTENTIAL ADVERSE EFFECTS OF CHANGES IN LAW AND REGULATIONS ON FEDERATED'S INVESTMENT MANAGEMENT BUSINESS. Federated's investment management business is subject to extensive regulation in the United States primarily at the Federal level, including regulations by the Commission particularly, under the Investment Company Act and the Advisers Act as well as the rules of the NASD and all states. Federated is also affected by the regulations governing banks and other financial institutions. Changes in laws or regulations or in governmental policies could materially and adversely affect the business and operations of Federated.

NO ASSURANCE OF SUCCESSFUL FUTURE ACQUISITIONS. Federated's business strategy contemplates the acquisition of other investment management companies as well as investment assets. There can be no assurance that Federated will find suitable acquisition candidates at acceptable prices, have sufficient capital resources to realize its acquisition strategy, be successful in entering into definitive agreements for desired acquisitions, or successfully integrate acquired companies into Federated, or that any such acquisitions, if consummated, will prove to be advantageous to Federated.

YEAR 2000 RISKS. Federated utilizes software and related technologies throughout its businesses including both proprietary systems as well as those provided by outside vendors. As the century date change occurs, certain date-sensitive systems may recognize the year 2000 as 1900, or not at all. This inability to recognize or properly treat the year 2000 may cause systems to process critical financial and operational information incorrectly. Federated's assessment of internal systems is complete and Federated has also substantially completed the renovation and unit testing of individual programs. In addition, Federated and the funds have relationships with third parties that have computer systems that may not be year 2000 compliant. Based on management's identification of resource requirements for both plan implementation and overall project management, it is anticipated that the year 2000 costs will be approximately $10 million for internal systems but do not reflect the impact of the failure of outside vendors to become year 2000 compliant. Accordingly, there can be no assurance that potential system interruptions or the cost necessary to update software would not have a material adverse effect on Federated's business, financial condition, results of operations or business prospects.

ITEM 2 - PROPERTIES

Federated's facilities are concentrated in Pittsburgh, Pennsylvania where it leases space sufficient to meet its operating needs. Federated's headquarters is located in the Federated Investors Tower, where Federated occupies approximately 345,000 square feet. Federated leases approximately 100,000 square feet at the Pittsburgh Office and Research Park and an aggregate of 60,000 square feet at other locations in Pittsburgh. Federated maintains office space for a portion of its servicing business in Rockland, Massachusetts; in Dublin, Ireland, where administrative offices for offshore funds are maintained; in New York, New York, where Federated Global Investment Management Corp. conducts its business; and in Gibbsboro, New Jersey, where Federated Investors Trust Company is located. Additional offices in Naples, Florida and Wilmington, Delaware are subleased by Federated.

ITEM 3 - LEGAL PROCEEDINGS

There is currently no pending litigation of a material nature involving Federated.

ITEM 4 - SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5 - MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCK HOLDER MATTERS

The information required by this Item is contained in Federated's 1998 Annual Report to Shareholders under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements" and is incorporated herein by reference.

ITEM 6 - SELECTED FINANCIAL DATA

The information required by this Item is contained in Federated's 1998 Annual Report to Shareholders under the caption "Selected Consolidated Financial Data" and is incorporated herein by reference.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is contained in Federated's 1998 Annual Report to Shareholders under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is contained in Federated's 1998 Annual Report to Shareholders under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.

ITEM 8 - FINANCIAL STATEMENT AND SUPPLEMENTARY DATA

The information required by this Item is contained in Federated's 1998 Annual Report to Shareholders under the captions "Report of Ernst & Young LLP, Independent Auditors," "Consolidated Balance Sheets," "Consolidated Statements of Income," "Consolidated Statements of Changes in Shareholders' Equity," "Consolidated Statements of Cash Flows," and "Notes to Consolidated Financial Statements" and is incorporated herein by reference.

ITEM 9 - CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The information required by this Item (other than the information set forth below) will be contained in Federated's Information Statement for its 1998 Annual Meeting of Shareholders under the captions "Board of Directors and Election of Directors" and "Security Ownership - Section 16(a) Beneficial Ownership Reporting Compliance," and is incorporated herein by reference.

EXECUTIVE OFFICERS

The following table sets forth certain information regarding the executive officers of Federated as of March 22, 1999:

<TABLE>
<CAPTION>

NAME	POSITION	AGE
<S>	<C>	<C>
John F. Donahue	Chairman and Director	74
J. Christopher Donahue	President, Chief Executive Officer and Director	49
Arthur L. Cherry	President, Federated Services Company and Director	45
William D. Dawson III	Executive Vice President and Chief Investment Officer - Domestic Fixed Income of Federated Advisory Companies*	50
Thomas R. Donahue	Vice President, Treasurer, Chief Financial Officer and Director	40
John B. Fisher	President -- Institutional Sales Division of Federated Securities Corp. and Director	42
Richard B. Fisher	Executive Vice President	75
Henry A. Frantzen	Executive Vice President and Chief Investment Officer - Global	56

	Equity and Fixed Income of Federated Advisory Companies*	
James F. Getz	President -- Retail Sales Division of Federated Securities Corp. and Director	52
J. Thomas Madden	Executive Vice President and Chief Investment Officer - Domestic Equity, High Yield and Asset Allocation of Federated Advisory Companies*	51
Eugene F. Maloney	Executive Vice President, Federated Investors Management Company and Director	54
John W. McGonigle	Executive Vice President, Chief Legal Officer, Secretary and Director	60

</TABLE>

*Federated Advisory Companies include the following subsidiaries of Federated: Federated Advisers, Federated Global Investment Management Corp., Passport Research Limited, Federated Management, Federated Investment Counseling, Federated Research and Federated Research Corp.

Mr. John F. Donahue was a founder of the predecessor of Federated and was Chairman and Chief Executive Officer of Federated and a trustee of Federated Investors, a Delaware business trust (the "Trust"), prior to the May 1998 merger of the Trust into Federated, its wholly-owned subsidiary (the "Merger"). Mr. Donahue has continued to serve as Chairman following the consummation of the Merger. He served as President from 1989 until 1993. Mr. Donahue is Chairman or President and a director or trustee of the investment companies managed by subsidiaries of Federated. Mr. Donahue was a member of the Board of Directors of Aetna Life and Casualty Company until April 1995. Mr. Donahue is the father of J. Christopher Donahue and Thomas R. Donahue, each of whom serves as an executive officer and director of Federated.

Mr. J. Christopher Donahue was a trustee of the Trust from 1989 until the consummation of the Merger and has been a director of Federated since the consummation of the Merger. He served as President and Chief Operating Officer from 1993 until April 1998, when he became President and Chief Executive Officer. Prior to 1993, he served as Vice President. He is President or Executive Vice President of the investment companies managed by subsidiaries of Federated and a director, trustee or managing general partner of some of the investment companies. Mr. Donahue is the son of John F. Donahue and the brother of Thomas R. Donahue.

Mr. Arthur L. Cherry was a trustee of the Trust from 1997 until the Merger and has been a director of Federated since the consummation of the Merger. He is the President of Federated Services Company, a wholly-owned subsidiary of Federated. Prior to joining Federated in January 1997, he was a managing partner of AT&T Solutions and former president of Scudder Services Corporation. He also served as a managing director of Scudder, Stevens and Clark from 1984 to 1994. In addition, Mr. Cherry has worked in various capacities with The Boston Company, Boston Financial Data Services and EDS Consulting.

Mr. William D. Dawson III serves as Executive Vice President and Chief Investment Officer - Domestic Fixed Income of Federated Advisory Companies. He has served as a portfolio manager and held various other positions in the advisory companies. He is responsible for the investment policy and management of domestic fixed income funds. Mr. Dawson is a Chartered Financial Analyst.

Mr. Thomas R. Donahue was a trustee of the Trust from 1995 until the consummation of the Merger and has been a director of Federated since the consummation of the Merger. He has been Vice President since 1993 and currently serves as Vice President, Treasurer and Chief Financial Officer. Prior to joining Federated, Mr. Donahue was in the venture capital business, and from 1983 to 1987 was employed by PNC Bank in its Investment Banking Division. Mr. Donahue is the son of John F. Donahue and the brother of J. Christopher Donahue.

Mr. John B. Fisher has been a director of Federated since the consummation of the Merger. He is President-Institutional Sales Division of Federated Securities Corp., a wholly-owned subsidiary of Federated, and is responsible for the distribution of Federated's products and services to investment advisors, insurance companies, retirement plans and corporations. Mr. Fisher is the son of Richard B. Fisher, Executive Vice President of Federated.

Mr. Richard B. Fisher was a founder of the predecessor of Federated and was a trustee of the Trust. He currently serves as Executive Vice President and is primarily responsible for developing and marketing fund products in the broker/dealer market and for distributing some of the investment companies managed by Federated. Mr. Fisher is President or Vice President of most of the investment companies and a director or trustee of most of the investment companies. Mr. Fisher is the father of John B. Fisher, an officer of Federated.

Mr. Henry A. Frantzen serves as Executive Vice President and Chief Investment Officer - Global Equity and Fixed Income of Federated Advisory Companies. Mr. Frantzen is primarily responsible for the management of global equity and fixed income funds. Prior to joining Federated, Mr. Frantzen was Managing Director of International Equities for Brown Brothers Harriman Investment Management Ltd. and Manager and International Equity Chief Investment Officer for Brown Brothers Harriman and Co. from 1992 to 1995. Prior thereto Mr. Frantzen served in executive capacities for various investment management companies, including Oppenheimer Management Corp., Yamaichi Capital Management and CREF.

Mr. James F. Getz has been a director of Federated since the consummation of the Merger. He serves as President - Retail Sales Division of Federated Securities Corp., a wholly-owned subsidiary of Federated, and is responsible for the marketing and sales efforts in the trust and broker/dealer markets. Mr. Getz is a Chartered Financial Analyst.

Mr. J. Thomas Madden serves as Executive Vice President and Chief Investment Officer - Domestic Equity, High Yield and Asset Allocation of Federated Advisory Companies. Mr. Madden oversees the portfolio management in the domestic equity, high yield and asset allocation areas. Mr. Madden is a Chartered Financial Analyst.

Mr. Eugene F. Maloney was a trustee of the Trust from 1989 until the consummation of the Merger and has continued as a director of Federated since the consummation of the Merger. He serves as the Executive Vice President of Federated Investors Management Company, a wholly-owned subsidiary of Federated, and provides certain legal, technical and management expertise to Federated's sales divisions, including regulatory and legal requirements relating to a bank's use of mutual funds in both trust and commercial environments. Mr. Maloney is an adjunct Professor of Law at Boston University School of Law.

Mr. John W. McGonigle was a trustee of the Trust from 1989 until the consummation of the Merger and has been a director since the consummation of the Merger. Mr. McGonigle has served as Secretary of Federated since 1989. He served as Vice President of Federated from 1989 until August 1995, when he became Executive Vice President. Mr. McGonigle acted as General Counsel until 1998 when he became the Chief Legal Officer. Mr. McGonigle is Executive Vice President and Secretary of the investment companies managed by subsidiaries of Federated.

ITEM 11 - EXECUTIVE COMPENSATION

The information required by this Item is contained in Federated's Information Statement for the 1999 Annual Meeting of Shareholders under the captions "Board of Directors and Election of Directors" and "Executive Compensation" and is incorporated herein by reference.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is contained in Federated's Information Statement for the 1999 Annual Meeting of Shareholders under the caption "Security Ownership" and is incorporated herein by reference.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A)(1) FINANCIAL STATEMENTS:

The information required by this Item is contained in Federated's 1998 Annual Report to Shareholders under the captions "Report of Ernst & Young LLP, Independent Auditors," "Consolidated Balance Sheets," "Consolidated Statements of Income," "Consolidated Statements of Changes in Shareholders' Equity," "Consolidated Statements of Cash Flows," and "Notes to Consolidated Financial Statements" and is incorporated herein by reference.

(A)(2) FINANCIAL STATEMENT SCHEDULES:

Schedules for which provision is made in the applicable accounting regulations of the United States Securities and Exchange Commission have been omitted because such schedules are not required under the related instructions or are inapplicable or because the information required is included in the Consolidated Financial Statements or notes thereto.

(A)(3) EXHIBITS:

The following exhibits are filed or incorporated as part of this report:

Exhibit NUMBER	DESCRIPTION
2.01	Agreement and Plan of Merger, dated as of February 20, 1998, between Federated Investors and Federated (incorporated by reference to Exhibit 2.01 to the Registration Statement on Form S-1 (File No. 333-48405))
3.01	Restated Articles of Incorporation of Federated (incorporated by reference to Exhibit 3.01 to the Registration Statement on Form S-1 (File No. 333-48405))
3.02	Restated By-Laws of Federated (incorporated by reference to Exhibit 3.02 to the Registration Statement on Form S-1 (File No. 333-48405))
4.01	Form of Class A Common Stock certificate (incorporated by reference to Exhibit 4.01 to the Registration Statement on Form S-1 (File No. 333-48405))
4.02	Form of Class B Common Stock certificate (incorporated by reference to Exhibit 4.02 to the Registration Statement on Form S-1 (File No. 333-48405))
4.03	Stock Purchase Agreement, dated August 1, 1989, between Federated and Westinghouse Credit Corporation (incorporated by reference to Exhibit 4.04 to the Registration Statement on Form S-1 (File No. 333-48405))
4.04	Intercompany Subordination Agreement, dated as of June 15, 1996, by and among Federated Investors and its subsidiaries (incorporated by reference to Exhibit 4.05 to the Registration Statement on Form S-1 (File No. 333-48405))
4.05	Shareholder Rights Agreement, dated August 1, 1989, between Federated and The Standard Fire Insurance Company, as amended January 31, 1996 (incorporated by reference to Exhibit 4.06 to the Registration Statement on Form S-1 (File No.

333-48405))

4.06	Senior Secured Credit Agreement, dated as of January 31, 1996, by and among Federated and the Banks set forth therein and PNC Bank, National Association (incorporated by reference to Exhibit 4.07 to the Registration Statement on Form S-1 (File No. 333-48405))
9.01	Voting Shares Irrevocable Trust dated May 31, 1989 (incorporated by reference to Exhibit 9.01 to the Registration Statement on Form S-1 (File No. 333-48405))
10.01	Amendment No. 4 to Credit Agreement, dated as of May 11, 1998, by and among Federated Investors, Inc., the banks set forth therein and PNC Bank, National Association. (incorporated by reference to Exhibit 10.1 of the June 30, 1998 Quarterly Report on Form 10-Q (File No. 001-14818))
10.02	Amendment No. 5 to Credit Agreement, dated as of May 11, 1998, by and among Federated Investors, Inc., the banks set forth therein and PNC Bank, National Association. (incorporated by reference to Exhibit 10.2 of the June 30, 1998 Quarterly Report on Form 10-Q (File No. 001-14818))
10.03	Amendment No. 6 to Credit Agreement, dated as of December 3, 1998, by and among Federated Investors, Inc., the banks set forth therein and PNC Bank, National Association (Filed herewith)
10.04	Federated Note Purchase Agreement, dated as of June 15, 1996 (incorporated by reference to Exhibit 4.08 to the Registration Statement on Form S-1 (File No. 333-48405))
10.05	Federated Program Master Agreement, dated as of October 24, 1997, among Federated, Federated Funding 1997-1, Inc., Federated Management Company, Federated Securities Corp., Wilmington Trust Company, PLT Finance, L.P., Putnam, Lovell & Thornton Inc. and Bankers Trust Company (incorporated by reference to Exhibit 4.09 to the Registration Statement on Form S-1 (File No. 333-48405))
10.06	Federated Investors, Inc. Employee Stock Purchase Plan, effective as of July 1, 1998 (incorporated by reference to Exhibit 10.3 to the June 30, 1998 Quarterly Report on Form 10-Q (File No. 001-14818))
10.07	Federated Investors Program Initial Purchase Agreement, dated as of October 24, 1997, between Federated Funding 1997-1, Inc. and Wilmington Trust Company, solely as Trustee of the PLT Finance Trust 1997-1 (incorporated by reference to Exhibit 4.10 to the Registration Statement on Form S-1 (File No. 333-48405))
10.08	Federated Investors Program Revolving Purchase Agreement, dated as of October 24, 1997, between Federated Funding 1997-1, Inc. and PLT Finance, L.P. (incorporated by reference to Exhibit 4.11 to the Registration Statement on Form S-1 (File No. 333-48405))
10.09	Federated Investors Program Fee Agreement, dated as October 24, 1997, between Federated Investors and PLT Finance, L.P. (incorporated by reference to Exhibit 4.12 to the Registration Statement on Form S-1 (File No. 333-48405))
10.10	Schedule X to Federated Program Master Agreement, dated as of October 24, 1997, among Federated, Federated Funding 1997-1, Inc., Federated Investors Management Company, Federated Securities Corp., Wilmington Trust Company, PLT Finance, L.P.,

Putnam, Lovell & Thornton Inc. and Bankers Trust Company (incorporated by reference to Exhibit 4.13 to the Registration Statement on Form S-1 (File No.

333-48405))

10.11	Stock Incentive Plan, as amended as of August 26, 1998 (incorporated by reference to Exhibit 10 to the September 30, 1998 Quarterly Report on Form 10-Q (File No. 001-14818))
10.12	Executive Annual Incentive Plan (incorporated by reference to Exhibit 10.02 to the Registration Statement on Form S-1 (File No. 333-48405))
10.13	Form of Bonus Stock Option Agreement (Filed herewith)
10.14	Federated Investors Tower Lease dated January 1, 1993 (incorporated by reference to Exhibit 10.03 to the Registration Statement on Form S-1 (File No. 333-48405))
10.15	Federated Investors Tower Lease dated February 1, 1994 (incorporated by reference to Exhibit 10.04 to the Registration Statement on Form S-1 (File No. 333-48405))
10.16	Centre City Tower Lease dated July 23, 1992, as amended (incorporated by reference to Exhibit 10.05 to the Registration Statement on Form S-1 (File No. 333-48405))
10.17	Employment Agreement, dated January 16, 1997, between Federated Investors and an executive officer (incorporated by reference to Exhibit 10.06 to the Registration Statement on Form S-1 (File No. 333-48405))
10.18	Employment Agreement, dated December 28, 1990, between Federated Investors and an executive officer (incorporated by reference to Exhibit 10.08 to the Registration Statement on Form S-1 (File No. 333-48405))
10.19	Employment Agreement, dated December 22, 1993, between Federated Securities Corp. and an executive officer (incorporated by reference to Exhibit 10.09 to the Registration Statement on Form S-1 (File No. 333-48405))
10.20	Employment Agreement, dated March 17, 1995, between Federated Investors and an executive officer (incorporated by reference to Exhibit 10.07 to the Registration Statement on Form S-1 (File No. 333-48405))
13.01	Selected Portions of 1998 Annual Report to Shareholders (Filed herewith)
21.01	Subsidiaries of the Registrant (Filed herewith)
23.01	Consent of Ernst & Young LLP (Filed herewith)
27.01	Financial Data Schedule (Filed herewith)

(B) REPORTS ON FORM 8-K:

No current reports on Form 8-K were filed for the quarter ended December 31, 1998.

(C) EXHIBITS:

See (a)(3) above.

(D) FINANCIAL STATEMENT SCHEDULES:

See (a)(2) above.

SIGNATURES

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

FEDERATED INVESTORS, INC.
By: /S/ J. CHRISTOPHER DONAHUE
J. Christopher Donahue
President and Chief Executive Officer

Date: March 26, 1999

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

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
<S>	<C>	<C>
/s/ John F. Donahue ----------------------------- John F. Donahue	Chairman and Director	March 26, 1999
/s/ J. Christopher Donahue ----------------------------- J. Christopher Donahue	President, Chief Executive Officer and Director (Principal Executive Officer)	March 26, 1999
/s/ John W. McGonigle ----------------------------- John W. McGonigle	Director	March 26, 1999
/s/ Arthur L. Cherry ----------------------------- Arthur L. Cherry	Director	March 26, 1999
/s/ James F. Getz ----------------------------- James F. Getz	Director	March 26, 1999
/s/ John B. Fisher ----------------------------- John B. Fisher	Director	March 26, 1999

SIGNATURE	TITLE	DATE
/s/ Thomas R. Donahue -----------------------------	Chief Financial Officer and Director	March 26, 1999

Thomas R. Donahue	(Principal Accounting and Financial Officer)	
/s/ Eugene F. Maloney ----------------------------- Eugene F. Maloney	Director	March 26, 1999
/s/ Michael J. Farrell ----------------------------- Michael J. Farrell	Director	March 26, 1999
/s/ James L. Murdy ----------------------------- James L. Murdy	Director	March 26, 1999

</TABLE>

EXHIBIT INDEX

Exhibit NUMBER	DESCRIPTION
10.03	Amendment No. 6 to Credit Agreement, dated as of December 3, 1998, by and among Federated Investors, Inc., the banks set forth therein and PNC Bank, National Association
10.13	Form of Bonus Stock Option Agreement
13.01	Selected Portions of 1998 Annual Report to Shareholders
23.01	Consent of Ernst & Young LLP
21.01	Subsidiaries of the Registrant
27.01	Financial Data Schedule

APPENDIX A
FEDERATED FUNDS

<TABLE>
<CAPTION>

FUND NAME	Number of Share Classes 12/31/98	FUND CATEGORY	Assets as of December 31, 1998	LOAD	FUND EFFECTIVE DATE
<S>	<C>	<C>	<C>	<C>	<C>
EQUITY FUNDS:					
FEDERATED AGGRESSIVE GROWTH FUND	3	Equity Fund - Growth	$38,349,125	Y	11/18/1996
FEDERATED AMERICAN LEADERS FUND INC.	4	Equity Fund - Growth and Income	3,470,848,033	Y	2/26/1969
FEDERATED AMERICAN LEADERS FUND II	1	Equity Fund - Growth and Income	418,135,276	N	12/15/1993
FEDERATED ASIA PACIFIC GROWTH FUND	3	International/Global	11,747,428	Y	1/31/1996
FEDERATED CAPITAL APPRECIATION FUND	3	Equity Fund - Growth	245,918,002	Y	11/14/1995
FEDERATED EMERGING	1	International/Global	3,974,850	N	9/22/1997

MARKETS COMMINGLED TRUST					
FEDERATED EMERGING MARKETS FUND	3	International/Global	45,742,086	Y	1/31/1996
FEDERATED EQUITY INCOME FUND INC.	4	Equity	2,470,603,863	Y	12/30/1986
FEDERATED EQUITY INCOME FUND II	1	Equity	57,579,616	N	12/16/1996
FEDERATED EUROPEAN GROWTH FUND	3	International/Global	60,345,414	Y	1/31/1996
FEDERATED GLOBAL EQUITY INCOME FUND	3	International/Global	20,109,186	Y	3/8/1998
FEDERATED GLOBAL FINANCIAL SERVICES FUND	3	International/Global	7,285,517	Y	8/24/1998
FEDERATED GROWTH STRATEGIES FUND	3	Equity Fund - Growth	719,236,572	Y	8/23/1984
FEDERATED GROWTH STRATEGIES FUND II	1	Equity Fund - Growth	62,801,259	N	9/30/1995
FEDERATED INTERNATIONAL EQUITY COMMINGLED TRUST	1	International Equity Fund	18,176,400	N	3/21/1997
FEDERATED INTERNATIONAL EQUITY FUND	3	International Equity Fund	245,729,083	Y	8/17/1984
FEDERATED INTERNATIONAL EQUITY FUND II	1	International Equity Fund	52,313,331	N	4/4/1995
FEDERATED INTERNATIONAL GROWTH FUND	3	International/Global	0 *	Y	6/30/1997
FEDERATED INTERNATIONAL SMALL COMPANY FUND	3	International/Global	404,149,702	Y	1/31/1996
FEDERATED LARGE CAP GROWTH FUND	3	Equity Fund - Growth	4,084,878	Y	12/23/1998
FEDERATED LATIN AMERICAN GROWTH FUND	3	International/Global	9,708,922	Y	1/31/1996
FEDERATED MANAGED AGGRESSIVE GROWTH FUND	2	Asset Allocation Fund	153,997,511	N	3/11/1994
FEDERATED MANAGED GROWTH AND INCOME FUND	2	Asset Allocation Fund	242,609,359	N	3/11/1994
FEDERATED MANAGED GROWTH FUND	2	Asset Allocation Fund	265,595,596	N	3/11/1994
FEDERATED MAX-CAP FUND	3	Equity Fund - Growth and Income/Index	2,178,129,058	N	7/2/1990
FEDERATED MID-CAP FUND	1	Equity Fund - Growth and Income/Index	95,436,584	N	7/7/1992
FEDERATED MINI-CAP FUND	2	Equity Fund - Growth and	133,611,653	N	7/7/1992

FUND NAME	Number of Share Classes 12/31/98	FUND CATEGORY	Assets as of December 31, 1998	LOAD	FUND EFFECTIVE DATE
FEDERATED SMALL CAP STRATEGIES FUND	3	Equity Fund - Growth	439,286,610	Y	9/13/1995
FEDERATED STOCK AND BOND FUND INC.	3	Balanced	242,195,636	N	10/31/1984
FEDERATED STOCK TRUST	1	Equity Fund - Growth and Income	1,531,791,196	N	3/31/1982
FEDERATED UTILITY FUND INC.	4	Equity Fund - Domestic Utility	1,621,363,503	Y	5/29/1987
FEDERATED UTILITY FUND II	1	Equity Fund - Domestic Utility	161,900,615	N	12/15/1993
FEDERATED WORLD UTILITY FUND	4	International Equity Fund	70,591,085	Y	4/12/1994

TOTAL EQUITY FUNDS			$15,503,346,949		

FIXED INCOME FUNDS:					
CAPITAL PRESERVATION FUND	1	Short-Term Corporate Bond Fund - High Grade	$513,997,303	N	8/1/1988
FEDERATED ADJUSTABLE RATE U.S. GOVERNMENT FUND INC	1	Government Bond Fund	142,885,196	Y	3/2/1992
FEDERATED ARMS FUND	2	Adjustable Rate Mortgage-Backed Fund	432,438,701	N	12/3/1985
FEDERATED BOND FUND	4	Long Corporate Bond Fund - High Grade	1,051,686,836	Y	6/27/1995
FEDERATED CALIFORNIA MUNICIPAL INCOME FUND	2	Municipal Bond Fund	48,839,123	Y	11/24/1992
FEDERATED FUND FOR U.S. GOVERNMENT SECURITIES INC	3	Mortgage Backed Fund	1,256,356,541	Y	10/6/1969
FEDERATED FUND FOR U.S. GOVERNMENT SECURITIES II	1	Mortgage Backed Fund	111,116,583	N	12/15/1993
FEDERATED GNMA TRUST	2	Mortgage Backed Fund	1,059,202,049	N	3/23/1982
FEDERATED GOVERNMENT INCOME SECURITIES INC.	4	Mortgage Backed Fund	1,496,828,017	Y	8/2/1996
FEDERATED HIGH INCOME ADVANTAGE FUND	1	High Yield Fund	82,361,177	Y	9/20/1993
FEDERATED HIGH INCOME BOND FUND INC.	3	High Yield Fund	2,111,426,313	Y	11/30/1977
FEDERATED HIGH INCOME BOND FUND II	1	High Yield Fund	210,659,839	N	12/15/1993
FEDERATED HIGH YIELD TRUST	1	High Yield Fund	1,095,107,374	N	8/23/1984
FEDERATED INCOME TRUST	2	Mortgage Backed Fund	748,866,726	N	3/30/1982
FEDERATED	1	Government Bond Fund	138,254,493	N	9/13/1994

INSTITUTIONAL SHORT-DURATION GOVT FUND					
FEDERATED INTERMEDIATE INCOME FUND	2	General Investment Grade	214,298,740	N	12/8/1993
FEDERATED INTERMEDIATE MUNICIPAL TRUST	1	Municipal Bond Fund	237,388,712	N	12/26/1985
FEDERATED INTERNATIONAL HIGH INCOME FUND	3	International Bond Fund	93,282,813	Y	9/9/1996
FEDERATED INTERNATIONAL INCOME FUND	3	International Bond Fund	157,053,708	Y	5/15/1991
FEDERATED LIMITED DURATION FUND	2	Mortgage Backed Fund	42,364,174	N	9/16/1996
FEDERATED LIMITED TERM FUND	2	Short-Term Corporate Bond Fund - High Grade	119,772,486	Y	12/24/1991
FEDERATED LIMITED TERM MUNICIPAL FUND	2	Municipal Bond Fund	89,107,198	Y	8/31/1993
FEDERATED MANAGED INCOME FUND	2	Asset Allocation Fund	127,201,737	N	3/11/1994

FUND NAME	Number of Share Classes 12/31/98	FUND CATEGORY	Assets as of December 31, 1998	LOAD	FUND EFFECTIVE DATE
FEDERATED MICHIGAN INTERMEDIATE MUNICIPAL TRUST	1	Municipal Bond Fund	80,419,987	Y	9/9/1991
FEDERATED MORTGAGE FUND	2	US Government Int. Muni. Bond	5,427,018	N	6/30/1998
FEDERATED MUNICIPAL OPPORTUNITIES FUND INC.	4	Municipal Bond Fund	485,464,618	Y	5/3/1996
FEDERATED MUNICIPAL SECURITIES FUND INC.	3	Municipal Bond Fund	680,014,549	N	10/4/1976
FEDERATED NEW YORK MUNICIPAL INCOME FUND	1	Municipal Bond Fund	25,872,652	Y	11/24/1992
FEDERATED OHIO MUNICIPAL INCOME FUND	1	Municipal Bond Fund	83,338,048	Y	10/10/1990
FEDERATED PENNSYLVANIA MUNICIPAL INCOME FUND	2	Municipal Bond Fund	275,778,712	Y	10/10/1990
FEDERATED SHORT-TERM INCOME FUND	2	Short-Term Corporate Bond Fund - High Grade	207,163,830	N	7/1/1986
FEDERATED SHORT-TERM MUNICIPAL TRUST	2	Municipal Bond Fund	210,654,632	N	8/20/1981
FEDERATED STRATEGIC INCOME FUND	4	Balanced	954,335,532	Y	4/5/1994

FEDERATED TOTAL RETURN BOND FUND	2	Mortgage Backed Fund	122,228,633	N	1/19/1994
FEDERATED U.S.GOVERNMENT BOND FUND	1	Mortgage Backed Fund	123,910,378	N	12/2/1985
FEDERATED ULTRASHORT BOND FUND	1	US Government ST	7,715,615	N	10/27/1998
FEDERATED US GOVERNMENT SECURITIES FUND: 1-3 YEARS	2	Government Bond Fund	648,386,984	N	3/15/1984
FEDERATED US GOVERNMENT SECURITIES FUND: 2-5 YEARS	2	Government Bond Fund	773,872,367	N	2/18/1983
FEDERATED US GOVERNMENT SECURITIES FUND: 5-10 YRS	2	Government Bond Fund	103,424,454	N	9/13/1995
HIGHLANDER INCOME FUND INC. (co-advised)	1	High Yield Fund	29,422,985	N	6/30/1994
LIBERTY TERM TRUST INC. - 1999	1	Mortgage Backed Fund	39,539,920	N	3/27/1992

TOTAL FIXED INCOME FUNDS			$16,437,466,753		

TOTAL NON-MONEY MARKET FUNDS			$31,940,813,702		

MONEY MARKET FUNDS:					
ALABAMA MUNICIPAL CASH TRUST	1	Municipal Money Market	$177,568,427	N	12/1/1993
ARIZONA MUNICIPAL CASH TRUST	1	Municipal Money Market	30,938,927	N	5/30/1998
AUTOMATED CASH MANAGEMENT TRUST	2	Prime Money Market Fund	2,340,177,446	N	9/19/1996
AUTOMATED GOVERNMENT CASH RESERVES	1	Government Money Market Fund	957,114,935	N	2/2/1990
AUTOMATED GOVERNMENT MONEY TRUST	1	Government Money Market Fund	2,386,331,956	N	6/1/1982
AUTOMATED TREASURY CASH RESERVES	1	Government Money Market Fund	286,090,750	N	8/5/1991
CALIFORNIA MUNICIPAL CASH TRUST	2	Municipal Money Market	401,044,273	N	2/29/1996
CONNECTICUT MUNICIPAL CASH TRUST	1	Municipal Money Market	359,308,898	N	11/1/1989

FUND NAME	Number of Share Classes 12/31/98	FUND CATEGORY	Assets as of December 31, 1998	LOAD	FUND EFFECTIVE DATE
EDWARD D. JONES DAILY PASSPORT CASH TRUST	1	Government Money Market Fund	7,067,968,429	N	5/9/1980
FEDERATED MASTER TRUST	1	Prime Money Market Fund	453,717,058	N	12/16/1977
FEDERATED PRIME MONEY FUND II	1	Prime Money Market Fund	101,889,493	N	12/15/1993
FEDERATED SHORT-TERM U.S. GOVERNMENT TRUST	1	Government Money Market Fund	350,002,552	N	4/16/1987
FEDERATED SHORT-TERM U.S. PRIME FUND	1	Government Money Market Fund	588,846,899	N	9/20/1993
FEDERATED SHORT-TERM U.S.GOVT SECURITIES FUND	3	Government Money Market Fund	1,124,775,514	N	1/18/1991
FEDERATED SHORT-TERM U.S.TREASURY SECURITIES FUND	1	Government Money Market Fund	479,320,338	N	4/16/1992
FEDERATED TAX-FREE TRUST	1	Municipal Money Market	547,741,616	N	3/6/1979
FLORIDA MUNICIPAL CASH TRUST	2	Municipal Money Market	804,195,214	N	11/16/1995
GEORGIA MUNICIPAL CASH TRUST	1	Municipal Money Market	199,640,381	N	8/14/1995
GOVERNMENT CASH SERIES	1	Government Money Market Fund	624,520,124	N	8/15/1989
GOVERNMENT OBLIGATIONS FUND	2	Government Money Market Fund	5,817,681,530	N	12/11/1989
GOVERNMENT OBLIGATIONS TAX MANAGED FUND	2	Government Money Market Fund	2,640,242,696	N	5/7/1995
LIBERTY U.S. GOVERNMENT MONEY MARKET TRUST	2	Government Money Market Fund	659,712,126	N	6/6/1980
LIQUID CASH TRUST	1	Government Money Market Fund	515,704,425	N	12/12/1980
MARYLAND MUNICIPAL CASH TRUST	1	Municipal Money Market	73,107,018	N	5/4/1994
MASSACHUSETTS MUNICIPAL CASH TRUST	2	Municipal Money Market	455,019,617	N	2/22/1993
MICHIGAN MUNICIPAL CASH TRUST	2	Municipal Money Market	223,375,568	N	2/29/1996
MINNESOTA MUNICIPAL CASH TRUST	2	Municipal Money Market	547,261,640	N	12/31/1990
MONEY MARKET MANAGEMENT INC.	1	Prime Money Market Fund	83,474,933	N	2/25/1993
MONEY MARKET TRUST	1	Prime Money Market Fund	450,295,952	N	10/13/1978
MUNICIPAL CASH SERIES	1	Municipal Money Market	650,002,580	N	8/15/1989
MUNICIPAL CASH SERIES II	1	Municipal Money Market	253,076,037	N	1/25/1991
MUNICIPAL OBLIGATIONS FUND	3	Municipal Money Market	338,897,497	N	2/5/1993

NEW JERSEY MUNICIPAL CASH TRUST	2	Municipal Money Market	183,236,724	N	12/10/1990
NEW YORK MUNICIPAL CASH TRUST	2	Municipal Money Market	576,123,986	N	5/30/1994
NORTH CAROLINA MUNICIPAL CASH TRUST	1	Municipal Money Market	202,746,572	N	12/1/1993
OHIO MUNICIPAL CASH TRUST	3	Municipal Money Market	588,942,030	N	3/26/1991
PENNSYLVANIA MUNICIPAL CASH TRUST	3	Municipal Money Market	494,300,480	N	12/21/1990
PRIME CASH OBLIGATIONS FUND	3	Prime Money Market Fund	2,687,321,928	N	2/5/1993
PRIME CASH SERIES	1	Prime Money Market Fund	4,234,075,226	N	8/15/1989
PRIME OBLIGATIONS FUND	2	Prime Money Market Fund	9,947,252,170	N	7/5/1994
PRIME VALUE OBLIGATIONS FUND	3	Prime Money Market Fund	1,923,000,510	N	2/5/1993
TAX-FREE INSTRUMENTS TRUST	2	Municipal Money Market	1,915,324,538	N	12/21/1982

FUND NAME	Number of Share Classes 12/31/98	FUND CATEGORY	Assets as of December 31, 1998	LOAD	FUND EFFECTIVE DATE
TAX-FREE OBLIGATIONS FUND	2	Municipal Money Market	3,178,726,939	N	12/11/1989
TENNESSEE MUNICIPAL CASH TRUST	2	Municipal Money Market	71,937,172	N	5/14/1996
TREASURY CASH SERIES	1	Government Money Market Fund	974,884,838	N	2/5/1990
TREASURY CASH SERIES II	1	Government Money Market Fund	196,300,140	N	1/25/1991
TREASURY OBLIGATIONS FUND	3	Government Money Market Fund	11,912,327,008	N	4/14/1997
TRUST FOR GOVERNMENT CASH RESERVES	1	Government Money Market Fund	648,126,453	N	3/30/1989
TRUST FOR SHORT-TERM U.S. GOVERNMENT SECURITIES	1	Government Money Market Fund	607,142,146	N	12/29/1975
TRUST FOR U.S. TREASURY OBLIGATIONS	1	Government Money Market Fund	1,697,813,635	N	11/8/1979
U.S. TREASURY CASH RESERVES	2	Government Money Market Fund	2,568,258,718	N	5/14/1991
VIRGINIA MUNICIPAL CASH TRUST	2	Municipal Money Market	263,582,806	N	8/30/1993

TOTAL MONEY MARKET FUNDS			$76,860,468,868		

MANAGED FUND TOTAL	244	$108,801,282,570
Other Managed Assets		$2,752,643,881
TOTAL MANAGED ASSETS		$111,553,926,451

</TABLE>

Summary:
Total Number of Load

Funds: 35
Total Number of
No-Load Funds: 91
Total Number of
Funds: 126

* "fund-of-funds" product which invests principally in shares of other Federated managed funds

Exhibit 10.03

AMENDMENT NO. 6 TO CREDIT AGREEMENT

THIS AMENDMENT NO. 6 TO CREDIT AGREEMENT ("AMENDMENT NO. 6") is dated as of December 3, 1998, and is by and among FEDERATED INVESTORS, INC., a Pennsylvania corporation (the "BORROWER"), the BANKS set forth therein (collectively, the "BANKS"), and PNC BANK, NATIONAL ASSOCIATION, as agent for the Banks (the "AGENT").

WHEREAS, the Borrower, the Banks and the Agent are parties to that certain Senior Secured Credit Agreement dated as of January 31, 1996, as amended by Amendment No. 1 to Credit Agreement dated as of June 27, 1996, Amendment No. 2 to Credit Agreement dated as of December 13, 1996 and Amendment No. 3 to Credit Agreement dated as of October 1, 1997, Amendment No. 4 to Credit Agreement dated as of May 11, 1998 and Amendment No. 5 to Credit Agreement dated as of July 17, 1998 (the "CREDIT AGREEMENT");

WHEREAS, capitalized terms used herein and not otherwise defined herein shall have the same meanings given to them in the Credit Agreement; and

WHEREAS, the Borrower, the Banks and the Agent wish to amend the Credit Agreement as set forth herein.

NOW, THEREFORE, in consideration of the premises and mutual covenants set forth herein, the parties hereto, intending to be legally bound, agree as follows:

1. DEFINITIONS.

Defined terms used herein unless otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement as amended by this Amendment.

2. AMENDMENT OF CREDIT AGREEMENT.

(a) The definition of Certain Fixed Charges in Section 1.1 of the Credit Agreement [Certain Definitions] is hereby amended by inserting the following immediately before the end of the definition:

"plus (iii) all stock repurchase payments made pursuant to Section 8.2(i)(iv)."

(b) Section 8.2(i)(ii) of the Credit Agreement [Dividends and Related Distributions] is hereby amended by inserting immediately before the beginning of such clause the following:

"in addition to repurchases of Unpledged Shares permitted pursuant to Section 8.2(i)(iv) below,"

(c) Section 8.2 (i)(iv) of the Credit Agreement [Dividends and Related Distributions] is hereby amended by deleting such section in its entirety and inserting the following in lieu thereof:

"(iv) during the Borrower's fiscal year 1998 and thereafter, so long as (A) no Event of Default or Potential Default has occurred and is continuing,

and (B) the Borrower is in compliance with Section 8.2(a), in the case of both clauses (A) and (B) after giving effect to any such dividend or stock repurchase payment, the Borrower may (1) make dividend payments with respect to the Common Shares and in an amount not to exceed, and (2) in addition to repurchases of Unpledged Shares permitted pursuant to Section 8.2(i)(ii) above, repurchase Unpledged Shares for an amount not to exceed, in any fiscal year on a cumulative basis for clauses (1) and (2), $20,000,000 plus 50% of any net income (or minus 100% of any net loss) of the Borrower and its Subsidiaries from January 1, 1998 through the date of payment."

(d) Section 3(B)(ii) of Exhibit L [Form of Compliance Certificate] to the Credit Agreement is hereby deleted in its entirety and the following is inserted in lieu thereof:

"(ii) for any period of determination after fiscal year 1996

(a)	(1)	scheduled principal payments on Indebtedness of the Borrower	$_____
	(2)	dividend payments on the Common Shares actually paid in cash	$_____
	(3)	stock repurchase payments pursuant to Section 8.2(i)(iv)	$_____
(b)	Sum of Items (1), (2) and (3)		$____"

3. CONDITIONS OF EFFECTIVENESS OF AMENDMENT OF CREDIT AGREEMENT. The effectiveness of the amendment of the Credit Agreement is expressly conditioned upon satisfaction of each of the following conditions precedent on the date hereof:

(a) REPRESENTATIONS AND WARRANTIES; NO DEFAULTS. The representations and warranties of the Borrower contained in Article VI of the Credit Agreement shall be true and accurate on the date thereof with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which relate solely to an earlier date or time, which representations and warranties shall be true and correct on and as of the specific dates or times referred to therein), and the Borrower shall have performed and complied with all covenants and conditions under the Senior Loan

Documents and hereof; and no Event of Default or Potential Default under the Credit Agreement and the other Senior Loan Documents shall have occurred and be continuing or shall exist.

(b) AUTHORIZATION AND INCUMBENCY. There shall be delivered to the Agent for the benefit of each Bank a certificate, dated as of the date hereof, and signed by the Secretary or an Assistant Secretary of the Borrower, certifying as appropriate as to:

(i) all action taken by the Borrower in connection with this Amendment and the other Loan Documents; and

(ii) the names of the officer or officers authorized to sign this Amendment and the other documents executed and delivered in connection herewith and described in this Section 3 and the true signatures of such officer or officers and, in the case of the Borrower, specifying the Authorized Officers permitted to act on behalf of the Borrower for purposes of the Loan Documents and the true signatures of such officers, on which the Agent and each Bank may conclusively rely.

(c) ACKNOWLEDGMENT. Each of the Loan Parties, other than the Borrower, shall have executed the Confirmation in the form attached hereto as EXHIBIT 1 hereto.

(d) LEGAL DETAILS; COUNTERPARTS. All legal details and proceedings in connection with the transactions contemplated by this Amendment shall be in form and substance satisfactory to the Agent, the Agent shall have received from the Borrower and the Required Banks an executed original of this Amendment and the Agent shall have received all such other counterpart originals or certified or other copies of such documents and proceedings in connection with such transactions, in form and substance satisfactory to the Agent.

4. FEES AND EXPENSES. The Borrower hereby agrees to reimburse the Agent and the Banks on demand for all legal costs, expenses and disbursements relating to this Amendment No. 6 which are payable by the Borrower as provided in Sections 10.5 and 11.3 of the Credit Agreement.

5. FORCE AND EFFECT. Except as expressly modified by this Amendment, the Credit Agreement and the other Loan Documents are hereby ratified and confirmed and shall remain in full force and effect after the date hereof.

6. GOVERNING LAW. This Amendment shall be deemed to be a contract under the laws of the Commonwealth of Pennsylvania and for all purposes shall be governed by and construed and enforced in accordance with the internal laws of the Commonwealth of Pennsylvania without regard to its conflict of laws principles.

[SIGNATURE PAGES FOLLOW]

SIGNATURE PAGE 1 OF 2 TO AMENDMENT NO. 6 TO CREDIT AGREEMENT

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed this Amendment No. 6 as of the date first above written.

FEDERATED INVESTORS, INC.

By: /s/ J. Christopher Donahue
Title: President

PNC BANK, NATIONAL ASSOCIATION
individually and as Agent

By: [signature illegible]
Title: Vice President

BANK OF AMERICA NT&SA

By: /s/ John G. Hayes
Title: Vice President

STATE STREET BANK AND TRUST COMPANY

By: /s/ David V. Cox
Title: Vice President

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

By:
Title:

COMMERZBANK AKTIENGESELLSCHAFT
NEW YORK BRANCH

By: /s/ William M. Earley; /s/ Edward J. McDonnell III
Title: Vice President; Vice President

SIGNATURE PAGE 2 OF 2 TO AMENDMENT NO. 6 TO CREDIT AGREEMENT

THE BANK OF NEW YORK

By: [signature illegible]
Title: Assistant Vice President

THE BANK OF NOVA SCOTIA

By: /s/ F.C.H. Ashby
Title: Senior Manager Loan Operations

FIRST UNION NATIONAL BANK

By: [signature illegible]
Title: [title illegible]

NATIONSBANK, N.A.

By: [signature illegible]
Title: Senior Vice President

NATIONAL CITY BANK OF PENNSYLVANIA

By: [signature illegible]
Title: Assistant Vice President

STAR BANK, N.A.

By: [signature illegible]
Title: Vice President

THE CHASE MANHATTAN BANK

By: /s/ Gail Wein
Title: Vice President

CONFIRMATION

Reference is hereby made to that certain Senior Secured Credit Agreement by and between FEDERATED INVESTORS, INC. (successor by merger to Federated Investors), the BANKS set forth therein and PNC BANK, NATIONAL ASSOCIATION, as Agent for the Banks dated as of January 31, 1996, as amended (the "CREDIT AGREEMENT"). All terms used herein unless otherwise defined herein shall have the meanings given to them in the Credit Agreement.

On the date hereof, the Borrower, the Banks and the Agent are entering into that certain Amendment No. 6 to Credit Agreement (the "AMENDMENT"), a copy of which has been provided to the undersigned. This Confirmation is delivered to the Bank pursuant to Section 3(c) of the Amendment.

Pursuant to the Credit Agreement, on the Closing Date (i) the Borrower, the Pledging Subsidiaries and the holders of the Class A Shares entered into that certain Pledge Agreement in favor of the Agent for the benefit of the Banks (the "PLEDGE AGREEMENT"), (ii) the Grantors entered into that certain Security Agreement in favor of the Agent for the benefit of the Banks (the "SECURITY AGREEMENT") and (iii) the Borrower and its Subsidiaries entered into that certain Intercompany and Subordination Agreement in favor of the Agent for the benefit of the Banks (the "INTERCOMPANY SUBORDINATION AGREEMENT"). This Confirmation will confirm to the Agent and the Banks that the undersigned Pledging Subsidiaries, holders of the Class A Shares, Grantors and Subsidiaries of the Borrower have read and understand the Amendment which amends Section 8.2(i)(iv) of the Credit Agreement [Dividends and Related Distributions] as set forth therein.

The Pledging Subsidiaries and the holders of the Class A Shares hereby ratify and confirm the Pledge Agreement. The Grantors hereby ratify and confirm the Security Agreement. The Subsidiaries of the Borrower hereby ratify and confirm the Intercompany Subordination Agreement.

[SIGNATURE PAGES FOLLOW]

[SIGNATURE PAGE 1 OF 5 OF CONFIRMATION]

IN WITNESS WHEREOF, intending to be legally bound hereby, the undersigned, by their duly authorized officers, have executed this Confirmation as of November ___, 1998.

ADVANCED INFORMATION SERVICES

By: /s/ James G. Wallace
Title: James G. Wallace, Vice President

EDGEWOOD SERVICES, INC.

By: /s/ Lawrence Caracciolo
Title: Lawrence Caracciolo, President

FEDERATED ADMINISTRATIVE SERVICES

By: /s/ Arthur L. Cherry
Title: Arthur L. Cherry, President

FEDERATED ADMINISTRATIVE SERVICES, INC.

By: /s/ Arthur L. Cherry
Title: Arthur L. Cherry, President

FEDERATED ADVISERS

By: /s/ J. Christopher Donahue
Title: J. Christopher Donahue, President

[SIGNATURE PAGE 2 OF 5 OF CONFIRMATION]

FEDERATED INVESTORS TRUST CO.

By: /s/ James F. Getz
Title: James F. Getz, President

FEDERATED FINANCIAL SERVICES, INC.

By: /s/ John W. McGonigle
Title: John W. McGonigle, President

FEDERATED GLOBAL RESEARCH CORP.

By: /s/ J. Christopher Donahue
Title: J. Christopher Donahue, President

FEDERATED INTERNATIONAL MANAGEMENT LIMITED

By: /s/ J. Crilley Kelley
Title: J. Crilley Kelley, Company Secretary

FEDERATED INVESTMENT COUNSELING

By: /s/ John B. Fisher
Title: John B. Fisher, President

FEDERATED INVESTORS BUILDING CORP.

By: /s/ John W. McGonigle
Title: John W. McGonigle, President

[SIGNATURE PAGE 3 OF 5 OF CONFIRMATION]

FEDERATED INVESTORS INSURANCE, INC.

By: /s/ John W. McGonigle
Title: John W. McGongile, President

FEDERATED INVESTORS MANAGEMENT COMPANY

By: /s/ John W. McGonigle
Title: John W. McGonigle, President

FEDERATED MANAGEMENT

By: /s/ J. Christopher Donahue
Title: J. Christopher Donahue, President

FEDERATED RESEARCH

By: /s/ J. Christopher Donahue
Title: J. Christopher Donahue, President

FEDERATED RESEARCH CORP.

By: /s/ J. Christopher Donahue
Title: J. Christopher Donahue, President

FEDERATED SECURITIES CORP.

By: /s/ James F. Getz
Title: James F. Getz, President - Broker/Dealer

[SIGNATURE PAGE 4 OF 5 OF CONFIRMATION]

FEDERATED SERVICES COMPANY

By: /s/ Arthur L. Cherry
Title: Arthur L. Cherry, President

FEDERATED SHAREHOLDER SERVICES

By: /s/ John W. McGonigle
Title: John W. McGonigle, President

FEDERATED SHAREHOLDER SERVICES COMPANY

By: /s/ Arthur L. Cherry
Title: Arthur L. Cherry, President

FFSI INSURANCE AGENCY, INC.

By: /s/ John W. McGonigle
Title: John W. McGonigle, President

FII HOLDINGS, INC.

By: /s/ John W. McGonigle
Title: John W. McGonigle, President

PASSPORT RESEARCH, LTD.

By: /s/ J. Christopher Donahue
Title: J. Christopher Donahue, President

[SIGNATURE PAGE 5 OF 5 OF CONFIRMATION]

RETIREMENT PLAN SERVICE COMPANY OF AMERICA

By: /s/ Arthur L. Cherry
Title: Arthur L. Cherry, Chairman

THE VOTING SHARES IRREVOCABLE TRUST

By: /S/ J. CHRISTOPHER DONAHUE
J. Christopher Donahue, Trustee

By: /S/ JOHN F. DONAHUE
John F. Donahue, Trustee

By: /S/ RHODORA J. DONAHUE
Rhodora J. Donahue, Trustee

Exhibit 10.13

FEDERATED INVESTORS, INC.

Stock Incentive Plan

1998 BONUS STOCK OPTION AGREEMENT

THIS AGREEMENT, made this 26th day of January, 1999 by and between Federated Investors, Inc., its successors and assigns (hereinafter called the "Company"), a Pennsylvania corporation having its principal place of business in Pittsburgh, Pennsylvania

A

N

D

________________, an employee of the Company (hereinafter called "Participant"). Capitalized terms used in this Agreement shall, unless specifically defined herein, have the respective meanings given to such terms in the Federated Investors Stock Incentive Plan, as adopted as of February 20, 1998 and as the same may be amended from time to time (the "Stock Incentive Plan").

WITNESSETH THAT:

WHEREAS, in order to provide incentives to its employees, the Company has adopted the Stock Incentive Plan under which, among other things, grants of options to purchase Class B Common Stock of the Company, no par value ("Common Stock"), can be made to key employees; and

WHEREAS, the Company desires to have Participant enter into or continue in its employ and to provide Participant with an incentive to put forth maximum effort for the success of the business;

WHEREAS, Participant has elected to receive a portion of his 1998 bonus in the form of stock options; and

WHEREAS, subject to the terms and conditions hereinafter set forth, the Company has granted stock options to Participant.

NOW, THEREFORE, in consideration of the mutual covenants and representations herein contained, and intending to be legally bound, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

As used herein:

1.1 "Federated" shall mean the Company, or any corporate parent, affiliate, or direct or indirect subsidiary thereof, or any successor to any such entity, for which Participant performs services, regardless of whether this Agreement has been expressly assigned to such corporate parent, affiliate, or direct or indirect subsidiary, or successor.

ARTICLE II

GRANT OF OPTIONS

2.1 Subject to the conditions set forth in Section 2.2 hereof and the other terms and conditions of this Agreement, the Company hereby grants to Participant the right and option to purchase from the Company up to, but not exceeding in the aggregate, shares of Common Stock (the "Bonus Stock Options"). The Bonus Stock Options shall have an Option Price of seventeen dollars and sixty two and one half cents ($17.625) per share and shall have a term (the "Option Term") beginning on the date first above written (the "Grant Date") and ending on January 25 , 2009.

2.2 Notwithstanding Section 2.1 or any other provision of this Agreement to the contrary, this Agreement shall become effective only if Participant executes and delivers to the Company two counterparts of this Agreement prior to the close of business on March 15, 1999.

2.3 The Bonus Stock Options are not intended to qualify as "incentive stock options" within the meaning of Section 422 of the Code.

ARTICLE III

VESTING AND EXERCISABILITY

3.1 The Bonus Stock Options shall be 100% vested as of the Grant Date.

3.2 The Bonus Stock Options, or any portion thereof, may be exercised, in whole or in part, at any time and from time to time during the Option Term in accordance with this Agreement.

ARTICLE IV

EXERCISE AND WITHHOLDING

4.1 Bonus Stock Options shall be exercised, in whole or in part, at the election of Participant by delivering to the Company a Notice in the form set forth as Exhibit A, together with a check payable to the order of the Company and/or shares of Common Stock that have been held by the Participant for at least six months prior to the date of exercise, with a stock power executed in blank, equal in value to the Option Price of the shares being purchased. Shares of Common Stock surrendered in exercise of the Bonus Stock Options shall be valued at their Fair Market Value on the date of exercise. Payment of the exercise price may also be made in accordance with a "cashless exercise" program, if established by the Company, under which, if so instructed by Participant and subject to certain conditions, the Company would issue Common Stock directly to a broker or dealer designated by the Company upon receipt of an irrevocable written notice of exercise from Participant specifying that shares subject to the Bonus Stock Options are to be applied in payment of the Option Price for Bonus Stock Options.

4.2 The Company shall notify Participant of the amount of any federal, state and local taxes required to be withheld in connection with the exercise of any Bonus Stock Options. The Company shall be authorized to deduct such amount from Participant's regular salary payments or other compensation otherwise due and owing to Participant, and if the full amount of the withholding tax cannot be recovered in this manner, Participant shall, forthwith upon the receipt of such notice, remit the deficiency to the Company; PROVIDED, HOWEVER, that, with the prior approval of the Board Committee, Participant may satisfy any tax withholding requirements, in whole or in part, by (a) delivering to the Company shares of Common Stock held by such Participant having a Fair Market Value equal to the amount of the tax; or (b) directing the Company to retain shares of Common Stock otherwise issuable to Participant under this Agreement.

ARTICLE V

MISCELLANEOUS

5.1 In the event of any change or changes in the outstanding Common Stock of the Company by reason of any stock dividend or split, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, spin-off, spin-out or other distribution of assets to shareholders, any of which takes effect after the Grant Date of Bonus Stock Options evidenced by this Agreement, then in any such event the number and kind of shares subject to the Bonus Stock Options and the Option Price per share shall be appropriately adjusted consistent with such change in such manner as the Board Committee, in its discretion, may deem equitable to prevent substantial dilution or enlargement of the rights granted to Participant hereunder. Any adjustment so made shall be final and binding upon Participant and all other interested parties.

5.2 Nothing contained in this Agreement or in the Stock Incentive Plan shall be deemed to confer upon Participant any right to prevent or to approve or vote upon any of the corporate actions described in Section 5.1. The existence of the Bonus Stock Options granted hereunder shall not affect in any way the right or the power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or preference stocks ahead of or affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

5.3 In the event of a merger, reorganization, consolidation, share exchange, transfer of assets or other transaction having similar effect involving the Company in which the Company is not the surviving corporation or pursuant to which a majority of the shares of Common Stock are exchanged for, or converted into, or otherwise become shares of another corporation or other consideration, the Board Committee shall have the sole discretion to determine that (i) the surviving, continuing, successor or purchasing corporation, as the case may be (the "Acquiring Corporation"), will either assume the Company's rights and obligations under this Agreement or substitute options in respect of the Acquiring Corporation's stock for outstanding Bonus Stock Options granted hereunder or (ii) the outstanding Bonus Stock Options shall be canceled in exchange for such consideration as the Board Committee shall approve (based on the value of the consideration received in the transaction by holders of Common Stock).

5.4 Whenever the word "Participant" is used in any provision of this Agreement under circumstances where the provision should logically be construed to apply to the executors, the administrators, or the person or persons to whom Bonus Stock Options may be transferred by will, by the laws of descent and distribution or by the Participant in accordance with Section 5.5(b) of this Agreement, the word "Participant" shall be deemed to include such person or persons.

5.5 (a) Except as otherwise provided in Section 5.5(b), the Bonus Stock Options granted hereunder are not transferable by Participant otherwise than by will or the laws of descent and distribution; and no assignment or transfer of the Bonus Stock Options granted hereunder, or of the rights represented thereby, whether voluntary or involuntary, by the operation of law or otherwise (except by will or the laws of descent and distribution), shall vest in the assignee or transferee any interest or right herein whatsoever, but immediately upon any such assignment or transfer the Bonus Stock Options shall terminate and become of no further effect.

(b) Notwithstanding Section 5.5(a), a Participant may make one or more gifts of Bonus Stock Options granted hereunder to members of the Participant's immediate family or trusts or partnerships for the benefit of such family members (the "Permissible Transferees"). All Bonus Stock Options granted to a Participant under the Plan shall be exercisable during the lifetime of such Participant only by such Participant, his agent, guardian, attorney-in-fact or a Permissible Transferee of the Participant.

5.6 Participant shall not be deemed for any purpose to be a shareholder of the Company in respect of any shares as to which the Bonus Stock Options shall not have been exercised as herein provided, and until such shares have been issued to Participant by the Company hereunder.

5.7 Nothing in this Agreement or the Stock Incentive Plan shall confer upon Participant any right to continue in the employ of the Company or shall affect the right of the Company to terminate the employment of Participant with or without cause.

5.8 Notwithstanding any other provision hereof, Participant hereby agrees that he or she will not exercise the Bonus Stock Options granted hereunder, and that the Company will not be obligated to issue any shares to Participant hereunder, if the exercise thereof or the issuance of such shares shall constitute a violation by Participant or the Company of any provision of any law or regulation of any governmental authority. Any determination in this connection by the Company shall be final and binding. The Company shall in no event be obligated to register any securities pursuant to the Securities Act of 1933 (as the same shall be in effect from time to time) or to take any other affirmative action in order to cause the exercise of the Bonus Stock Options or the issuance of shares pursuant thereto to comply with any law or regulation of any governmental authority. The Company may require Participant, as a condition of the exercise of all or any portion of the Bonus Stock Options, to represent and establish to the satisfaction of the General Counsel of the Company that all shares of Common Stock to be acquired upon the exercise of such Bonus Stock Options will be acquired for investment and not for resale. The Company may refuse to permit the sale or other disposition of any shares acquired pursuant to any such representation until it is satisfied that such sale or other disposition would not be in contravention of applicable state or federal securities law.

5.9 No amounts of income received by Participant pursuant to this Agreement shall be considered compensation for purposes of any pension or retirement plan, insurance plan or any other employee benefit plan of the Company unless otherwise provided in such plan.

5.10 Every notice or other communication relating to this Agreement shall be in writing and shall be mailed or delivered to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; provided, however, that unless and until some other address be so designated, all notices or communications by Participant to the Company shall be mailed or delivered to the Secretary of the Company at its office at Federated Investors Tower, Pittsburgh, Pennsylvania 15222, and all notices or communications by the Company to Participant may be given to Participant personally or may be mailed to him or her.

5.11 This Agreement and its validity, interpretation, performance and enforcement shall be governed by the laws of the Commonwealth of Pennsylvania, other than the conflict of law provisions thereof.

5.12 The Bonus Stock Options shall be subject to the terms and conditions set forth in the Stock Incentive Plan, which is incorporated by reference into this Agreement in its entirety, and in the event of any conflict between the provisions of this Agreement and those of the Stock Incentive Plan, the Stock Incentive Plan provisions shall govern.

5.13 This Agreement will be binding upon and inure to the benefit of Participant's heirs and representatives and the assigns and successors of the Company and may be assigned by the Company to any third party, but neither this Agreement nor any rights hereunder will be assignable or otherwise subject to hypothecation by Participant.

5.14 Except as stated hereafter, this Agreement represents the entire agreement of the parties with respect to the subject matter hereof. The Agreement may be amended or terminated at any time by written agreement of the parties hereto.

5.15 Whenever possible, each provision in this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement will be held to be prohibited by or invalid under applicable law, then (a) such provisions will be deemed amended to accomplish the objectives of the provisions as originally written to the fullest extent permitted by law and (b) all other provisions of this Agreement will remain in full force and effect.

5.16 Any dispute or litigation arising out of or relating to this Agreement will be resolved in the courts of Allegheny County or the Western District of Pennsylvania and Participant hereby consents to jurisdiction in Pennsylvania.

5.17 No rule of strict construction will be implied against the Company, or any other person in the interpretation of any of the terms of this Agreement or any rule or procedure established by the Board Committee.

5.18 Participant agrees, upon demand of the Company, to do all acts and execute, deliver and perform all additional documents, instruments and agreements which may be required by the Company to implement the provisions and purposes of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

FEDERATED INVESTORS, INC.

By ___________________________

(Title)

PARTICIPANT

EXHIBIT A

STOCK OPTION EXERCISE FORM

FEDERATED INVESTORS, INC.

BONUS STOCK OPTIONS

1. OPTIONS EXERCISED

INDICATE THE NUMBER OF SHARES OF COMMON STOCK FOR WHICH YOU ARE EXERCISING BONUS STOCK OPTIONS AND THE TOTAL OPTION PRICE FOR THE SHARES:

I hereby elect to exercise Bonus Stock Options to purchase __________ shares of Common Stock of Federated Investors, Inc. The total option price for the shares being purchased is $__________________. The Grant Date of Bonus Stock Option Agreement to which this exercise relates is: ____________________________.

2. METHOD OF EXERCISE

CHOOSE ONE OF THE METHODS OF EXERCISE LISTED BELOW:

_____ CASH PAYMENT OF OPTION PRICE

I have enclosed a check in the amount of $_____________ in full or partial payment for the shares.

_____ PAYMENT OF EXERCISE PRICE BY DELIVERY OF SHARES

I have enclosed stock certificate no(s). ___________, together with stock powers endorsed in blank, representing ____________ shares of Class B Common Stock of Federated Investors, Inc.. I acknowledge that the shares of Common Stock represented by this/these certificate(s) have been held by me for at least six months.

_____ CASHLESS EXERCISE THROUGH BROKER

Name, address, telephone number and fax number of broker designated or approved for this purpose by Federated Investors, Inc.:

----

3. NAME, ADDRESS, TELEPHONE NUMBER AND SOCIAL SECURITY NUMBER

PLEASE INDICATE YOUR NAME, ADDRESS, TELEPHONE NUMBER AND SOCIAL SECURITY NUMBER BELOW:

Name:

PLEASE USE YOUR EXACT NAME, AS YOU WOULD LIKE IT TO APPEAR ON YOUR STOCK CERTIFICATES

Address:

YOUR STOCK CERTIFICATES WILL BE DELIVERED TO THIS ADDRESS UNLESS YOU INDICATE OTHERWISE.

Telephone:

SS #:

4. FEDERAL INCOME TAX WITHHOLDING

PLEASE INDICATE BELOW THE MANNER IN WHICH FEDERATED INVESTORS, INC. SHOULD SATISFY THE TAX WITHHOLDING OBLIGATION APPLICABLE TO THE EXERCISE OF YOUR OPTIONS:

_____ CASH PAYMENT OF FEDERAL WITHHOLDING TAXES

I have enclosed $_____________ as payment in full for the federal income taxes required to be withheld by Federated Investors, Inc. with respect to this option exercise.

_____ WITHHOLDING OF SHARES

Please withhold __________ shares of Class B Common Stock from the number of shares otherwise issuable to me as a result of the option exercise.

5. SIGNATURE

I hereby elect to exercise my stock options in accordance with the terms and provisions of this Stock Option Exercise Form.

____

SIGNATURE   DATE

PRINT NAME

If you have any questions about the exercise of your stock options or the use of this form, please contact Joseph M. Huber, Senior Corporate Counsel at (412) 288-1229.

Exhibit 13.01

Selected Portions of the 1998
Annual Report to Shareholders

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data below should be read in conjunction with Federated Investors, Inc. and its subsidiaries (Federated) Consolidated Financial Statements and Notes. The selected consolidated financial data (except Managed and Administered Assets) of Federated for the five years ended Dec. 31, 1998 have been derived from the audited Consolidated Financial Statements of Federated. See the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Consolidated Financial Statements" sections which follow.

<TABLE>
<CAPTION>

	Year Ended Dec. 31,				
(dollars in thousands, except per share data)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF INCOME DATA:					
Total revenue	$ 522,127	$ 403,719	$ 321,793	$ 279,831	$ 271,190
Operating expenses:					
Compensation and related	146,927	139,373	126,966	101,534	90,003
Other operating expenses	177,845	141,004	134,308	104,885	115,077
Amortization and revaluation of intangible assets	14,937	13,715	8,886	10,445	105,868
Total operating expenses	339,709	294,092	270,160	216,864	310,948
Operating income (loss)	182,418	109,627	51,633	62,967	(39,758)
Nonoperating expenses	27,614	20,060	20,287	9,826	10,116
Minority interest	8,870	7,584	6,811	5,801	4,070
Income tax provision (benefit)	53,565	30,957	10,930	18,809	(14,608)
Income (loss) before extraordinary item	92,369	51,026	13,605	28,531	(39,336)
Extraordinary item, net of tax	0	449	986	0	0
Net income (loss)	92,369	50,577	12,619	28,531	(39,336)
Dividends on Preferred Stock	0	0	3,025	6,000	6,108
Net income (loss) applicable to Common Stock	$ 92,369	$ 50,577	$ 9,594	$ 22,531	$ (45,444)
Cash dividends per common share 1	$ 0.1350	$ 0.0583	$ 0.0417	$ 0.1667	$ 0.00
Earnings (loss) per common share--basic:					
Income before extraordinary item 1	$ 1.10	$ 0.62	$ 0.13	$ 0.25	$ (0.53)
Earnings (loss) per common share-- assuming dilution:					
Income before extraordinary item 1	$ 1.07	$ 0.61	$ 0.13	$ 0.24	$ (0.53)
Operating margin percentage	35%	27%	16%	23%	(15%)
BALANCE SHEET DATA AT PERIOD END:					
Cash and cash equivalents	$ 185,581	$ 22,912	$ 6,561	$ 7,181	$ 7,968
Deferred sales commissions, net	258,593	164,623	85,905	36,845	36,720
Intangible assets, net	52,953	67,880	69,105	63,703	74,413
Total assets	580,020	337,156	247,377	185,402	178,150
Long-term debt--recourse	98,698	98,950	244,125	68,062	88,690
Long-term debt--nonrecourse 2	272,850	185,388	0	0	0
Total liabilities	490,643	377,800	333,485	155,883	156,284
Shareholders' equity	88,706	(41,110)	(86,922)	28,692	20,733
Book value per common share	$ 1.03	$ (0.49)	$ (1.04)	$ 0.32	$ 0.23
MANAGED AND ADMINISTERED ASSETS AT PERIOD END (in millions):					
Money market funds	$ 77,055	$ 63,622	$ 51,163	$ 40,610	$ 31,528
Fixed income funds	16,437	15,067	14,109	14,330	14,106
Equity funds	15,503	11,710	7,594	5,287	3,927
Separate accounts	2,558	2,141	1,976	1,486	1,257
Total Managed Assets	$ 111,553	$ 92,540	$ 74,842	$ 61,713	$ 50,818
Total Administered Assets	$ 28,165	$ 46,999	$ 35,574	$ 22,089	$ 21,304

</TABLE>

1 Reflects the one-for-one stock dividend paid in 1996 and the one-for-one stock

dividend and one-for-two stock dividend paid in 1998.

2 See Note 6 to the Consolidated Financial Statements for information concerning nonrecourse debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

AVERAGE MANAGED AND ADMINISTERED ASSETS
<TABLE>

<CAPTION>

	Year Ended Dec. 31,		Percent Change
(dollars in millions)	1998	1997	1998
<S>	<C>	<C>	<C>
Money market funds	$ 69,074	$ 55,636	24%
Fixed income funds	15,851	14,382	10%
Equity funds	13,777	9,690	42%
Separate accounts	2,334	1,872	25%
Total average Managed Assets	$101,036	$ 81,580	24%
Total average Administered Assets	$ 53,136	$ 42,965	24%

</TABLE>

COMPONENTS OF CHANGES IN EQUITY AND FIXED INCOME FUND MANAGED ASSETS
<TABLE>
<Caption

	Year Ended Dec. 31,		Percent Change
(dollars in millions)	1998	1997	1998
<S>	<C>	<C>	<C>
EQUITY FUNDS			
Beginning assets	$ 11,710	$ 7,594	54%
Sales	5,049	4,017	26%
Redemptions	(3,098)	(2,196)	41%
Net sales	1,951	1,821	7%
Net exchanges	(17)	128	(113%)
Acquisition related	--	353	(100%)
Other*	1,859	1,814	2%
Ending assets	$ 15,503	$11,710	32%
FIXED INCOME FUNDS			
Beginning assets	$ 15,067	$ 14,109	7%
Sales	6,170	4,584	35%
Redemptions	(4,831)	(4,416)	9%
Net sales	1,339	168	697%
Net exchanges	(274)	(72)	(281%)
Acquisition related	--	175	(100%)
Other*	305	687	(56%)
Ending assets	$ 16,437	$ 15,067	9%

</TABLE>

* Primarily reinvested dividends and distributions, net investment income and changes in the value of securities held by the funds.

RESULTS OF OPERATIONS

GENERAL

Federated is a leading provider of investment management products and related financial services.

Federated derives a majority of its revenue through advising, distributing and servicing the Federated funds, separately managed accounts and other related products. Federated also derives revenue through distributing and servicing third-party mutual funds.

Investment advisory, distribution and the majority of the servicing fees are based on the net asset value of the investment portfolios that are managed or administered by Federated. As such, these revenues are dependent upon factors including market conditions and the ability to attract and maintain assets. Accordingly, revenues will fluctuate with changes in the total value and composition of the assets under management or administration.

YEAR ENDED DEC. 31, 1998, COMPARED TO THE YEAR ENDED DEC. 31, 1997

NET INCOME. Net income for the year ended Dec. 31, 1998, was $92.4 million, or $1.07 per diluted share, an 83% and 78% increase, respectively, over 1997. Revenue growth of 29% from higher levels of average Managed Assets as well as improvements in operating margins, from 27% to 35%, were the primary reasons for the improved financial performance. The higher levels of average Managed Assets occurred despite the recent market volatility. In 1998, net sales for equity and fixed income funds were $2.0 billion and $1.3 billion, respectively, resulting in increases of 7% and 697%, respectively, over 1997, as a result of the continued strong investment performance and expanded product menu of these asset classes. Increased assets in money market funds are due to the increased demand from customers for investment vehicles in which to place cash during periods of market volatility, as well as efforts to expand the corporate customer base.

REVENUE. Federated's consolidated revenue increased $118.4 million, or 29%, to $522.1 million for the year ended Dec. 31, 1998, from $403.7 million for 1997 primarily due to higher levels of Managed Assets. Average Managed Assets increased 24% from $81.6 billion for the year ended Dec. 31, 1997, to $101.0 billion for 1998, including increases of 24%, 10%, 42% and 25% in money market funds, fixed income funds, equity funds and separate accounts, respectively. Service-related revenues from sources other than Managed Assets increased by approximately $3.3 million primarily due to increased revenues within Federated's clearing and retirement plan recordkeeping services. Interest and dividends increased by $5.9 million, or 193%, over the prior year as a result of higher levels of invested cash resulting from the B Share advanced commission financing program, net proceeds from Federated's initial public offering in May 1998 and higher levels of cash generated from operations. Other income increased $5.0 million, or 91%, from $5.4 million for the year ended Dec. 31, 1997, to $10.4 million for 1998, principally as a result of servicing contract buyouts during 1998 totaling $6.0 million. Collectively, these clients, as well as certain other clients whose contracts had expired and were not renewed during 1998, had administered assets of $31.6 billion at the time of their departure. However, these assets accounted for less than 2% of 1998 total revenue. Due to the relatively lower revenues generated by Administered Assets, changes in the amount of Administered Assets generally have less impact on Federated's results of operations than changes in the amount of Managed Assets.

OPERATING EXPENSES. Total operating expenses increased from $294.1 million for the year ended Dec. 31, 1997, to $339.7 million for 1998, an increase of $45.6 million, or 16%. Expense management continues to be a major focus for Federated, with expense increases largely attributable to growth in assets under management and higher levels of profitability. As a result, expense growth has been contained at levels substantially below the 29% increase in revenues, and, accordingly, operating margins have improved to 35% for the year ended Dec. 31, 1998, from 27% for 1997.

Compensation and related expenses increased $7.5

million, or 5%, from $139.4 million for the year ended Dec. 31, 1997, to $146.9 million for 1998. This increase was primarily attributed to a 54% increase in variable-based compensation as a result of increased sales, favorable investment performance as compared to benchmarks and overall improved financial performance of Federated, as well as staff growth of 15% within investment research and 6% within certain service areas. These increases were partially offset by staffing reductions resulting from the outsourcing of the portfolio accounting function and the capitalization of certain salaries and employee benefits related to internally developed software.

Advertising and promotional expenses increased from $34.6 million for the year ended Dec. 31, 1997, to $46.0 million for 1998, an increase of $11.4 million, or 33%, primarily as a result of higher levels of marketing allowances being paid to brokers and bank clients for the retailing efforts of marketing funds, as well as increased spending in printed matter, advertising and promotional expenses to further build company name and brand awareness.

Office and occupancy expenses increased from $24.9 million for the year ended Dec. 31, 1997, to $27.2 million for 1998, an increase of $2.3 million, or 9%. This increase is primarily attributable to increased rent expense for leased space as a result of general rate increases with respect to current leased space and to Federated's acquisition of additional office space in the second quarter of 1998 as part of an effort to consolidate certain servicing functions. This consolidation eventually resulted in a net reduction of leased office space at the end of 1998.

Professional service fees increased $12.7 million, or 148%, from $8.5 million for the year ended Dec. 31, 1997, to $21.2 million for 1998. This increase is due to fees paid to a third party for portfolio accounting services which were performed internally throughout most of 1997, and was partially offset by reductions in consulting and legal fees.

Travel and related expenses declined $1.2 million, or 8%, from $15.0 million for the year ended Dec. 31, 1997, to $13.8 million for 1998 as a result of continued expense management.

Amortization of deferred sales commissions increased from $20.9 million for the year ended Dec. 31, 1997, to $32.1 million for 1998, an increase of $11.2 million, or 54%. This increase is due to higher levels of deferred sales commissions as a result of the continued sale of shares of funds which require Federated to advance commissions to the broker/dealers.

Amortization of intangible assets increased from $13.7 million for the year ended Dec. 31, 1997, to $14.9 million for 1998, an increase of $1.2 million, or 9%, as a result of an acquisition in the second quarter of 1997.

NONOPERATING EXPENSES. Nonoperating expenses increased by $7.5 million, or 38%, to $27.6 million for the year ended Dec. 31, 1998, as compared to $20.1 million for 1997. This increase is attributable to the interest and other debt-related expenses recognized relative to nonrecourse debt incurred for the securitization of certain B Share fund assets and was partially offset by the elimination of interest expense on Federated's revolving line of credit as a result of the reduction of debt previously held within Federated's Senior Secured Credit Agreement.

MINORITY INTEREST. The minority interest increased from $7.6 million for the year ended Dec. 31, 1997, to $8.9 million for 1998, an increase of $1.3 million, or 17%. This increase is a result of higher net income being recorded for the subsidiary for which Federated acts as the general partner with a majority interest of 50.5%. The increase in income is attributable to the higher average Managed Assets of the funds which the subsidiary advises.

INCOME TAXES. The income tax provision for the year ended Dec. 31, 1998, was $53.6 million as compared to $31.0 million for 1997, an increase of $22.6 million, or 73%. This increase was due primarily to the increase in the level of income before income taxes from $82.0 million for the year ended Dec. 31, 1997, to $145.9 million for 1998, an increase of $63.9 million, or 78%.

YEAR ENDED DEC. 31, 1997, COMPARED TO THE YEAR ENDED DEC. 31, 1996

NET INCOME. Net income applicable to Common Stock for the year ended Dec. 31, 1997, was $50.6 million, or $0.60 per diluted share, a 427% and 400% increase, respectively, over 1996. Revenue growth of 25% from higher levels of average Managed Assets and improvements in operating margins from 16% to 27% were the primary reasons for the improved financial performance.

REVENUE. Federated's consolidated revenue increased $81.9 million, or 25%, to $403.7 million for the year ended Dec. 31, 1997, from $321.8 million for 1996 primarily due to higher levels of Managed Assets. Average Managed Assets increased 23% from $66.1 billion for the year ended Dec. 31, 1996, to $81.6 billion for 1997, including increases of 26%, 3%, 54% and 11% in money market funds, fixed income funds, equity funds and separate accounts, respectively. Service-related revenues from sources other than Managed Assets increased by approximately $7.7 million, primarily due to increased revenues within Federated's clearing and retirement plan recordkeeping services, as well as revenues earned on bank proprietary administration, transfer agency and portfolio accounting contracts resulting from increased Administered Assets and accounts. Interest and dividends increased by $0.9 million, or 40%, over the prior year due to higher levels of invested cash resulting from the B Share advanced commission financing program initiated in the fourth quarter of 1997. Marketable securities gains decreased from $2.7 million for the year ended Dec. 31, 1996, to $0.1 million in 1997, a $2.6 million, or 98% decrease resulting from a reduced level of corporate investments being utilized to prime corporately sponsored mutual funds.

OPERATING EXPENSES. Total operating expenses increased from $270.2 million for the year ended Dec. 31, 1996, to $294.1 million for 1997, an increase of $23.9 million, or 9%. Federated's focus on expense management contained the increase in expenses at levels substantially below the 25% increase in revenues, improving operating margins to 27% for the year ended Dec. 31, 1997, from 16% for 1996.

Compensation and related expenses for the year ended Dec. 31, 1997, were $139.4 million as compared to $127.0 million in 1996, an increase of $12.4 million, or 10%. This increase was primarily due to a 56% increase in incentive compensation expense as a result of increased sales, favorable investment performance as compared to benchmarks and overall improved financial performance of Federated, as well as an increase of 7% in the average number of employees. This change does not reflect the reduction in the number of employees due to the outsourcing of the portfolio accounting function which occurred late in the fourth quarter of 1997. Staff growth was experienced in the area of investment research, with continued emphasis in domestic and global portfolio management, and in various service areas.

Advertising and promotional expenses increased from $30.6 million for the year ended Dec. 31, 1996, to $34.6 million for 1997, an increase of $4.0 million, or 13%, primarily as a result of higher levels of marketing allowances being paid to brokers and bank clients for the retailing efforts of marketing funds.

Systems and communications expense increased by $1.5 million, or 6%, from $25.6 million for the year ended Dec. 31, 1996, to $27.1 million in 1997, primarily as a result of an increase in costs related to third-party system vendors.

Office and occupancy expense was $24.9 million for the year ended Dec. 31, 1997, a decrease of $1.6 million, or 6%, as compared to the $26.5 million recorded for the year ended Dec. 31, 1996. This decrease was primarily due to the reduction of rent expense as the result of the early termination of leased space, a reduction in leasehold improvement depreciation and a reduction in other office expenses.

Professional service fees decreased from $10.0 million for the year ended Dec. 31, 1996, to $8.5 million for 1997, a decrease of $1.5 million, or 15%, as a result of reduced legal and other professional fee expenses.

Travel and related expenses declined $1.0 million, or 7%, from $16.0 million for the year ended Dec. 31, 1996, to $15.0 million for 1997 as a result of management's initiative to reduce discretionary spending in this expense category by negotiating more favorable discount arrangements with travel-related vendors and improved overall expense management.

Amortization of deferred sales commissions increased from $12.3 million for the year ended Dec. 31, 1996, to $20.9 million for 1997, an increase of $8.6 million, or 69%. This increase was due to higher levels of deferred sales commissions as a result of the continued sale of shares of funds which require Federated to advance commissions to the broker/dealers.

Amortization of intangible assets increased from $8.9 million for the year ended Dec. 31, 1996, to $13.7 million for 1997, an increase of $4.8 million, or 54%. This expense increased as a result of the purchase of several customer relationships in late 1996 and throughout 1997 and the resulting allocation of a portion of the purchase price to intangible assets on Federated's balance sheet.

Other expenses decreased $3.2 million, or 24%, from $13.2 million for the year ended Dec. 31, 1996, to $10.0 million for 1997. This reduction was principally the result of the reduction of taxes other than income taxes and the reduction of reserves for errors related to the various service businesses.

NONOPERATING EXPENSES. Nonoperating expenses decreased by 1% from $20.3 million for the year ended Dec. 31, 1996, to $20.1 million in 1997. The decrease was due to the early prepayment of term debt as a result of a debt restructuring in mid-1996 and the prepayment of the remaining term debt in the fourth quarter of 1997 as a result of the B Share financing program. In both instances, the allocable unamortized portions of the debt issuance costs related to the term debt which was prepaid were recorded as extraordinary items, net of tax.

MINORITY INTEREST. The minority interest increased from $6.8 million for the year ended Dec. 31, 1996, to $7.6 million for 1997, an increase of $0.8 million, or 11%. This increase is a result of the higher net income recorded for the subsidiary for which Federated acts as the general partner with a majority interest of 50.5%. The increase in income is attributable to the higher average Managed Assets of the funds which the subsidiary advises.

INCOME TAXES. The income tax provision for the year ended Dec. 31, 1997, was $31.0 million as compared to $10.9 million for 1996, an increase of $20.1 million, or 183%. This increase was primarily due to the increase in the level of income before income taxes from $24.5 million for the year ended Dec. 31, 1996, to $82.0 million for 1997, an increase of $57.5 million, or 234%.

CAPITAL RESOURCES AND LIQUIDITY

CASH FLOW. Cash provided by operating activities totaled $60.1 million for the year ended Dec. 31, 1998. The cash flow from operating activities was primarily utilized for the purchase of equipment, dividend payments, distributions to the minority interest and payments on long-term debt.

DEFERRED SALES COMMISSIONS AND NONRECOURSE DEBT.

Certain subsidiaries of Federated pay commissions to broker/dealers (deferred sales commissions) to promote investments in certain mutual funds. For mutual fund shares sold under such marketing programs, Federated retains certain distribution and servicing fees from the mutual fund over the outstanding life of such shares. These fees consist of 12b-1, shareholder service and contingent deferred sales charge (CDSC) fees. Both 12b-1 and shareholder service fees are calculated as a percentage of average Managed Assets associated with the related classes of shares. If shares are redeemed before the end of a specified holding period as outlined in the related mutual fund prospectus, the mutual fund shareholder is normally required to pay Federated a CDSC fee based on a percentage of the lower of the current market value or the original cost basis of the redeemed shares, such percentage diminishing over a recovery schedule not to exceed six years.

For non-B Share related sales, the up-front commissions Federated pays to broker/dealers are capitalized and recorded as deferred sales commissions and are amortized over the estimated benefit period not to exceed CDSC periods. The 12b-1 and shareholder service fees are recognized in the statements of income over the life of the mutual fund class share. Any CDSC fees collected are used to reduce the deferred sales commission asset.

In the fourth quarter of 1997, Federated entered into an agreement to sell certain of the future revenue streams associated with its existing B Share deferred sales commissions. This agreement also provided for Federated to sell, on a regular basis, the rights associated with such future revenue streams of future B Share deferred sales commissions during a three-year contract period. For accounting purposes, these agreements were accounted for as financings, and nonrecourse debt was recorded.

The following table demonstrates the effects of the B Share financing program since its inception in the fourth quarter of 1997 on both the Consolidated Balance Sheets and the Consolidated Statements of Income at, and for the periods ended, Dec. 31, 1998 and 1997, respectively:

		4th Quarter
(in thousands)	1998	1997
DEC. 31		
Assets		
Deferred sales commissions, net*	$ 249,580	$ 162,398
Receivables--Federated funds	6,314	2,773
Other long-term assets	2,798	3,664
Liabilities		
Long-term debt--nonrecourse	$ 272,850	$ 185,388
Accounts payable	3,951	0
PERIODS ENDED DEC. 31		
Revenues		
Other service fees, net--		
Federated funds	$ 51,912	$ 8,582
Expenses		
Amortization of deferred sales commissions	$ 28,881	$ 4,191
Debt expense--nonrecourse	18,759	1,936
Other expenses	764	124

* Excludes deferred sales commissions related to B Share revenue streams which have not been financed as of the end of the period due to the timing of the sale of the revenue streams to the third party.

Due to the nonrecourse nature of this financing arrangement, the $18.1 million excess of B Share-related liabilities over the related assets at Dec. 31, 1998, will be recognized in income over the remaining life of the B Share cash flows.

CAPITAL EXPENDITURES. Capital expenditures totaled $7.5 million for the year ended Dec. 31, 1998, which excludes Year 2000-related project costs described below. It is anticipated that 1999 capital expenditures will range from $20.0 million to $25.0 million.

DIVIDENDS. In 1997, Federated paid a cash dividend of $0.0583 per share. Federated's board of directors adopted a policy in 1998 to declare and pay cash dividends on a quarterly basis. A dividend of $0.0208 per share was paid on Jan. 31, 1998, and dividends of $0.038 per share were paid on April 30, 1998, Aug. 10, 1998, and Nov. 13, 1998. Federated's board of directors declared a dividend of $0.038 per share that was paid on Feb. 15, 1999. After the payment of the dividend on Feb. 15, 1999, Federated, given current debt covenants as disclosed in the Common Stock footnote (Note 10 to the Consolidated Financial Statements), has the ability to pay dividends of approximately $51.4 million.

DEBT FACILITIES. Federated has the following recourse debt facilities: Senior Secured Credit Agreement and Senior Secured Note Purchase Agreement.

SENIOR SECURED CREDIT AGREEMENT. At Dec. 31, 1998, the outstanding balance under the Senior Secured Credit Agreement was zero with an amount available to borrow of $150.0 million. The Senior Secured Credit Agreement contains various financial and other covenants. Federated was in compliance with all debt covenants at Dec. 31, 1998.

SENIOR SECURED NOTE PURCHASE AGREEMENT. The Senior Secured Note Purchase Agreement debt totaled $98.0 million as of Dec. 31, 1998. This note is due in seven annual $14.0 million installments beginning June 27, 2000, and maturing June 27, 2006. The Senior Secured Note Purchase Agreement contains various covenants with which Federated was in compliance at Dec. 31, 1998.

CAPITALIZED LEASE OBLIGATIONS. At Dec. 31, 1998, Federated had capitalized lease obligations totaling $0.9 million related to certain telephone equipment. The scheduled principal payments approximate $0.2

million per year for 1999 through 2002.

NONRECOURSE DEBT. Federated had nonrecourse debt obligations aggregating $272.9 million at Dec. 31, 1998. This obligation was incurred in connection with a three-year future commitment to exchange rights to certain future revenue streams associated with the B Share advance commissions. This debt will be repaid or amortized based solely on certain cash flows related to B Share assets. See Note 6 to the Consolidated Financial Statements.

SHAREHOLDERS' EQUITY. In May 1998, Federated Investors was merged with and into Federated Investors, Inc., its wholly owned subsidiary. All outstanding Class A and Class B Common Shares of Federated Investors were exchanged for an equal number of shares of no par Class A and Class B Common Stock of Federated Investors, Inc., respectively, with the same proportionate ownership and substantially similar rights. All Treasury Stock of Federated Investors was retired, and additional paid-in capital was transferred to the no par Class A and Class B Common Stock of Federated Investors, Inc. based on their relative proportionate values immediately prior to the merger.

Also in May 1998, Federated issued an additional 2,610,000 shares of Class B Common Stock in an initial public offering for net proceeds of approximately $46.2 million in cash.

FUTURE CASH REQUIREMENTS. Management expects that the principal needs for cash will be to advance sales commissions, fund increased property and equipment acquisitions, pay shareholder dividends, repurchase company stock, service debt and fund strategic business acquisitions. Management believes that Federated's existing liquid assets, together with the expected continuing cash flow from operations, its borrowing capacity under current credit facilities, its B Share financing arrangement and its ability to issue stock will be sufficient to meet its present and reasonably foreseeable cash needs.

YEAR 2000 READINESS DISCLOSURE

Many existing information technology (IT) products and systems and non-IT products and systems containing embedded processor technology were originally programmed to represent any date by using six digits (e.g., 12/31/99), as opposed to eight digits (e.g., 12/31/1999). Accordingly, such products and systems may experience miscalculations, malfunctions or disruptions when attempting to process information containing dates that fall after Dec. 31, 1999, or when attempting to recognize the year 2000 as a leap year. These potential problems are collectively referred to as the "Year 2000," or "Y2K" problem. Also, the occurrence of such problems may take place before the year 2000 if a computer system utilizes future dates during its processing.

STATE OF READINESS. Computer processing is critical to Federated's business operations, and the Y2K issue poses a significant potential risk to operations. Therefore, Federated has established an enterprise-wide project to address this issue. The project includes four phases: inventory/assessment, which includes the identification of all components of Federated's computing environment and the assessment of Y2K issues for these components; remediation of the Y2K issues identified in the inventory/assessment phase; testing to ensure that remediation was successful; and implementation of the modified systems.

The project scope has been divided into four segments which comprise Federated's computing environment as follows:

* systems developed internally by Federated's IT division--this constitutes the majority of Federated's Y2K efforts;

* mission-critical processing provided by the funds' service providers;

* other critical aspects of systems and operations within the business units, including both commercially available computer applications and the progress of key business partners; and

* embedded systems--for Federated's operations, embedded systems mainly consist of building systems and office equipment.

As of the end of 1998, Federated completed the inventory/assessment phase with respect to its internally developed systems. Federated has also substantially completed the remediation and unit testing of individual programs. Approximately 85% of applications have been implemented into production after unit level testing. In addition, approximately three quarters of these systems have finished the next phase, system level testing. The focus during 1999 is to complete implementation and system testing during the first half of the year and test with external interfacing systems.

Certain mission-critical processing is performed for Federated's funds by outside service providers, including the transfer agency, portfolio accounting, and custody functions. Federated has identified these service providers, is monitoring the progress of these companies in addressing Y2K issues via progress reports and meetings, and is working with these service providers to test their systems, as appropriate. As of the end of 1998, the critical service providers reported good progress and confidence in making their systems compliant.

Assessment and remediation are underway for business unit systems, key business partners and embedded systems. Federated currently expects to complete assessment and necessary remediation for these items by mid-1999.

Additionally, Federated is participating in the "industry-wide testing" being coordinated by the Securities Industry Association. This testing is being conducted to ensure that major broker/dealers, exchanges, clearing houses, and depositories are able to communicate properly in the year 2000. Federated participated in initial tests for processing of mutual fund transactions in both July and Oct. 1998. Federated is also participating in the full industry-wide test slated for March/April 1999.

COSTS TO ADDRESS Y2K. Federated estimates its Y2K project will cost approximately $10 million. Federated has incurred approximately $5.2 million from the inception of the Y2K project through Dec. 31, 1998, with $4.5 million being reflected within the current year's financial statements. Y2K costs are being funded from operating revenue and are being expensed as incurred. These cost estimates are subject to change as the project continues. The estimated total costs are not considered to have a material impact on Federated's results of operations or financial position.

While certain non-time sensitive IT projects have been delayed due to Y2K efforts and costs, no strategic projects or projects for legal or regulatory requirements have been deferred or canceled.

RISKS OF YEAR 2000 ISSUES. It must be realized that, as with all other companies in the financial services industry, many day-to-day functions of Federated are dependent on accurate computer processing. Further, this processing is conducted by an extensive network of systems, both internal to Federated and external, with both direct and indirect interaction. Accordingly, if not addressed, Y2K issues could result in Federated's inability to perform mission-critical functions, including the trading of securities and processing of fund shareowner transactions.

A portion of Federated's business involves international investments, thereby exposing Federated to operations, custody and settlement processes outside the United States. Federated is monitoring the progress of the funds' international custodians in these areas. Federated is also assessing Y2K issues for other aspects of its international operations.

Y2K is a risk for many of the issuers of the specific securities in which Federated's funds invest, in both the U.S. and international markets. Accordingly, Federated has incorporated assessment of Y2K risk into its investment management process.

CONTINGENCY PLANS. Because Federated's operations are reliant upon systems which are not under its direct control, Federated's Y2K plan includes the development of contingency plans to address its critical operations in the event of Y2K-related disruptions. However, in an operation as complex and geographically distributed as Federated's business, there are limited alternatives to certain of its mission-critical systems or public utilities. If certain mission-critical systems or public utilities are not made Year 2000 compliant or fail, there would be a material adverse impact upon Federated's business, financial condition and results of operations. Although Federated is investigating alternative solutions, it is unlikely that an adequate contingency plan can be developed to avoid such an adverse impact in the event mission-critical systems or public utilities fail to achieve compliance.

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in the Year 2000 Readiness Disclosure and elsewhere in this report, constitute forward-looking statements, which involve known and unknown risks, uncertainties, and other factors that may cause the actual results, levels of activity, performance, or achievements of Federated, or industry results, to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. For a discussion of such risk factors, see the section titled Risk Factors and Cautionary Statements in Federated's Annual Report on Form 10-K for the year ended Dec. 31, 1998, and other reports on file with the Securities and Exchange Commission. As a result of the foregoing and other factors, no assurance can be given as to future results, levels of activity, performance, or achievements, and neither Federated nor any other person assumes responsibility for the accuracy and completeness of such statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Federated's investments are primarily money market funds. Occasionally, Federated invests in new fluctuating net asset value mutual funds (priming) sponsored by Federated in order to provide investable cash to the fund, allowing the fund to establish a yield history. Federated may use derivative financial instruments as an attempt to hedge these investments. As of Dec. 31, 1998, the book value of the priming investments and the derivative financial instruments were $12.0 million and $0.4 million, respectively. All of Federated's debt instruments carry fixed interest rates and therefore are not subject to market risk.

MANAGEMENT'S REPORT

Federated Investors, Inc. (Federated) management takes responsibility for the integrity and fair presentation of the financial statements in this annual report. These financial statements were prepared from accounting records which management believes fairly and accurately reflect the operations and financial position of Federated.

The financial statements were prepared in conformity with generally accepted accounting principles and, as such, include amounts based on management's best estimates and judgements considering currently available information and management's view of current conditions and circumstances. Management also prepared the other information in this report and is responsible for its accuracy and consistency with the financial statements.

Management is responsible for establishing and maintaining effective internal control designed to provide reasonable assurance that assets are protected from improper use and accounted for in accordance with its policies and that transactions are recorded accurately in Federated's records. The concept of reasonable assurance is based upon a recognition that the cost of the controls should not exceed the benefit derived. Even effective internal control, no matter how well designed, has inherent limitations -- including the possibility of circumvention or overriding of controls -- and therefore can only provide reasonable assurance with respect to financial statement preparation and safeguarding of assets.

The financial statements of Federated have been audited by Ernst & Young LLP, independent auditors. Their accompanying report is based on an audit conducted in accordance with generally accepted auditing standards.

Federated Investors, Inc.

[Graphic]

J. Christopher Donahue
President and Chief Executive Officer

[Graphic]

Thomas R. Donahue
Chief Financial Officer

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Federated Investors, Inc.

We have audited the consolidated balance sheets of Federated Investors, Inc. and subsidiaries (Federated Investors) as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of Federated Investors' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Federated Investors, Inc. and subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

[Graphic]

Pittsburgh, Pennsylvania
January 26, 1999

CONSOLIDATED BALANCE SHEETS (dollars in thousands, except share data)

<TABLE>
<CAPTION>

	Dec. 31, 1998	1997
<S>	<C>	<C>
CURRENT ASSETS		
Cash and cash equivalents	$ 185,581	$ 22,912
Marketable securities	13,398	8,945
Receivables -- Federated funds	26,097	20,062
Receivables -- other, net of reserve of $1,276 and $3,262, respectively	4,872	7,416
Accrued revenues	3,666	4,600
Prepaid expenses	4,688	2,853
Income taxes receivable	0	7,519
Other current assets	3,958	1,805
Total current assets	242,260	76,112
LONG-TERM ASSETS		
Customer relationships, net of accumulated amortization of $39,571 and		
$26,907, respectively	17,743	30,398
Goodwill, net of accumulated amortization of $13,762 and $11,512, respectively	35,107	37,356
Other intangible assets, net of accumulated amortization of $3,608 and		
$3,585, respectively	103	126
Deferred sales commissions, net	258,593	164,623
Property and equipment, net	21,550	22,163
Other long-term assets	4,664	6,378
Total long-term assets	337,760	261,044
Total assets	$ 580,020	$ 337,156
CURRENT LIABILITIES		
Cash overdraft	$ 5,932	$ 7,680
Current portion of long-term debt -- recourse	239	280
Accrued expenses	51,096	34,939
Accounts payable	24,864	18,634
Income taxes payable	2,522	0
Other current liabilities	1,675	2,520
Total current liabilities	86,328	64,053
LONG-TERM LIABILITIES		
Long-term debt -- recourse	98,698	98,950
Long-term debt -- nonrecourse	272,850	185,388
Deferred tax liability, net	29,949	26,546
Other long-term liabilities	2,818	2,863
Total long-term liabilities	404,315	313,747

Total liabilities	490,643	377,800
Minority interest	671	466
SHAREHOLDERS' EQUITY Common Stock:		
Class A, no par value, 20,000 shares authorized, 6,000 and 0 shares issued and outstanding, respectively	189	0
Class B, no par value, 900,000,000 shares authorized, 86,337,000 and 0 shares issued, respectively	75,090	0
Class A, $1.00 stated value, 99,000 shares authorized, 0 and 6,000 shares issued and outstanding, respectively	0	6
Class B, $.01 stated value, 149,700,000 shares authorized, 0 and 90,093,758 shares issued, respectively	0	903
Additional paid-in capital	0	28,574
Retained earnings	14,556	55,137
Treasury Stock, at cost, 138,750 and 6,666,758 shares Class B Common Stock, respectively	(23)	(123,373)
Employee restricted stock plan	(1,512)	(2,266)
Accumulated other comprehensive income	406	(91)
Total shareholders' equity	88,706	(41,110)
Total liabilities, minority interest, and shareholders' equity	$ 580,020	$ 337,156

</TABLE>

(The accompanying notes are an integral part of these consolidated financial statements.)

CONSOLIDATED STATEMENTS OF INCOME (dollars in thousands, except per share data)

<TABLE>
<CAPTION>

	Year Ended Dec. 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
REVENUE			
Investment advisory fees, net -- Federated funds	$ 269,971	$ 213,361	$ 174,585
Investment advisory fees, net -- other	7,360	5,507	4,636
Administrative service fees, net -- Federated funds	72,101	60,934	51,239
Administrative service fees, net -- other	25,133	24,495	21,684
Other service fees, net -- Federated funds	101,252	67,494	44,590
Other service fees, net -- other	23,347	20,669	15,741
Commission income -- Federated funds	4,008	2,744	1,652
Interest and dividends	8,887	3,032	2,160
Marketable securities (losses) gains	(295)	49	2,651
Other income	10,363	5,434	2,855
Total revenue	522,127	403,719	321,793
OPERATING EXPENSES			
Compensation and related	146,927	139,373	126,966
Advertising and promotional	46,042	34,609	30,556
Systems and communications	27,840	27,118	25,630
Office and occupancy	27,215	24,863	26,516
Professional service fees	21,171	8,539	10,018
Travel and related	13,802	14,968	16,020
Amortization of deferred sales commissions	32,117	20,882	12,349
Amortization of intangible assets	14,937	13,715	8,886
Other	9,658	10,025	13,219
Total operating expenses	339,709	294,092	270,160
Operating income	182,418	109,627	51,633
NONOPERATING EXPENSES			
Debt expense--recourse	8,855	18,124	20,287
Debt expense--nonrecourse	18,759	1,936	0
Total nonoperating expenses	27,614	20,060	20,287
Income before minority interest, income taxes and extraordinary item	154,804	89,567	31,346
Minority interest	8,870	7,584	6,811
Income before income taxes and extraordinary item	145,934	81,983	24,535
Income tax provision	53,565	30,957	10,930
Income before extraordinary item	92,369	51,026	13,605
Extraordinary item related to debt restructuring costs, net of tax	0	449	986
Net income	92,369	50,577	12,619
Dividends on Preferred Stock	0	0	3,025
Net income applicable to Common Stock	$ 92,369	$ 50,577	$ 9,594
EARNINGS PER COMMON SHARE-BASIC			
Income before extraordinary item	$ 1.10	$ 0.62	$ 0.13
Extraordinary item related to debt restructuring costs, net of tax	--	(0.01)	(0.01)

Net income per common share -- basic	$ 1.10	$ 0.61	$ 0.12
EARNINGS PER COMMON SHARE-ASSUMING DILUTION			
Income before extraordinary item	$ 1.07	$ 0.61	$ 0.13
Extraordinary item related to debt restructuring costs, net of tax	--	(0.01)	(0.01)
Net income per common share -- assuming dilution	$ 1.07	$ 0.60	$ 0.12
Cash dividends per common share	$ 0.1350	$ 0.0583	$ 0.0417

</TABLE>

Per share amounts have been restated to reflect the one-for-one stock dividend paid in 1996 and the one-for-one stock dividend and one-for-two stock dividend paid in 1998.

(The accompanying notes are an integral part of these consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (dollars in thousands, except per share data)

<TABLE>
<CAPTION>

Years Ended Dec. 31, 1998, 1997 and 1996

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Employee Restricted Stock Plan	Accumulated Other Comprehensive Income	Total Shareholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT JAN. 1, 1996	$ 1	$ 153	$ 29,286	$ 4,034	$ (58)	$ (5,350)	$ 626	$ 28,692
Net income	0	0	0	12,619	0	0	0	12,619
Other comprehensive income, net of tax:								
Unrealized loss on marketable securities, net of reclassification adjustment	0	0	0	0	0	0	(599)	(599)
Other	0	0	0	0	0	0	(12)	(12)
Comprehensive income								12,008
Amortization of employee restricted stock plan and other compensation plans	0	0	371	0	0	2,183	0	2,554
Dividends declared on:								
Common Stock	0	141	0	(3,639)	0	0	0	(3,498)
Preferred Stock, $3,025 per share	0	0	0	(3,025)	0	0	0	(3,025)
Purchase of Treasury Stock	0	0	0	0	(123,653)	0	0	(123,653)
Conversion of Preferred Stock to Common Stock	(1)	53	(52)	0	0	0	0	0
BALANCE AT DEC. 31, 1996	0	347	29,605	9,989	(123,711)	(3,167)	15	(86,922)
Net income	0	0	0	50,577	0	0	0	50,577
Other comprehensive income, net of tax:								
Unrealized loss on marketable securities, net of reclassification adjustment	0	0	0	0	0	0	(110)	(110)
Other	0	0	0	0	0	0	4	4
Comprehensive income								50,471
Amortization of employee restricted stock plan and other compensation plans	0	0	257	0	0	28	0	285
Dividends declared on Common Stock	0	562	0	(5,429)	0	0	0	(4,867)
Issuance of stock under employee restricted								

stock plan, net	0	0	(218)	0	440	(197)	0	25
Restricted stock forfeitures	0	0	(1,070)	0	0	1,070	0	0
Purchase of Treasury Stock	0	0	0	0	(102)	0	0	(102)
BALANCE AT DEC. 31, 1997	0	909	28,574	55,137	(123,373)	(2,266)	(91)	(41,110)
Net income	0	0	0	92,369	0	0	0	92,369
Other comprehensive income, net of tax:								
Unrealized gain on marketable securities, net of reclassification adjustment	0	0	0	0	0	0	502	502
Other	0	0	0	0	0	0	(5)	(5)
Comprehensive income								92,866
Amortization of employee restricted stock plan and other compensation plans	0	216	42	0	0	512	0	770
Dividends declared on Common Stock	0	0	0	(11,480)	0	0	0	(11,480)
Initial public offering of Class B Common Stock	0	46,202	0	0	0	0	0	46,202
Merger of Federated Investors into Federated Investors, Inc.	0	27,707	(27,707)	(121,464)	121,464	0	0	0
Issuance/exercise of stock options	0	487	(909)	0	1,909	0	0	1,487
Restricted stock forfeitures	0	(242)	0	0	0	242	0	0
Purchase of Treasury Stock	0	0	0	0	(23)	0	0	(23)
Other	0	0	0	(6)	0	0	0	(6)
BALANCE AT DEC. 31, 1998	$ 0	$ 75,279	$ 0	$ 14,556	$ (23)	$ (1,512)	$406	$ 88,706

</TABLE>

(The accompanying notes are an integral part of these consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CASH FLOWS (dollars in thousands)

<TABLE>

<CAPTION>

	Year Ended Dec. 31, 1998	1997	1996
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES			
Net income	$ 92,369	$ 50,577	$ 12,619
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Extraordinary item related to debt restructuring costs	0	690	1,516
Amortization of intangible assets	14,937	13,715	8,886
Depreciation and other amortization	7,923	8,674	9,398
Amortization of deferred sales commissions	32,117	20,882	12,349
Minority interest	8,870	7,584	6,811
Write-off/loss on sale of property and equipment	1,582	271	403
Amortization of employee restricted stock and other compensation plans	770	285	2,554
Provision for deferred income taxes	3,123	11,117	17,088
Net realized loss/(gain) on sale of marketable securities	295	(49)	(2,651)
Deferred sales commissions paid	(149,137)	(111,628)	(69,600)
Contingent deferred sales charges received	23,050	12,027	8,191
Other	(11)	4	(12)
Other changes in assets and liabilities:			
Increase in receivables, net	(3,491)	(5,780)	(3,941)
Decrease (increase) in accrued revenues	934	(1,216)	(620)
(Increase) decrease in prepaid expenses and other current assets	(3,988)	116	684

Decrease (increase) in income taxes receivable/payable	10,052	(961)	(2,066)
Decrease (increase) in other long-term assets	348	(1,870)	(4,805)
Increase in accounts payable and accrued expenses	22,387	15,790	17,653
(Decrease) increase in other current liabilities	(2,022)	(4,904)	11,485
(Decrease) increase in other long-term liabilities	(45)	(257)	1,537
Net cash provided by operating activities	60,063	15,067	27,479
INVESTING ACTIVITIES			
Proceeds from sale of property and equipment	0	2,454	14
Additions to property and equipment	(7,526)	(3,129)	(12,362)
Cash paid for acquisitions	(580)	(14,699)	(12,128)
Purchases of marketable securities	(16,082)	(24,531)	(60,769)
Proceeds from redemptions of marketable securities	12,104	29,230	65,122
Net cash used by investing activities	(12,084)	(10,675)	(20,123)
FINANCING ACTIVITIES			
Distributions to minority interest	(8,665)	(7,932)	(6,824)
Dividends paid	(11,480)	(4,867)	(6,523)
Proceeds from issuance of Common Stock/options	47,689	25	0
Purchase of Treasury Stock	(23)	(102)	(123,653)
Proceeds from new borrowings -- recourse	0	15,729	234,724
Proceeds from new borrowings -- nonrecourse	142,977	195,156	0
Payments on debt -- recourse	(293)	(176,282)	(105,700)
Payments on debt -- nonrecourse	(55,515)	(9,768)	0
Net cash provided (used) by financing activities	114,690	11,959	(7,976)
Net increase (decrease) in cash and cash equivalents	162,669	16,351	(620)
Cash and cash equivalents, beginning of period	22,912	6,561	7,181
Cash and cash equivalents, end of period	$ 185,581	$ 22,912	$ 6,561
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION Cash paid during the year for:			
Interest	$ 15,251	$ 21,221	$ 16,758
Income taxes	49,075	20,495	702

</TABLE>

(The accompanying notes are an integral part of these consolidated financial statements.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dec. 31, 1998, 1997 and 1996)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) NATURE OF OPERATIONS

Federated Investors, Inc. and its subsidiaries (Federated) sponsor, market and provide investment advisory, distribution and administrative services primarily to mutual funds. Federated also provides investment advisory and administrative services to corporations, employee benefit plans and private investment advisory accounts. The operations of Federated are organized into three principal functions: investment advisory, distribution and services.

A large portion of Federated's revenue is derived from investment advisory services provided to mutual funds and separately managed accounts through various subsidiaries and affiliates pursuant to investment advisory contracts. These subsidiaries are registered as investment advisers under the Investment Advisers Act of 1940 and with certain states.

Shares of the portfolios or classes of shares under management or administration by Federated are distributed by indirect wholly owned subsidiaries which are registered broker/dealers under the Securities Exchange Act of 1934 and under applicable state laws. Federated's investment products are primarily distributed within the bank trust, broker/dealer and institutional markets.

Through indirect wholly owned subsidiaries, Federated provides mutual fund services to support the operation and administration of all mutual funds it sponsors.

(B) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Federated Investors, Inc. and all of its subsidiaries including special purpose entities (SPEs) (see Note 6). All significant intercompany accounts and transactions have been eliminated.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results will differ from those estimates, and such differences may be material to the consolidated financial statements.

(C) CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and investments which consist of interest-bearing deposits with banks, overnight federal funds sold, money market accounts, and other investments with an original maturity of less than three months.

(D) MARKETABLE SECURITIES

Marketable securities consist of equity and fixed income securities which are classified as "available for sale" and are carried at fair value. The unrealized gains or losses on these securities are included in the accumulated other comprehensive income component of shareholders' equity, net of tax. Realized gains and losses on these securities are computed on a specific identification basis and recognized in the statements of income.

(E) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, or fair value if acquired in connection with a business combination, and are depreciated using the straight-line method over their estimated useful lives ranging from 3 to 10 years. Leasehold improvements are depreciated using the straight-line method over their estimated useful lives or their respective lease terms, whichever is shorter. As property and equipment is placed out- of-service, the cost and related accumulated depreciation are removed and any residual net book value is reflected as other income in the Consolidated Statements of Income.

(F) INTANGIBLE ASSETS

Goodwill and other intangible assets are amortized on a straight-line basis over the estimated period of benefit, not to exceed 25 years. Customer relationships are amortized using the straight-line method over their estimated period of benefit (5 to 9 years). Federated continuously evaluates the remaining useful lives and carrying values of the intangible assets to determine whether events and circumstances indicate that a change in the useful life or impairment in value may have occurred. Indicators of impairment monitored by Federated include a decline in the level of managed assets, changes to contractual provisions underlying certain intangible assets and reductions in operating cash flows. Should there be an indication of a change in the useful life or an impairment in value, Federated compares the carrying value of the asset and its related useful life to the projected undiscounted cash flows expected to be generated from the underlying asset over its remaining useful life to determine whether an impairment has occurred. If the carrying value of the asset exceeds the undiscounted cash flows, impairment is measured based on fair value using a discounted cash flow methodology. The discount rate utilized by Federated reflects its weighted average cost of capital. Impairment from changes in contractual provisions is based on the carrying value of the underlying asset, or component of the underlying asset when the restrictions change.

Measuring impairment for the customer relationship intangible asset is dependent upon the level of remaining managed assets for those relationships. A decline in the remaining managed asset balance in excess of the estimated attrition rate for those managed assets could have a considerable impact on the underlying value of the customer relationship intangible asset.

(G) DEFERRED SALES COMMISSIONS

Certain subsidiaries of Federated Investors, Inc. pay commissions to broker/ dealers (deferred sales commissions) to promote investments in certain mutual funds. For mutual fund shares sold under such marketing programs, Federated retains certain distribution and servicing fees from the mutual fund over the outstanding life of such shares. These fees consist of 12b-1, shareholder service and contingent deferred sales charge (CDSC) fees. Both 12b-1 and shareholder service fees are calculated as a percentage of average Managed Assets associated with the related classes of shares. If shares are redeemed before the end of a specified holding period as outlined in the related mutual fund prospectus, the mutual fund shareholder is normally required to pay Federated a CDSC fee based on a percentage of the lower of the current market value or the original cost basis of the redeemed shares, such percentage diminishing over a recovery schedule not to exceed six years.

For non-B Share related sales, the up-front commissions Federated pays to broker/dealers are capitalized and recorded as deferred sales commissions and are amortized over the estimated benefit period not to exceed CDSC periods. The 12b-1 and shareholder service fees are recognized in the income statement over the life of the mutual fund class share. Any CDSC fees collected are used to reduce the deferred sales commission asset.

In the fourth quarter of 1997, Federated entered into an agreement to sell certain of the future fee revenue streams associated with its existing B Share deferred sales commissions. This agreement also provided for Federated to sell, on a regular basis, the rights associated with such future revenue streams during a three-year contract period. For accounting purposes, these agreements have been accounted for as financings, and nonrecourse debt was recorded. The Consolidated Statements of Income reflect 12b-1 and shareholder service fees which are included in "Other service fees, net -- Federated funds" as well as debt expense associated with the nonrecourse debt, amortization of deferred sales commissions and other program-related expenses.

(H) FOREIGN CURRENCY TRANSACTIONS GAINS AND LOSSES

Federated has a foreign subsidiary, in which the subsidiary's financial statements are reported in U.S. dollars. Transaction gains and losses are reflected in the statements of income.

(I) REVENUE RECOGNITION

Revenue is recognized during the period in which the services are performed. Federated may waive certain fees for services (primarily investment advisory fees) for competitive reasons, or to meet regulatory requirements.

(J) REPORTING ON ADVERTISING COSTS

Federated expenses the cost of all advertising as incurred.

(K) INCOME TAXES

Federated accounts for income taxes under the liability method which requires the recognition of deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(L) COMPREHENSIVE INCOME

In 1998, Federated adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," (SFAS 130) which requires companies to report all changes in equity during a period, except those resulting from investment by owners and distribution to owners, in a financial statement for the period in which they are recognized. Comprehensive income is reported within the Consolidated Statements of Changes in Shareholders' Equity.

(M) STOCK-BASED COMPENSATION

As allowed under the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS 123) Federated has elected to apply Accounting Principles Board Opinion No. 25 (APB 25) "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock-based plans.

(N) RECLASSIFICATION OF PRIOR PERIODS' STATEMENTS

Certain items previously reported have been reclassified to conform with the current year's presentation.

(O) RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," (SOP 98-1) was adopted effective Jan. 1, 1998. SOP 98-1 requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use. Qualifying software costs are capitalized and amortized over the estimated useful life of the software. Prior to the adoption of SOP 98-1, software development costs were expensed as incurred. Restatement of prior year financial statements was not required. In 1998, Federated capitalized $1,396,000 of costs as a result of the adoption of this pronouncement.

Statement of Position No. 98-5, "Reporting on the Costs of Start-Up Activities," (SOP 98-5) was adopted in 1998. SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. Prior to the adoption of SOP 98-5, these costs were capitalized and expensed over a period of time. Restatement of previously issued financial statements is not permitted. The adoption of this pronouncement did not have a material effect on the results of operations in 1998 as Federated did not incur a significant level of organization costs, as defined by this pronouncement.

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS 133) requires that all derivatives, including hedges, be recorded at fair value and that all changes in fair value or cash flow of both the hedge and the hedged item be recognized in earnings in the same period. SFAS 133 is effective for years beginning after June 15, 1999, but companies may early adopt as of the beginning of any fiscal quarter that begins after June 1998. The adoption of SFAS 133 is not expected to have a significant effect on earnings or the financial position of Federated based on the current minimal use of derivatives.

(2) MARKETABLE SECURITIES

A summary of the cost and estimated market value of marketable securities is as follows:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Market Value
AVAILABLE-FOR-SALE:				
Investments in fluctuating value mutual funds				
Dec. 31, 1998	$ 12,757	$ 719	$ (78)	$ 13,398
Dec. 31, 1997	$ 9,076	$ 60	$ (191)	$ 8,945

Gross realized gains and (losses) on the sale of marketable securities were approximately $395,000 and $(690,000); $275,000 and $(226,000); and $3,126,000 and $(475,000), respectively, for the years ended Dec. 31, 1998, 1997 and 1996.

Federated enters into future and currency forward contracts (hedge instruments) to hedge against market and currency fluctuations related to investments in mutual funds it sponsors. These investments enable the funds to build a diversified portfolio and are redeemed as outside investors purchase the funds. To minimize the risk factors, Federated utilizes hedge instruments which resemble the investment's portfolio. The hedge instruments are carried at fair value in "Marketable securities" on the Consolidated Balance Sheets. At Dec. 31, 1998, the futures contracts had maturities of less than one year.

(3) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

(in thousands)	Dec. 31, 1998	Dec. 31, 1997
Leasehold improvements	$ 17,810	$ 18,187
Computer equipment	32,019	32,988
Office furniture and equipment	12,789	10,508
Transportation equipment	1,881	1,851
Total cost/fair value	64,499	63,534
Accumulated depreciation	(42,949)	(41,371)
Property and equipment, net	$ 21,550	$ 22,163

Depreciation expense was $6,557,000, $7,599,000 and $7,961,000 for the years ended Dec. 31, 1998, 1997 and 1996, respectively.

(4) INTANGIBLE ASSETS

In 1997, Federated assumed the investment management and distribution responsibilities for seven retail mutual funds. The acquisition was accounted for as a purchase for which Federated recorded a customer relationship intangible asset and paid $13,282,000 in cash.

(5) LONG-TERM DEBT--RECOURSE

Federated's long-term debt--recourse consisted of the following:

(in thousands)	Dec. 31, 1998	Dec. 31, 1997
Senior Secured Note Purchase Agreement	$ 98,000	$ 98,000
Capitalized leases	937	1,230
Total debt	98,937	99,230
Less: current portion	239	280
Total long-term debt -- recourse	$ 98,698	$ 98,950

In 1996, Federated obtained a bank Senior Secured Credit Agreement (Senior), maturing in 2001, consisting of a Revolving Credit Facility and a Term Loan Facility. Also in 1996, Federated entered into a $98,000,000 Senior Secured Note Purchase Agreement (Note), maturing in 2006. Pursuant to these agreements, Federated must meet certain financial and nonfinancial covenants. Federated was in compliance with all such covenants at both Dec. 31, 1998 and 1997.

The obligations of Federated under the Senior and the Note are secured by pledges of all the outstanding Common Stock or shares of beneficial interest of all of the subsidiaries owned by Federated Investors, Inc.

(A) SENIOR SECURED CREDIT AGREEMENT

The Term Loan Facility was fully repaid as of Dec. 31, 1997. The Revolving Credit Facility is used for general business purposes. Federated pays a commitment fee of 0.25% on the unused portion of the Revolving Credit Facility. At Dec. 31, 1998, the outstanding balance was $0, with availability of $150,000,000.

(B) SENIOR SECURED NOTE PURCHASE AGREEMENT

The Note is due in seven equal annual installments beginning in 2000 and maturing in 2006. The Note carries a fixed interest rate of 7.96%. Under the terms of the Note, Federated may prepay the debt at any time, however, a make-whole amount is required at the time of prepayment.

(C) MATURITIES

The aggregate contractual maturities of the recourse debt for the years following Dec. 31, 1998, are:

(in thousands)	
1999	$ 239
2000	14,258
2001	14,280
2002	14,160
2003	14,000
2004 and thereafter	42,000
Total recourse debt	$ 98,937

(6) SECURITIZATION OF B SHARE ASSETS AND NONRECOURSE DEBT

In the fourth quarter of 1997, Federated entered into an agreement with a third party to sell the rights to the future revenue streams associated with the 12b-1, shareholder service and CDSC fees of the Class B Shares of various mutual funds it manages. This agreement includes both an initial sale of existent rights to future revenue streams, as well as a program to sell, on a continuous basis for a three-year period, the future rights associated with future revenue streams relating to the ongoing sale of B Shares. For accounting purposes, transactions executed under the agreement are reflected as financings, and nonrecourse debt has been recorded.

In the fourth quarter of 1997, Federated exchanged its rights to certain future cash flows associated with net deferred sales commission assets with a remaining book value of $88,738,000 for $110,214,000 in cash. Two special purpose entities (SPEs) were established for the purpose of the initial transaction. A bankruptcy remote SPE was formed by Federated to purchase the rights to the future cash flows from a subsidiary, which in turn sold these future cash flows to a third-party SPE. The third-party SPE funded this purchase by issuing Class A and Class B notes.

The cash flows of the related B Share assets will be used by the third-party SPE to first pay trustee fees and other program-related expenses. After these fees are paid, interest and principal are paid in the following succession: Class A interest, Class B interest, Class A principal and Class B principal (only upon full payment of Class A principal). Any residual cash flow after full payment of all principal on the notes will be paid 90% to Federated and 10% to the holders of the Class B notes. As a result of Federated's 90% residual interest in the third-party SPE cash flows, this SPE is a consolidated subsidiary of Federated. The debt of this SPE is nonrecourse debt to Federated in the event the future cash flows associated with the rights sold do not cover the full obligation of the notes.

The outstanding balance of the Class A and Class B notes at Dec. 31 were as follows:

(in thousands)	1998	1997
Class A	$ 74,251	$ 97,873
Class B	9,700	9,700

The Class A and Class B notes carry fixed interest rates of 7.44% and 9.80%, respectively.

Also in the fourth quarter of 1997 and in calendar year 1998, Federated exchanged additional net deferred sales commission assets with a remaining book value of $79,190,000 and $139,961,000, respectively, for $81,056,000 and $143,396,000, respectively, in cash. Additional third-party SPEs were formed, however, these entities are not consolidated on Federated's financial statements as a result of Federated having less than a 50% residual interest in these third-party SPEs' cash flows. These transactions were accounted for as financings, and the nonrecourse debt has been recorded with imputed interest rates based on current market conditions at the time of issuance ranging from 6.7% to 7.6%. Cash flows associated with these B Share assets will be applied by the third-party SPEs in the following succession: fees and other program-related expenses, interest and principal. Federated will participate in varying levels of any residual cash flow after full payment of program obligations. The outstanding balance of this nonrecourse debt was $188,899,000 and $77,815,000 as of Dec. 31, 1998 and 1997, respectively. The nonrecourse debt does not contain a contractual maturity but is amortized dependent upon the cash flows of the related B Share assets.

The third party has agreed into the fourth quarter of 2000 to purchase, on a semimonthly basis, the rights associated with certain future revenue streams of B Shares sold.

(7) EMPLOYEE BENEFIT PLANS

(A) 401(K)/PROFIT SHARING PLAN

The employees of Federated participate in a 401(k)/Profit Sharing Plan.

Federated offers a 401(k) plan covering substantially all employees. Under the 401(k) plan, employees can make contributions at a rate of 1% to 15% of their compensation (as defined in the 401(k) plan), subject to Internal Revenue Code limitations. Federated makes a matching contribution in an amount equal to 100% of a participant's first 2% of contributions and 50% of the next 4% of contributions. Forfeitures of nonvested matching contributions are used to offset future matching contributions.

In order to vest in Federated's matching contributions, a participant in the 401(k) plan must be employed at least three years and work at least 1,000 hours per year. Upon completion of three years of service, 20% of a participant's balance vests and 20% vests for each of the following four years, if the participant works 1,000 hours per year. Employees are immediately vested in their 401(k) salary reduction contributions.

Matching contributions to the 401(k) plan amounted to $2,976,000, $2,537,000 and $2,596,000, for the years ended Dec. 31, 1998, 1997 and 1996, respectively.

An employee of Federated becomes eligible to participate in the Profit Sharing Plan upon the first day of employment. The Profit Sharing Plan is a defined contribution plan to which Federated contributes amounts as authorized by its board of directors. An employee will receive a portion of Federated's contribution upon completion of 500 hours of service and if employed on the last day of the plan year. No contributions have been made to the Profit Sharing Plan in 1998, 1997 and 1996.

(B) EMPLOYEE STOCK PURCHASE PLAN

In July 1998, Federated established an Employee Stock Purchase Plan which allows employees to purchase a maximum of 500,000 shares of Class B Common Stock. Employees may contribute up to 10% of their salary to purchase shares of Federated's Class B Common Stock on a quarterly basis at the market price. The shares under the plan may be newly issued or may be shares purchased on the open market. In 1998, 3,732 shares were purchased by the plan on the open market.

(8) OTHER COMPENSATION PLANS

(A) DEFERRED COMPENSATION PLANS

In 1997, a deferred compensation arrangement was established for a group of key employees for the purpose of providing incentives to certain individuals who contribute to the success of Federated. Each annual award provided under this program is deferred until 2001, with the vesting period beginning in 1997. Termination of employment for any reason other than death, disability or retirement prior to the plan's vesting date of the third quarter 2001 causes the participant's benefit to be forfeited. The liability at Dec. 31, 1998 was $316,000 and is included in "Other long-term liabilities" on the Consolidated Balance Sheets. Amounts included in "Compensation and related" expense on the Consolidated Statements of Income were $232,000 and $71,000 for the years ended Dec.

31, 1998 and 1997, respectively.

(B) EMPLOYEE RESTRICTED STOCK PLAN

Under the Employee Restricted Stock Plan, Federated has sold to certain key employees, subject to restrictions, shares of Class B Common Stock. During the restricted period, the recipient receives dividends on the shares. The compensation cost to Federated (the difference between the estimated fair value of the stock and the amount paid by the key employees at issuance) is expensed over the period of employee performance during which the restrictions lapse, not to exceed 10 years. In 1998, 1997 and 1996, 0, 75,000 and 0 shares, respectively, of Class B Common Stock were sold under the Employee Restricted Stock Plan. Forfeitures of 139,000, 612,000 and 132,000 shares occurred in 1998, 1997 and 1996, respectively. For the years ended Dec. 31, 1998, 1997 and 1996, compensation expense related to the Employee Restricted Stock Plan was $512,000, $28,000 and $2,183,000, respectively.

(C) STOCK OPTIONS

Stock options are part of the Stock Incentive Plan offered by Federated to reward employees and independent directors who have contributed to the success of Federated and to provide incentive to increase their efforts on behalf of Federated.

In the first quarter of 1996, 2,997,000 SAR Plan rights were converted to stock options. In 1997, 1,683,000 stock options were granted to a group of key employees. In 1998, the remaining 48,000 SAR Plan rights were converted to stock options, 300,000 employee stock options were granted and 10,000 options were awarded to independent directors. The weighted-average grant date fair value of the options granted in 1998 was $4.86 per option. In the event the independent appraisals (prior to the public registration of Federated's Class B Common Stock in May 1998) or market value of the Class B Common Stock exceeds the exercise price of the options at the time of issuance, the difference is charged to compensation expense over the vesting period. For existing plans, vesting occurs over a 1- to 10-year period and may be accelerated as a result of meeting specific performance criteria. Each vested option may be exercised, during the stated exercise period, for the purchase of one share of Class B Common Stock at the exercise price.

For the years ended Dec. 31, 1998, 1997 and 1996, compensation expense related to the stock options was $(57,000), $231,000 and $365,000, respectively.

The following table summarizes the status of and changes in Federated's stock option plan during the past three years:

	Options	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
Outstanding at				
beginning of 1996	0	$0.00	0	$0.00
Granted	2,997,000	1.91		
Exercised	0	0.00		
Forfeited	(264,000)	1.91		
Outstanding at				
end of 1996	2,733,000	1.91	0	0.00
Granted	1,683,000	5.53		
Exercised	0	0		
Forfeited	(397,200)	1.91		
Outstanding at				
end of 1997	4,018,800	3.43	0	0.00
Granted	358,000	8.58		
Exercised	(300,000)	3.33		
Forfeited	(249,450)	3.13		
Outstanding at				
end of 1998	3,827,350	$3.94	0	$0.00

Additional information regarding stock options outstanding at Dec. 31, 1998, follows:

Range of Exercise Prices	Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)	Exercisable	Weighted-Average Exercise Price
$1.91 to $1.93	2,208,600	$ 1.92	6.8	0	$0.00
$6.00 to $9.30	1,608,750	6.62	8.7	0	0.00
$19.00	10,000	19.00	9.7	0	0.00
	3,827,350	$ 3.94	7.6	0	$0.00

(D) PRO FORMA NET INCOME

Federated accounts for stock options and employee restricted stock in accordance with APB 25. The following pro forma information regarding net income assumes the adoption of SFAS 123 for stock options and employee restricted stock granted subsequent to Dec. 31, 1994. The estimated fair value of the options is amortized to expense over the option's vesting period. For stock options and employee restricted stock granted prior to Federated's initial public offering, the fair value was estimated at the date of grant using the Minimum Value option pricing model with the following weighted-average assumptions for 1998:

a risk-free interest rate of 5.72%; a dividend yield of 1.6%; and an expected life of 9.5 years. The estimated fair value of the restricted stock is expensed over the vesting period. The fair value was based on the estimated market price on the grant date. For stock options granted after Federated's initial public offering, Federated estimated the grant-date fair value using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0.89%; expected volatility of 29.6%; risk-free interest rate of 4.63% and expected lives of 5.5 years. The pro forma results are estimates of statements of income as if compensation expense had been recognized for all stock-based compensation plans and are not indicative of the impact on future periods.

	Year Ended Dec. 31,		
	1998	1997	1996
Pro forma net income (in thousands)	$ 92,235	$ 50,501	$ 12,630
Pro forma basic earnings per common share	$ 1.10	$ 0.61	$ 0.12
Pro forma diluted earnings per common share	$ 1.07	$ 0.60	$ 0.12

(9) MINORITY INTEREST IN SUBSIDIARY

A subsidiary of Federated Investors, Inc. has a majority interest (50.5%) and acts as the general partner in Passport Research, Ltd., a limited partnership. Edward Jones is the limited partner with a 49.5% interest. The partnership acts as investment adviser to two registered investment companies.

(10) COMMON STOCK

On May 19, 1998, Federated Investors was merged with and into Federated Investors, Inc., its wholly owned subsidiary, with Federated Investors, Inc. continuing as the surviving corporation. All outstanding Class A and Class B Common Shares of Federated Investors were exchanged for an equal number of shares of no par Class A and Class B Common Stock of Federated Investors, Inc., respectively, with the same proportionate ownership and substantially similar rights, and all Treasury Stock of Federated Investors was retired.

As a condition precedent to the merger described above, Federated Investors, Inc. issued an additional 2,610,000 shares of Class B Common Stock in an initial public offering for net proceeds of approximately $46 million in cash. At Dec. 31, 1998, 6,000 and 86,198,250 shares of Class A and Class B Common Stock were outstanding, respectively.

The holders of the Class A Common Stock have the entire voting rights of Federated; however, without the consent of the majority of the holders of the Class B Common Stock, Class A Common Stock shareholders cannot alter Federated's structure, dispose of all or substantially all of Federated's assets, amend the Articles of Incorporation or Bylaws of Federated to adversely affect the Class B Common Stock shareholders, or liquidate or dissolve Federated.

Federated's Senior Secured Credit Agreement allows dividends in an amount not to exceed $20 million plus 50% of any net income (less 100% of any loss) of Federated during the period from Jan. 1, 1998, to and including the date of payment. The Senior Secured Note Purchase Agreement allows dividends to an amount of $5,000,000 plus 50% of any net income (less 100% of any loss) of Federated during the period from Jan. 1, 1996, to and including the date of payment. As of Dec. 31, 1998, approximately $54.7 million was available to pay dividends under the more restrictive of the two limitations. Cash dividends of $0.135, $0.0583 and $0.0417 per share, or $11,480,000, $4,867,000 and $3,498,000 were paid in 1998, 1997 and 1996, respectively, to holders of shares of Common Stock.

In 1996, Federated Investors entered into an agreement to convert 1,000 shares of Series A Preferred Stock into 5,302,758 shares of Class B Common Stock and to buy the converted shares back for $19.09 per share, or $101,233,000. Also in

1996, Federated Investors purchased 1,180,000 shares of Class B Common Stock from existing shareholders at $19.00 per share for a total of $22,420,000. The repurchased shares were recorded as Treasury Stock at cost.

(11) LEASES

Federated has various operating lease agreements primarily involving facilities, office and computer equipment, and vehicles. These leases are noncancellable and expire on various dates through the year 2007.

The following is a schedule by year of future minimum rental payments required under the operating leases that have initial or remaining noncancellable lease terms in excess of one year as of Dec. 31, 1998:

(in thousands)

1999	$ 16,018
2000	13,749
2001	11,446
2002	11,259
2003	11,162
2004 and thereafter	47,937
Total minimum lease payments	$ 111,571

Rent expense was approximately $18,204,000, $14,293,000 and $14,674,000 for the years ended Dec. 31, 1998, 1997 and 1996, respectively.

(12) INCOME TAXES

Federated files a consolidated federal income tax return. Financial statement tax expense is determined under the liability method.

Income tax expense (benefit) consisted of the following:

	Year Ended Dec. 31,		
(in thousands)	1998	1997	1996
CURRENT			
Federal	$ 49,948	$ 19,597	$ (6,672)
State	494	243	514
	50,442	19,840	(6,158)
DEFERRED			
Federal	3,123	11,117	17,088
Extraordinary item	0	(241)	(530)
Total	$ 53,565	$ 30,716	$ 10,400

For the years ended Dec. 31, 1998, 1997 and 1996, the foreign subsidiary had net operating income (losses) of $4,224,000, $1,449,000 and $(257,000), respectively, for which an income tax expense of $1,478,000, $0 and $0, respectively, had been provided.

The reconciliation between the federal statutory income tax rate and Federated's effective income tax rate consisted of the following:

	Year Ended Dec. 31,		
	1998	1997	1996
Expected statutory rate	35.0%	35.0%	35.0%
Increase:			
State income taxes	0.2	0.2	1.4
Amortization of goodwill	0.5	1.0	3.2
Meals and entertainment limitation	0.8	1.2	4.6
Other	0.2	0.4	0.3
Total	36.7%	37.8%	44.5%

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities consisted of the following:

	Dec. 31,	
(in thousands)	1998	1997
DEFERRED TAX ASSETS		
Intangible assets	$ 15,419	$ 14,946
Organization costs	1,399	1,399
Employee restricted stock plan	223	170
Property and equipment depreciation	164	0

Reserve for bad debts	926	1,068
Other	1,133	246
Total gross deferred tax asset	$ 19,264	$ 17,829
DEFERRED TAX LIABILITIES		
Deferred sales commissions	$ 33,718	$ 41,753
Deferred 12b-1 fee income	12,252	0
Other	3,243	2,622
Total gross deferred tax liability	$ 49,213	$ 44,375
Net deferred tax liability	$ 29,949	$ 26,546

(13) EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Year Ended Dec. 31,		
(in thousands, except per share data)	1998	1997	1996
NUMERATOR			
Income from continuing operations	$ 92,369	$ 50,577	$ 12,619
Preferred stock dividends	0	0	3,025
Numerator for basic and diluted earnings per share for continuing operations -- income available to common stockholders	$ 92,369	$ 50,577	$ 9,594
DENOMINATOR			
Denominator for basic earnings per share -- weighted-average shares	84,171	82,392	83,159
Effect of dilutive securities:			
Dilutive potential common shares from stock-based compensation	2,412	1,272	591
Denominator for diluted earnings per share -- adjusted weighted-average shares and assumed conversions	86,583	83,664	83,750
Basic earnings per share	$ 1.10	$ 0.61	$ 0.12
Diluted earnings per share	$ 1.07	$ 0.60	$ 0.12

(14) ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income are as follows:

(in thousands)	Unrealized Gain/(Loss) on Marketable Securities	Other Adjustments	Tax (Expense)/ Benefit	Total
Balance at Dec. 31, 1995	$ 960	$ 2	$(336)	$ 626
Total change in market value	(430)	0	151	(279)
Reclassification adjustment	(492)	0	172	(320)
Other adjustments	0	(12)	0	(12)
Balance at Dec. 31, 1996	38	(10)	(13)	15
Total change in market value	(253)	0	89	(164)
Reclassification adjustment	84	0	(30)	54
Other adjustments	0	4	0	4
Balance at Dec. 31, 1997	(131)	(6)	46	(91)
Total change in market value	604	0	(211)	393
Reclassification adjustment	168	0	(59)	109
Other adjustments	0	(5)	0	(5)
Balance at Dec. 31, 1998	$ 641	$(11)	$(224)	$406

(15) DISCLOSURES OF FAIR VALUE

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of estimated fair values of certain on- and off-balance sheet financial instruments. The fair value estimates, as well as the related methods and assumptions used to value each of Federated's significant financial instruments, are set forth below.

(A) CASH AND CASH EQUIVALENTS AND MARKETABLE SECURITIES

The carrying amount of cash and cash equivalents approximates fair value due to the short maturities of these instruments. The fair value of marketable securities is based on quoted market prices.

(B) RECEIVABLES, ACCOUNTS PAYABLE, AND ACCRUED EXPENSES

The carrying amounts of these financial instruments approximate fair value due to the short maturities of these instruments.

(C) LONG-TERM DEBT --RECOURSE

The majority of Federated's recourse debt is comprised of the Note. The fair value of Federated's Note is estimated based on the current market rates for debt of the same remaining maturities. The estimated fair values of the Note are as follows:

	Dec. 31,	
(in thousands)	1998	1997
Carrying amount	$ 98,000	$ 98,000
Fair value	$ 102,519	$ 100,035

For accounting purposes, Federated treats the sale of revenue streams related to the B Share financing program as nonrecourse debt. Based on the nature of this debt and the uncertainty of the amounts and timing of the cash flows, Federated is not able to determine the fair value of the nonrecourse debt.

(D) FUTURES AND CURRENCY FORWARD CONTRACTS

Federated entered into futures and currency forward contracts to hedge against changes in market and currency values related to the shares of mutual funds it purchased. Federated's carrying value of $389,000 approximates the estimated fair value at Dec. 31, 1998.

(16) ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED
OR OBTAINED FOR INTERNAL USE

The effect of adopting SOP 98-1 was to increase operating income for the year ended Dec. 31, 1998 by $1,381,000, or $0.016 per diluted share.

(17) COMMITMENTS AND CONTINGENCIES

Federated has claims asserted against it that result from litigation in the ordinary course of business. Management believes that the ultimate resolution of such matters will not materially affect the financial position or results of operations of Federated.

(18) RELATED PARTY TRANSACTIONS

Federated provides investment advisory, administrative, distribution and shareholder services to the Federated group of funds (Federated funds). All of these services provided for the Federated funds are under contracts that definitively set forth the fees to be charged for these services and are approved by the funds' independent directors/trustees. Federated may waive certain fees charged for these services (primarily investment advisory fees) in order to make the Federated funds more competitive or to meet regulatory requirements.

(19) SUBSEQUENT EVENTS

In January 1999, Federated issued 750,000 options to certain key employees at an exercise price at or exceeding the market price at the time of grant. The contractual life of the options range from 9.5 to 10.5 years.

On Jan. 26, 1999, the board of directors declared a $0.038 per share dividend which was paid on Feb. 15, 1999.

On Jan. 26, 1999, the board of directors approved a share repurchase program authorizing Federated to purchase up to $20 million in Federated Class B Common Stock over the next 12 months. The program authorizes executive management to make purchases in open market transactions, with the timing of the purchases and the amount of shares to be determined by the Federated executive management team. The stock will be held in treasury for employee benefit plans, potential acquisitions and other corporate activities.

(20) SUPPLEMENTARY QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarter

(in thousands, except per share data)	1st	2nd	3rd	4th
1998				
Revenues	$122,592	$126,216	$133,068	$140,250
Net income before extraordinary item	20,837	21,071	23,610	26,850
Net income	20,837	21,071	23,610	26,850
Basic earnings per share before extraordinary item	0.25	0.25	0.28	0.32
Diluted earnings per share before extraordinary item	0.25	0.24	0.27	0.31
Common Stock price per share1				
High	--	20 3/16	18 1/4	19 5/16
Low	--	16	12 7/8	11
1997				
Revenues	91,627	93,457	106,560	112,073
Net income before extraordinary item	8,843	9,090	16,009	17,083
Net income	8,843	9,090	16,009	16,634
Basic earnings per share before extraordinary item	0.11	0.11	0.19	0.20
Diluted earnings per share before extraordinary item	0.11	0.11	0.19	0.20
Common Stock price per share1				
High	--	--	--	--
Low	--	--	--	--

1 Prior to May 14, 1998, there was no public market for the Common Stock.

Exhibit 21.01

SUBSIDIARIES OF THE REGISTRANT

Advanced Information Systems
Edgewood Services, Inc.
Federated Administrative Services

Federated Administrative Services, Inc.
Federated Advisers
Federated Financial Services, Inc.
Federated Funding 1997-1, Inc.
Federated Global Research Corp.
Federated International Management Limited
Federated Investment Counseling
Federated Investors Building Corp.
Federated Investors Management Company
Federated Investors Trust Company
Federated Management
Federated Research

Federated Research Corp.
Federated Securities Corp.
Federated Services Company

Federated Shareholder Services Co.
FFSI Insurance Agency, Inc.

FII Holdings, Inc.
FS Holdings, Inc.

Passport Research Limited
Retirement Plan Services Company of America

Exhibit 23.01

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-56429) pertaining to the Federated Investors, Inc. Employee Stock Purchase Plan and the Registration Statement (Form S-8 No. 333-62471) pertaining to the Federated Investors, Inc. 1998 Stock Incentive Plan of our report dated January 26, 1999, with respect to the consolidated financial statements of Federated Investors, Inc. incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 1998.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania
March 26, 1999

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

<TABLE> <S> <C>

Exhibit 27.01

<S>	<C>
<ARTICLE>	5
<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-END>	DEC-31-1998
<CASH>	185,581,000
<SECURITIES>	13,398,000
<RECEIVABLES>	27,373,000
<ALLOWANCES>	1,276,000
<INVENTORY>	1,567,000
<CURRENT-ASSETS>	242,260,000
<PP&E>	64,499,000
<DEPRECIATION>	42,949,000
<TOTAL-ASSETS>	580,020,000
<CURRENT-LIABILITIES>	86,328,000
<BONDS>	371,548,000
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	75,279,000
<OTHER-SE>	13,427,000
<TOTAL-LIABILITY-AND-EQUITY>	580,020,000
<SALES>	0
<TOTAL-REVENUES>	522,127,000
<CGS>	0
<TOTAL-COSTS>	339,709,000
<OTHER-EXPENSES>	27,614,000
<LOSS-PROVISION>	(359,000)
<INTEREST-EXPENSE>	25,798,000
<INCOME-PRETAX>	145,934,000
<INCOME-TAX>	53,565,000
<INCOME-CONTINUING>	92,369,000
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	92,369,000
<EPS-PRIMARY>	1.10
<EPS-DILUTED>	1.07

</TABLE>