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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14D-1

TENDER OFFER STATEMENT PURSUANT TO SECTION 14(D)(1)
OF THE SECURITIES EXCHANGE ACT OF 1934

FINGERHUT COMPANIES, INC.

(NAME OF SUBJECT COMPANY)

BENGAL SUBSIDIARY CORP.
AND

FEDERATED DEPARTMENT STORES, INC.
(BIDDERS)

COMMON STOCK, PAR VALUE $0.01 PER SHARE

(TITLE OF CLASS OF SECURITIES)

317867109

(CUSIP NUMBER OF CLASS OF SECURITIES)

DENNIS J. BRODERICK, ESQ.
SENIOR VICE PRESIDENT, GENERAL COUNSEL AND CORPORATE SECRETARY
FEDERATED DEPARTMENT STORES, INC.
7 WEST SEVENTH STREET
CINCINNATI, OHIO 45202
(513) 579-7000

(NAME, ADDRESS AND TELEPHONE NUMBER OF PERSON AUTHORIZED
TO RECEIVE NOTICES AND COMMUNICATIONS ON BEHALF OF BIDDERS)

COPY TO:

ROBERT A. PROFUSEK, ESQ.
JONES, DAY, REAVIS & POGUE
599 LEXINGTON AVENUE
NEW YORK, NEW YORK 10022
(212) 326-3939

CALCULATION OF FILING FEE

<TABLE>
<CAPTION>

TRANSACTION VALUATION*	AMOUNT OF FILING FEE**
<S>	<C>
$1,481,735,800	$296,348

</TABLE>

* Estimated for purposes of calculating the filing fee only. Such amount was derived by multiplying $25.00, the amount offered for each share of common stock, par value $0.01 per share (the "Shares"), of Fingerhut Companies, Inc., by the sum of (i) 49,630,294, representing all of the Shares that were issued and outstanding as of February 16, 1999, (ii) 9,622,746, representing all of the Shares reserved for issuance upon the exercise of all outstanding options to purchase Shares, (iii) 7,392, representing Shares reserved for issuance under the Directors' Retainer Stock Deferral Plan, and (iv) 9,000, representing Shares to be issued under the Employee Stock Purchase Plan.

** 1/50th of 1% of the value of the transaction.

/ / Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

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AMOUNT PREVIOUSLY PAID: NOT APPLICABLE FILING PARTY: NOT APPLICABLE
FORM OR REGISTRATION NO.: NOT APPLICABLE DATE FILED: NOT APPLICABLE
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This Tender Offer Statement on Schedule 14D-1 is filed by Federated Department Stores, Inc. ("Parent") and Bengal Subsidiary Corp., a direct, wholly owned subsidiary of Parent ("Purchaser"), relating to the offer by Purchaser to purchase all of the outstanding common shares (the "Shares") of Fingerhut Companies, Inc. (the "Company") at a purchase price of $25.00 per Share, net to the seller in cash, without interest, on the terms and subject to the conditions set forth in the Offer To Purchase, dated February 18, 1999 (the "Offer To Purchase"), and in the related Letter of Transmittal and any amendments or supplements thereto, copies of which are attached hereto as Exhibits (a)(1) and (a)(2), respectively (which collectively constitute the "Offer").

The item numbers and responses thereto below are in accordance with the requirements of Schedule 14D-1.

ITEM 1. SECURITY AND SUBJECT COMPANY

(a) The name of the subject company is Fingerhut Companies, Inc. The address of its principal executive offices is 4400 Baker Road, Minnetonka, Minnesota, 55343. The telephone number of the Company at such location is (612) 932-3100.

(b) The information set forth on the cover page and under "Introduction" in the Offer To Purchase is incorporated herein by reference.

(c) The information set forth in Section 6 ("Price Range of the Shares; Dividends on the Shares") of the Offer To Purchase is incorporated herein by reference.

ITEM 2. IDENTITY AND BACKGROUND

(a)-(d), (g) This Statement is filed by Purchaser and Parent. The information set forth on the cover page, under "Introduction," in Section 9 ("Certain Information Concerning Purchaser and Parent") and in Schedule I of the Offer To Purchase is incorporated herein by reference.

(e)-(f) None of Purchaser, Parent or, to the knowledge of Purchaser and Parent, any of the persons listed in Schedule I to the Offer To Purchase has during the last five years been (i) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) a party to a civil proceeding of a judicial or administrative body of a competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting activities subject to, federal or state securities laws or finding any violation of such laws.

ITEM 3. PAST CONTACTS, TRANSACTIONS OR NEGOTIATIONS WITH THE SUBJECT COMPANY

(a)-(b) The information set forth under "Introduction" and in Section 8 ("Certain Information Concerning the Company"), Section 9 ("Certain Information Concerning Purchaser and Parent"), Section 11 ("Background of the Offer") and Section 12 ("Purpose of the Offer and the Merger; Plans for the Company; the Merger Agreement; Other Matters") of the Offer To Purchase is incorporated herein by reference.

ITEM 4. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION

(a)-(b) The information set forth in Section 10 ("Source and Amount of Funds") of the Offer To Purchase is incorporated herein by reference.

(c) Not applicable.

ITEM 5. PURPOSE OF THE TENDER OFFER AND PLANS OR PROPOSALS OF THE BIDDER

(a)-(e) The information set forth under "Introduction" and in Section 12 ("Purpose of the Offer and the Merger; Plans for the Company; the Merger Agreement; Other Matters") and in Section 13 ("Dividends and Distributions") of the Offer To Purchase is incorporated herein by reference.

(f)-(g) The information set forth in Section 7 ("Effect of the Offer on the Market for the Shares, Stock Exchange Listing and Exchange Act Registration, and Margin Securities") of the Offer To Purchase is incorporated herein by reference.

ITEM 6. INTEREST IN SECURITIES OF THE SUBJECT COMPANY

(a)-(b) The information set forth under "Introduction" and in Section 9 ("Certain Information Concerning Purchaser and Parent") of the Offer To Purchase is incorporated herein by reference.

ITEM 7. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO THE SUBJECT COMPANY'S SECURITIES

The information set forth under "Introduction" and in Section 9 ("Certain Information Concerning Purchaser and Parent") and Section 12 ("Purpose of the Offer and the Merger; Plans for the Company; the Merger Agreement; Other Matters") of the Offer To Purchase is incorporated herein by reference.

ITEM 8. PERSONS RETAINED, EMPLOYED OR TO BE COMPENSATED

The information set forth under "Introduction" and in Section 16 ("Fees and Expenses") of the Offer To Purchase is incorporated herein by reference.

ITEM 9. FINANCIAL STATEMENTS OF CERTAIN BIDDERS

The information set forth in Section 9 ("Certain Information Concerning Purchaser and Parent") of the Offer To Purchase is incorporated herein by reference.

ITEM 10. ADDITIONAL INFORMATION

(a) The information set forth under "Introduction" and in Section 9 ("Certain Information Concerning Purchaser and Parent") and Section 12 ("Purpose of the Offer and the Merger; Plans for the Company; the Merger Agreement; Other Matters") of the Offer To Purchase is incorporated herein by reference.

(b)-(c) The information set forth under "Introduction" and in Section 14 ("Certain Conditions of the Offer") and Section 15 ("Certain Legal Matters") of the Offer To Purchase is incorporated herein by reference.

(d) The information set forth in Section 7 ("Effect of the Offer on the Market for the Shares, Stock Exchange Listing and Exchange Act Registration, and Margin Securities") of the Offer To Purchase is incorporated herein by reference.

(e) To the knowledge of Parent and Purchaser, no legal proceedings relating to the Offer and the Merger required to be disclosed in Item 10(e) of Schedule 14D-1 are pending or have been instituted.

(f) The information set forth in the Offer To Purchase and the Letter of Transmittal, copies of which are attached hereto as Exhibits (a)(1) and (a)(2), respectively, is incorporated herein by reference.

ITEM 11. MATERIAL TO BE FILED AS EXHIBITS

(a)(1) Offer To Purchase, dated February 18, 1999

(a)(2) Letter of Transmittal

(a)(3) Notice of Guaranteed Delivery

(a)(4) Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees

(a)(5) Form of Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees

(a)(6) Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9

(a)(7) Form of Summary Advertisement, dated February 18, 1999

(a)(8) Text of Joint Press Release of Federated Department Stores, Inc. and Fingerhut Companies, Inc., dated February 11, 1999

(b)(1) 364-Day Credit Agreement, dated as of July 28, 1997, by and among Parent, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, BankBoston, N.A., as Syndication Agent, and the Bank of America, National Trust & Savings Association, as Documentation Agent (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended August 2, 1997 (the "August 1997 Form 10-Q"))

(b)(2)Amended and Restated Credit Agreement, dated as of June 29, 1998, by and among Parent, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, BankBoston, N.A., as Syndication Agent, and The Bank of America, National Trust & Savings Association, as Documentation Agent (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended August 1, 1998 (the "August 1998 Form 10-Q"))

(b)(3) Five-Year Credit Agreement, dated as of July 28, 1997, by and among Parent, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, BankBoston, N.A., as Syndication Agent, and the Bank of America, National Trust & Savings Association, as Documentation Agent (Incorporated by reference to Exhibit 10.2 to the August 1997 Form 10-Q)

(b)(4) Letter Amendment to the Five-Year Credit Agreement, dated as of June 29, 1998, by and among Parent, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, BankBoston, N.A., as Syndication Agent, and the Bank of America, National Trust & Savings Association, as Documentation Agent (Incorporated by reference to Exhibit 10.2 to the August 1998 Form 10-Q)

(c)(1) Agreement and Plan of Merger, dated February 10, 1999, among Federated Department Stores, Inc., Bengal Subsidiary Corp. and Fingerhut Companies, Inc.

(c)(2) Confidentiality Agreement, dated November 11, 1998, between Federated Department Stores, Inc. and Fingerhut Companies, Inc.

(d) Not applicable

(e) Not applicable

(f) Not applicable

SIGNATURES

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: February 18, 1999

<TABLE>
<S> <C> <C>
BENGAL SUBSIDIARY CORP.

By: /s/ DENNIS J. BRODERICK

Name: Dennis J. Broderick
Title: President

FEDERATED DEPARTMENT STORES, INC.

By: /s/ DENNIS J. BRODERICK

Name: Dennis J. Broderick
Title: Senior Vice President and General Counsel
</TABLE>

EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT	DESCRIPTION
(a)(1)	Offer to Purchase, dated February 18, 1999
(a)(2)	Letter of Transmittal
(a)(3)	Notice of Guaranteed Delivery
(a)(4)	Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees
(a)(5)	Form of Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees
(a)(6)	Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9
(a)(7)	Form of Summary Advertisement, dated February 18, 1999
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(b)(4)	Letter Amendment to the Five-Year Credit Agreement, dated as of June 29, 1998, by and among Parent, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, BankBoston, N.A., as Syndication Agent, and the Bank of America, National Trust & Savings Association, as Documentation Agent (Incorporated by reference to Exhibit 10.2 to the August 1998 Form 10-Q)
(c)(1)	Agreement and Plan of Merger, dated February 10, 1999, among Federated Department Stores, Inc., Bengal Subsidiary Corp. and Fingerhut Companies, Inc.

(c)(2) Confidentiality Agreement, dated November 11, 1998, between Federated Department Stores, Inc. and Fingerhut Companies, Inc.

(d) Not applicable

(e) Not applicable

(f) Not applicable
</TABLE>

Offer To Purchase for Cash
All of the Outstanding Common Shares
of
Fingerhut Companies, Inc.
at
$25.00 Net Per Share
by
Bengal Subsidiary Corp.,
a direct, wholly owned subsidiary of
Federated Department Stores, Inc.

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THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON WEDNESDAY, MARCH 17, 1999, UNLESS THE OFFER IS EXTENDED.

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THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE (AS DEFINED HEREIN) THAT NUMBER OF COMMON SHARES OF THE COMPANY (THE "SHARES") THAT (TOGETHER WITH ANY SHARES THEN OWNED BY FEDERATED DEPARTMENT STORES, INC. OR ANY OF ITS SUBSIDIARIES) CONSTITUTES A MAJORITY OF THE SHARES OUTSTANDING ON A FULLY DILUTED BASIS ON THE DATE OF PURCHASE (THE "MINIMUM CONDITION"). THE OFFER IS ALSO SUBJECT TO CERTAIN OTHER CONDITIONS CONTAINED IN THIS OFFER TO PURCHASE, INCLUDING CERTAIN ACTIONS BY THE UNITED STATES COMPTROLLER OF THE CURRENCY. SEE THE INTRODUCTION AND SECTIONS 1, 14 AND 15 OF THIS OFFER TO PURCHASE.

THE BOARD OF DIRECTORS OF FINGERHUT COMPANIES, INC. (THE "COMPANY") HAS UNANIMOUSLY (WITH ONE DIRECTOR BEING ABSENT) RESOLVED TO RECOMMEND THAT HOLDERS OF SHARES ("SHAREHOLDERS") ACCEPT THE OFFER AND APPROVE THE MERGER AGREEMENT AND THE MERGER AND HAS DETERMINED THAT THE OFFER AND THE MERGER ARE FAIR TO AND IN THE BEST INTERESTS OF THE COMPANY AND THE SHAREHOLDERS.

Any Shareholder desiring to tender all or a portion of its Shares should either (1) complete and sign the appropriate Letter(s) of Transmittal (or a manually signed facsimile thereof) in accordance with the instructions in such Letter of Transmittal, mail or deliver such Letter(s) of Transmittal and any other required documents to the Depositary and either deliver the certificates for those Shares to the Depositary along with such Letter(s) of Transmittal or tender those Shares pursuant to the procedures for book-entry transfer set forth in Section 3 hereof or (2) request its broker, dealer, commercial bank, trust company or other nominee to effect the tender on its behalf. Any Shareholder whose Shares are registered in the name of a broker, dealer, commercial bank, trust company or other nominee must contact that broker, dealer, commercial bank, trust company or other nominee if the Shareholder desires to tender such Shares.

Any Shareholder who desires to tender Shares and whose certificate(s) representing those Shares are not immediately available or who cannot comply with the procedures for book-entry transfer on a timely basis must tender those Shares by following the procedures for guaranteed delivery set forth in Section 3 hereof.

Questions and requests for assistance may be directed to the Information Agent or the Dealer Manager at their respective addresses and telephone numbers set forth on the back cover of this Offer To Purchase. Requests for additional copies of this Offer To Purchase, the Letter of Transmittal and other related materials may be directed to the Information Agent or to brokers, dealers, commercial banks or trust companies.

The Dealer Manager for the Offer is:

[LOGO]

February 18, 1999

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To the Holders of Common Shares of
Fingerhut Companies, Inc.

INTRODUCTION

Bengal Subsidiary Corp. ("Purchaser"), a direct, wholly owned subsidiary of Federated Department Stores, Inc. ("Parent"), hereby offers to purchase all of the outstanding common shares (the "Shares") of Fingerhut Companies, Inc. (the "Company") at a purchase price of $25.00 per Share, net to the seller in cash, without interest (the "Per Share Amount"), on the terms and subject to the conditions set forth in this Offer To Purchase and in the related Letter of Transmittal (which, together with any amendments or supplements hereto or thereto, collectively constitute the "Offer").

Tendering Shareholders who have Shares registered in their own name and who tender directly to the Depositary will not be obligated to pay brokerage fees or commissions or, except as set forth in Instruction 6 to the Letter of Transmittal, transfer taxes on the purchase of Shares pursuant to the Offer or the Merger. Shareholders who hold their Shares through their broker or bank should consult with such institution as to whether there are any fees applicable to a tender of Shares. Purchaser will pay all charges and expenses of Credit Suisse First Boston Corporation ("Credit Suisse First Boston" or "CSFB"), as the dealer manager (the "Dealer Manager"), Norwest Bank Minnesota, N.A., as the depositary (the "Depositary"), and Georgeson & Company Inc., as the information agent (the "Information Agent"), in connection with the Offer. See Section 16.

THE BOARD OF DIRECTORS (THE "COMPANY BOARD") HAS UNANIMOUSLY (WITH ONE DIRECTOR BEING ABSENT) RESOLVED TO RECOMMEND THAT SHAREHOLDERS ACCEPT THE OFFER AND APPROVE THE MERGER AGREEMENT AND THE MERGER AND HAS DETERMINED THAT THE OFFER AND THE MERGER ARE FAIR TO AND IN THE BEST INTERESTS OF THE COMPANY AND THE SHAREHOLDERS.

SALOMON SMITH BARNEY INC. ("SSB"), THE COMPANY'S FINANCIAL ADVISOR, HAS

DELIVERED TO THE COMPANY BOARD A WRITTEN OPINION DATED FEBRUARY 10, 1999, TO THE EFFECT THAT, AS OF SUCH DATE AND BASED ON AND SUBJECT TO CERTAIN MATTERS STATED IN SUCH OPINION, THE $25.00 PER SHARE CASH CONSIDERATION TO BE RECEIVED IN THE OFFER AND THE MERGER BY SHAREHOLDERS (OTHER THAN PARENT AND ITS AFFILIATES) WAS FAIR, FROM A FINANCIAL POINT OF VIEW, TO SUCH SHAREHOLDERS. A COPY OF SSB'S WRITTEN OPINION IS CONTAINED IN THE COMPANY'S SOLICITATION/ RECOMMENDATION STATEMENT ON SCHEDULE 14D-9 (THE "SCHEDULE 14D-9") FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION") IN CONNECTION WITH THE OFFER, A COPY OF WHICH IS BEING FURNISHED TO SHAREHOLDERS CONCURRENTLY WITH THIS OFFER TO PURCHASE.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE (AS DEFINED IN SECTION 1) THAT NUMBER OF SHARES THAT (TOGETHER WITH ANY SHARES OWNED BY PARENT OR ANY OF ITS SUBSIDIARIES) CONSTITUTES A MAJORITY OF THE SHARES OUTSTANDING ON A FULLY DILUTED BASIS ON THE DATE OF PURCHASE (THE "MINIMUM CONDITION"). THE OFFER IS ALSO SUBJECT TO CERTAIN OTHER CONDITIONS CONTAINED IN THIS OFFER TO PURCHASE, INCLUDING CERTAIN ACTIONS BY THE UNITED STATES COMPTROLLER OF THE CURRENCY. SEE SECTIONS 1, 14 AND 15.

The Offer is being made pursuant to an Agreement and Plan of Merger, dated as of February 10, 1999 (the "Merger Agreement"), among Parent, Purchaser and the Company. The Merger Agreement provides, among other things, for the commencement of the Offer by Purchaser and further provides that after the purchase of Shares pursuant to the Offer, subject to the satisfaction or waiver of certain conditions, Purchaser will be merged with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of Parent (the "Surviving Corporation"). In the Merger, each Share (excluding Shares owned by Shareholders who have properly exercised their dissenters' rights under Minnesota law and Shares owned by Parent and its subsidiaries) issued and outstanding immediately prior to the effective time of the Merger (the "Effective Time") and any Shares issuable upon exercise of any

Option, conversion or other right to acquire Shares existing immediately prior to the Effective Time (collectively, "Rights") will be converted at the Effective Time into the right to receive the Per Share Amount (or any greater amount paid for Shares pursuant to the Offer), in cash payable to the holder thereof, without interest, prorated for fractional Shares and less any required withholding taxes and, in certain circumstances, stock transfer taxes (the "Merger Consideration").

The Company has informed Purchaser that, as of February 16, 1999, there were 49,630,294 Shares issued and outstanding, 9,622,746 Shares reserved for issuance upon the exercise of outstanding stock options ("Options") granted under the Company's equity plans (collectively, the "Stock Option Plans"), 7,392 Shares reserved for issuance under the Directors' Retainer Stock Deferral Plan and 9,000 Shares reserved for issuance under the Employee Stock Purchase Plan.

The completion of the Merger is subject to the satisfaction or waiver of a number of conditions, including, if required, the approval of the Merger by the requisite vote or consent of the Shareholders. The Shareholder vote necessary to approve the Merger is the affirmative vote of the holders of a majority of the issued and outstanding Shares, voting as a single class. If the Minimum Condition is satisfied and Purchaser purchases Shares pursuant to the Offer, Purchaser will be able to effect the Merger without the affirmative vote of any other Shareholder. If Purchaser acquires at least 90% of the outstanding Shares pursuant to the Offer or otherwise, Purchaser will be able to effect the Merger pursuant to the "short-form" merger provisions of Section 302A.621 of the Minnesota Business Corporation Act (the "MBCA"), without any action by any other Shareholder. In that event, Purchaser intends to effect the Merger as promptly as practicable following the purchase of Shares in the Offer. See Section 12.

No dissenters' rights are available in connection with the Offer. Shareholders may exercise dissenters' rights, however, in connection with the Merger regardless of whether the Merger is consummated with or without a vote of the Shareholders.

The Merger Agreement is more fully described in Section 12. Certain federal income tax consequences of the sale of Shares pursuant to the Offer and the conversion of Shares into the Merger Consideration pursuant to the Merger are described in Section 5.

THIS OFFER TO PURCHASE AND THE RELATED LETTER OF TRANSMITTAL CONTAIN IMPORTANT INFORMATION WHICH SHOULD BE READ CAREFULLY BEFORE ANY DECISION IS MADE WITH RESPECT TO THE OFFER.

1. TERMS OF THE OFFER

On the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of any such extension or amendment), Purchaser will accept for payment (and thereby purchase) all Shares that are validly tendered and not withdrawn in accordance with Section 4 prior to the Expiration Date. As used in the Offer, the term "Expiration Date" means 12:00 midnight, New York City time, on Wednesday, March 17, 1999, unless and until Purchaser, in accordance with the terms of the Offer and the Merger Agreement, extends the period of time during which the Offer is open, in which event the term "Expiration Date" means the latest time and date on which the Offer, as so extended, expires.

The Offer is conditioned upon, among other things, satisfaction of the Minimum Condition and the consent in writing of, or the receipt of a written statement that it would not disapprove of the Offer or the Merger from, the Office of the Comptroller of the Currency (the "OCC") or the expiration of all applicable filing, approval or waiting periods or extensions thereof under the Change in Bank Control Act, as amended, and the rules and regulations thereunder (the "CIBC Act"), without the OCC providing notice of objection to the Offer or Merger (the "OCC Condition"). The Offer is also subject to certain other conditions set forth in Section 14, including the expiration or termination of all waiting periods imposed by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the regulations thereunder (the "HSR Act"). Subject to the terms of the Merger Agreement, without the prior written consent of the Company, Purchaser will not, and Parent will cause Purchaser not to, (i) decrease or change the form of the Per Share Amount, (ii) decrease the number of Shares sought in the Offer, (iii) amend or waive the Minimum Condition or impose conditions other than the Offer Conditions set forth in Section 14 hereof (the "Offer Conditions"), (iv) extend the Expiration Date of the Offer (which will initially be 20 business days following the commencement of the Offer) except (a) as required by law, (b) that, in the event that any condition to the Offer is not satisfied or waived at the time that the Expiration Date would otherwise occur, (1) Purchaser must extend the Expiration Date for an aggregate of ten additional business days to the extent necessary to permit such condition to be satisfied and (2) Purchaser may, in its sole discretion, extend the Expiration Date for such additional period as it may determine to be appropriate (but not beyond June 30, 1999) to permit such condition to be satisfied, and (c) that, in the event that the OCC Condition is not satisfied, and all other Offer Conditions have been satisfied or waived at the time that the Expiration Date (as extended as described in clauses (a) and (b) above) would have otherwise occurred, Purchaser must either irrevocably waive the OCC Condition or extend the Expiration Date (but not beyond the date that is 60 calendar days from the date of the filing with the OCC in respect of the OCC Condition) to the extent necessary to permit the OCC Condition to be satisfied (Purchaser is not obligated to, but may in its discretion, extend the Expiration Date to a later date), or (v) amend any term of the Offer in any manner materially adverse to holders of Shares (including without limitation to result in any extension which would be inconsistent with the preceding provisions of this sentence). Notwithstanding the foregoing, subject to applicable legal requirements, Parent may cause Purchaser to waive any Offer Condition, other than the Minimum Condition, in Parent's sole discretion and the Offer may be extended in connection with an increase in the consideration to be paid pursuant to the Offer so as to comply with applicable rules and regulations of the Commission. Except as set forth above and subject to applicable legal requirements, Purchaser may amend the Offer or waive any Offer Conditions in its sole discretion. Assuming the prior satisfaction or waiver of the Offer Conditions, Parent will cause Purchaser to accept for payment, and pay for, in accordance with the terms of the Offer, all Shares validly tendered and not withdrawn pursuant to the Offer as soon as practicable after the Expiration Date.

Subject to the terms of the Merger Agreement and the rights of tendering Shareholders to withdraw their Shares, Purchaser will retain all tendered Shares until the Expiration Date.

Subject to the applicable regulations of the Commission and the terms of the Merger Agreement as described in the next preceding paragraph, Purchaser also expressly reserves the right, in its sole discretion, at any time or from time

to time, to (i) delay acceptance for payment of, or regardless of whether such Shares were theretofore accepted for payment, payment for, such Shares pending receipt of any regulatory or governmental approvals specified in Section 15; (ii) terminate the Offer (whether or not any Shares have theretofore been accepted for payment) if any condition referred to in Section 14 has not been satisfied prior to the Expiration Date or upon the occurrence of any event specified in Section 14; (iii) waive any condition (except, without the prior written consent of the Company, the Minimum Condition); or (iv) except as set forth in the Merger Agreement, otherwise amend the Offer in any respect, in each case, by giving oral or written notice of such termination, waiver or amendment to the Depositary.

The rights reserved by Purchaser in the immediately preceding paragraph are in addition to Purchaser's rights described in Section 14. Any extension, termination or amendment of the Offer will be followed as promptly as practicable by public announcement thereof, and such announcement in the case of an extension will be made no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date. Without limiting the manner in which Purchaser may choose to make any public announcement, subject to applicable law (including Rules 14d-4(c) and 14d-6(d) under the Exchange Act, which require that material changes be promptly disseminated to holders of Shares), Purchaser will have no obligation to publish, advertise or otherwise communicate any such public announcement other than by issuing a release to the Dow Jones News Service.

If Purchaser makes a material change in the terms of the Offer, or if it waives a material condition to the Offer, Purchaser will extend the Offer and disseminate additional tender offer materials to the extent required by Rules 14d-4(c), 14d-6(d) and 14e-1 under the Exchange Act. The minimum period during which an offer must remain open following material changes in the terms of the Offer, other than a change in price or a change in percentage of securities sought, will depend upon the facts and circumstances, including the materiality of the changes. In the Commission's view, an offer should remain open for a minimum of five business days from the date the material change is first published, sent or given to shareholders, and, if material changes are made with respect to information that approaches the significance of price and the percentage of securities sought, a minimum of ten business days may be required to allow for adequate dissemination and investor response. The requirement to extend the Offer will not apply to the extent that the number of business days remaining between the occurrence of the change and the then-scheduled Expiration Date equals or exceeds the minimum extension period that would be required because of such amendment. For purposes of the Offer, a "business day" means any day other than a Saturday, Sunday or a federal holiday and consists of the time period from 12:01 a.m. through 12:00 midnight, New York City time.

The Company has provided Purchaser with its Shareholder list and security position listings for the purpose of disseminating the Offer to the Shareholders. This Offer to Purchase, the related Letter of Transmittal and other relevant materials will be mailed to record holders of Shares and will be furnished to brokers, dealers, commercial banks, trust companies and similar persons whose names, or the names of whose nominees, appear on the Company's Shareholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Shares.

2. ACCEPTANCE FOR PAYMENT AND PAYMENT FOR SHARES

Upon the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of any such extension or amendment), Purchaser will accept for payment (and thereby purchase) and pay for Shares that are validly tendered and not properly withdrawn prior to the Expiration Date, as soon as practicable after the Expiration Date. Subject to the applicable rules of the Commission and the terms of the Merger Agreement, Purchaser expressly reserves the right to delay acceptance for payment of, or payment for, Shares in order to comply, in whole or in part, with any other applicable law, government regulation or condition contained therein. See Sections 1, 14 and 15.

In all cases, payment for Shares purchased pursuant to the Offer will be made only after timely receipt by the Depositary of (i) certificates for the Shares (or a timely Book-Entry Confirmation (as defined in Section 3) with respect to the Shares), (ii) the Letter of Transmittal (or a manually signed

facsimile thereof), properly completed and duly executed with any required signature guarantees (or, in the case of a book-entry transfer of Shares, an Agent's Message), and (iii) all other documents required by the Letter of Transmittal. See Section 3. The term "Agent's Message" means a message, transmitted by the Book-Entry Transfer Facility to and received by the Depositary and forming part of a Book-Entry Confirmation, which states that (i) the Book-Entry Transfer Facility has received an express acknowledgment from the participant in the Book-Entry Transfer Facility tendering the Shares that are the subject of such

Book-Entry Confirmation, (ii) such participant has received and agrees to be bound by the terms of the applicable Letter of Transmittal, and (iii) Purchaser may enforce such agreement against such participant.

For purposes of the Offer, Purchaser will be deemed to have accepted for payment (and thereby purchased) tendered Shares if, as and when Purchaser gives oral or written notice to the Depositary of Purchaser's acceptance of such Shares for payment. In all cases, payment for Shares purchased pursuant to the Offer will be made by deposit of the purchase price with the Depositary, which will act as agent for the tendering Shareholders for the purpose of receiving payment from Purchaser and transmitting payment to the tendering Shareholders whose Shares have been accepted for payment. If, for any reason, acceptance for payment of any Shares tendered pursuant to the Offer is delayed, or Purchaser is unable to accept for payment Shares tendered pursuant to the Offer, then, without prejudice to Purchaser's rights described in Section 14, the Depositary may, nevertheless, on behalf of Purchaser, retain the tendered Shares, and such Shares may not be withdrawn, except to the extent that the tendering Shareholders are entitled to withdrawal rights as described in Section 4 and as otherwise required by Rule 14e-1(c) under the Exchange Act. Under no circumstances will interest accrue on the consideration to be paid for the Shares by Purchaser, regardless of any delay in making such payment.

If any tendered Shares are not purchased for any reason or if certificates are submitted for more Shares than are tendered, certificates for the Shares not purchased or tendered will be returned pursuant to the instructions of the tendering Shareholder without expense to the tendering Shareholder (or, in the case of Shares delivered by book-entry transfer into the Depositary's account at a Book-Entry Transfer Facility pursuant to the procedures set forth in Section 3, the Shares will be credited to an account maintained at the appropriate Book-Entry Transfer Facility) as promptly as practicable following the expiration, termination or withdrawal of the Offer.

Purchaser reserves the right, subject to the provisions of the Merger Agreement, to assign, in whole or from time to time in part, to one or more of Parent's subsidiaries or affiliates the right to purchase all or any portion of the Shares tendered pursuant to the Offer, but no such assignment will relieve Parent or Purchaser of its obligations under the Offer or prejudice the rights of tendering shareholders to receive payment for Shares validly tendered and accepted for payment pursuant to the Offer.

IF, PRIOR TO THE EXPIRATION DATE, PURCHASER INCREASES THE CONSIDERATION TO BE PAID PER SHARE PURSUANT TO THE OFFER, PURCHASER WILL PAY THE INCREASED CONSIDERATION FOR ALL SHARES PURCHASED PURSUANT TO THE OFFER, WHETHER OR NOT THE SHARES WERE TENDERED PRIOR TO THE INCREASE IN CONSIDERATION.

3. PROCEDURE FOR TENDERING SHARES

VALID TENDERS. For Shares to be validly tendered pursuant to the Offer, either (i) the appropriate Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any required signature guarantees (or, in the case of a book-entry transfer of Shares, an Agent's Message), and any other documents required by the Letter of Transmittal, must be received by the Depositary at one of its addresses set forth on the back cover of this Offer To Purchase prior to the Expiration Date and either (a) certificates representing tendered Shares must be received by the Depositary at any one of those addresses prior to the Expiration Date or (b) the Shares must be delivered pursuant to the procedures for book-entry transfer set forth below and a Book-Entry Confirmation must be received by the Depositary prior to the Expiration Date or (ii) the tendering Shareholder must comply with the guaranteed delivery procedures set forth below. No alternative, conditional or contingent tenders will be accepted.

THE METHOD OF DELIVERY OF CERTIFICATES FOR SHARES, THE LETTER OF TRANSMITTAL AND ANY OTHER REQUIRED DOCUMENTS IS AT THE OPTION AND SOLE RISK OF THE TENDERING SHAREHOLDER AND DELIVERY WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED BY THE DEPOSITARY. IF DELIVERY IS MADE BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ENSURE TIMELY DELIVERY.

BOOK-ENTRY TRANSFER. The Depositary will establish an account with respect to the Shares at The Depository Trust Company (the "Book-Entry Transfer Facility") for purposes of the Offer within two business days after the date of this Offer To Purchase. Any financial institution that is a participant in the Book-Entry Transfer Facility system may make book-entry delivery of Shares by causing the Book-Entry Transfer Facility to transfer the Shares into the Depositary's account at the Book-Entry Transfer Facility in accordance with the Book-Entry Transfer Facility's procedures for such transfer. However, although delivery of the Shares may be effected through book-entry transfer into the Depositary's account at the Book-Entry Transfer Facility, the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed with any required signature guarantees, or an Agent's Message, and any other required documents must, in any case, be transmitted to, and received by, the Depositary at one of its addresses set forth on the back cover of this Offer To Purchase prior to the Expiration Date, or the tendering Shareholder must comply with the guaranteed delivery procedures described below. The confirmation of a book-entry transfer of Shares into the Depositary's account at the Book-Entry Transfer Facility as described above is referred to as a "Book-Entry Confirmation." DELIVERY OF THE LETTER OF TRANSMITTAL OR OTHER DOCUMENTS TO A BOOK-ENTRY TRANSFER FACILITY DOES NOT CONSTITUTE DELIVERY OF THE LETTER OF TRANSMITTAL OR SUCH OTHER DOCUMENTS TO THE DEPOSITARY.

SIGNATURE GUARANTEES. No signature guarantee is required on the Letter of Transmittal (i) if the Letter of Transmittal is signed by the registered holder (which term, for purposes of this Section, includes any participant in the Book-Entry Transfer Facility system whose name appears on a security position listing as the owner of the Shares) of Shares tendered therewith and such registered holder has not completed either the box entitled "Special Delivery Instructions" or the box entitled "Special Payment Instructions" on the Letter of Transmittal or (ii) if such Shares are tendered for the account of a financial institution (including most commercial banks, savings and loans associations and brokerage houses) that is a participant in the Security Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program (an "Eligible Institution"). In all other cases, all signatures on the Letter of Transmittal must be guaranteed by an Eligible Institution. See Instruction 1 of the Letter of Transmittal.

If the certificates representing Shares are registered in the name of a person other than the signer of the Letter of Transmittal or if payment is to be made or if certificates for Shares not tendered or not accepted for payment are to be returned to a person other than the registered holder of the certificates surrendered, then the tendered certificates representing Shares must be endorsed or accompanied by appropriate stock powers, in each case signed exactly as the name or names of the registered holder or owners appears on the certificates, with the signatures on the certificates or stock powers guaranteed by an Eligible Institution as described above and as provided in the Letter of Transmittal. See Instructions 1 and 5 of the Letter of Transmittal.

GUARANTEED DELIVERY. If a Shareholder wishes to tender Shares pursuant to the Offer and the Shareholder's certificates are not immediately available or the procedures for book-entry transfer cannot be completed on a timely basis or time will not permit all required documents to be received by the Depositary prior to the Expiration Date, the Shares may nevertheless be tendered if all the following guaranteed delivery procedures are complied with:

(i) the tender is made by or through an Eligible Institution;

(ii) a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form provided by Purchaser with this Offer To Purchase, is received by the Depositary as provided below prior to the Expiration Date; and

(iii) the certificates for all tendered Shares in proper form for transfer or a Book-Entry Confirmation with respect to all tendered Shares,

together with a properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof) and any required signature guarantees (or, in the case of a book-entry transfer of Shares, an Agent's Message) in connection with

a book-entry transfer of Shares, and any other documents required by the Letter of Transmittal, are received by the Depositary within three New York Stock Exchange ("NYSE") trading days after the date of execution of the Notice of Guaranteed Delivery.

The Notice of Guaranteed Delivery may be delivered by hand or transmitted by telegram, facsimile transmission or mailed to the Depositary and must include an endorsement by an Eligible Institution in the form set forth in the Notice of Guaranteed Delivery.

Notwithstanding any other provision of this Offer To Purchase, payment for Shares accepted for payment pursuant to the Offer in all cases will be made only after timely receipt by the Depositary of certificates for (or Book-Entry Confirmation with respect to) the Shares, a Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed with all required signature guarantees (or, in the case of a book-entry transfer, an Agent's Message) and all other documents required by the Letter of Transmittal. ACCORDINGLY, PAYMENT MAY NOT BE MADE TO ALL TENDERING SHAREHOLDERS AT THE SAME TIME, AND WILL DEPEND UPON WHEN SHARE CERTIFICATES ARE RECEIVED BY THE DEPOSITARY OR BOOK-ENTRY CONFIRMATIONS OF SUCH SHARES ARE RECEIVED INTO THE DEPOSITARY'S ACCOUNT AT THE BOOK-ENTRY TRANSFER FACILITY.

BACKUP FEDERAL INCOME TAX WITHHOLDING. TO PREVENT BACKUP FEDERAL INCOME TAX WITHHOLDING OF 31% OF THE PAYMENTS MADE TO SHAREHOLDERS WITH RESPECT TO THE PURCHASE PRICE OF SHARES PURCHASED PURSUANT TO THE OFFER OR THE MERGER, A SHAREHOLDER MUST PROVIDE THE DEPOSITARY WITH ITS CORRECT TAXPAYER IDENTIFICATION NUMBER AND CERTIFY THAT IT IS NOT SUBJECT TO BACKUP FEDERAL INCOME TAX WITHHOLDING BY COMPLETING THE SUBSTITUTE FORM W-9 INCLUDED IN THE LETTER OF TRANSMITTAL. SEE SECTION 5 BELOW AND INSTRUCTION 10 OF THE LETTER OF TRANSMITTAL.

DETERMINATION OF VALIDITY. All questions as to the form of documents and the validity, eligibility (including time of receipt) and acceptance for payment of any tender of Shares pursuant to any of the procedures described above will be determined by Purchaser in its sole discretion, which determination will be final and binding on all parties. Purchaser reserves the absolute right to reject any or all tenders of Shares determined not to be in proper form or the acceptance of or payment for which may, in the opinion of counsel, be unlawful and reserves the absolute right to waive any defect or irregularity in any tender of Shares. Subject to the terms of the Merger Agreement, Purchaser also reserves the absolute right to waive or amend any or all of the Offer Conditions, other than the Minimum Condition, which cannot be waived without the prior written consent of the Company. Purchaser's interpretation of the terms and conditions of the Offer (including the Letter(s) of Transmittal and the instructions thereto) will be final and binding on all parties. No tender of Shares will be deemed to have been validly made until all defects and irregularities have been cured or waived. None of Purchaser, Parent, Depositary, the Dealer Manager, the Information Agent or any other person will be under any duty to give notification of any defects or irregularities in tenders or incur any liability for failure to give any such notification.

APPOINTMENT AS PROXY. By executing a Letter of Transmittal, a tendering Shareholder irrevocably appoints designees of Purchaser as his attorneys-in-fact and proxies, with full power of substitution and resubstitution, in the manner set forth in the Letter of Transmittal, to the full extent of the Shareholder's rights with respect to the Shares tendered by the Shareholder and purchased by Purchaser and with respect to any and all other Shares or other securities issued or issuable in respect of those Shares, on or after the date of the Offer. All such powers of attorney and proxies will be considered coupled with an interest in the tendered Shares. Such appointment will be effective when, and only to the extent that, Purchaser accepts the Shares for payment. Upon acceptance for payment, all prior powers of attorney and proxies given by the Shareholder with respect to the Shares (and any other Shares or other securities so issued in respect of such purchased Shares) will be revoked, without further action, and no subsequent powers of attorney and proxies may be given (and, if given, will not be deemed effective) by the Shareholder. The designees of Purchaser will be empowered to exercise all voting and other rights of the

Shareholder with respect to such Shares (and any other Shares or securities so issued in respect of such purchased Shares) as

they in their sole discretion may deem proper, including without limitation in respect of any annual or special meeting of the Shareholders, or any adjournment or postponement of any such meeting.

Purchaser reserves the absolute right to require that, in order for Shares to be validly tendered, immediately upon Purchaser's acceptance for payment of the Shares, Purchaser must be able to exercise full voting and other rights with respect to the Shares, including voting at any meeting of Shareholders then scheduled.

Purchaser's acceptance for payment of Shares tendered pursuant to any of the procedures described above will constitute a binding agreement between the tendering Shareholder and Purchaser upon the terms and subject to the conditions of the Offer.

4. WITHDRAWAL RIGHTS

Tenders of Shares made pursuant to the Offer are irrevocable, except as otherwise provided in this Section 4. Shares tendered pursuant to the Offer may be withdrawn at any time prior to the Expiration Date and, unless theretofore accepted for payment by Purchaser as provided in this Offer To Purchase, may also be withdrawn at any time after April 18, 1999. If Purchaser extends the Offer, is delayed in its purchase of or payment for Shares, or is unable to purchase or pay for Shares for any reason then, without prejudice to the rights of Purchaser, tendered Shares may be retained by the Depositary on behalf of Purchaser and may not be withdrawn, except to the extent that tendering Shareholders are entitled to withdrawal rights as set forth in this Section 4.

The reservation by Purchaser of the right to delay the acceptance or purchase of or payment for Shares is subject to the terms of the Merger Agreement and provisions of Rule 14e-1(c) under the Exchange Act, which requires Purchaser to pay the consideration offered or to return Shares deposited by or on behalf of Shareholders promptly after the termination or withdrawal of the Offer.

For a withdrawal to be effective, a written, telegraphic or facsimile transmission notice of withdrawal must be timely received by the Depositary at one of its addresses set forth on the back cover of this Offer To Purchase. Any such notice of withdrawal must specify the name of the persons who tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holder, if different from that of the person who tendered the Shares. If certificates evidencing Shares have been delivered or otherwise identified to the Depositary then, prior to the release of the certificates, the tendering Shareholder must also submit the serial numbers shown on the particular certificates evidencing the Shares to be withdrawn, and the signature on the notice of withdrawal must be guaranteed by an Eligible Institution (except in the case of Shares tendered for the account of an Eligible Institution). If Shares have been tendered pursuant to the procedure for book-entry transfer set forth in Section 3, the notice of withdrawal must specify the name and number of the account at the applicable Book-Entry Transfer Facility to be credited with the withdrawn Shares.

All questions as to the form and validity (including time of receipt) of notices of withdrawal will be determined by Purchaser, in its sole discretion, which determination will be final and binding on all parties. No withdrawal of Shares will be deemed to have been made properly until all defects and irregularities have been cured or waived. None of Parent, Purchaser, the Dealer Manager, the Depositary, the Information Agent or any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal or incur any liability for failing to give such notification.

Any Shares properly withdrawn will be deemed not validly tendered for purposes of the Offer, but may be tendered at any subsequent time prior to the Expiration Date by following any of the procedures described in Section 3 above.

5. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE OFFER AND THE MERGER

The following is a summary of the material federal income tax consequences

of the Offer and the Merger to holders whose Shares are purchased pursuant to the Offer or whose Shares are converted into the right to receive the Merger Consideration in the Merger (including any cash amounts received by dissenting Shareholders pursuant to the exercise of dissenters' rights). This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the applicable Treasury Regulations promulgated and proposed thereunder, and published judicial authority and administrative rulings and practice. Legislative, judicial or administrative authorities or interpretations are subject to change, possibly on a retroactive basis, at any time and a change could alter or modify the statements and conclusions set forth below. It is assumed for purposes of this discussion that the Shares are held as "capital assets" within the meaning of Section 1221 of the Code. This discussion does not address all aspects of federal income taxation that may be relevant to a particular Shareholder in light of such Shareholder's personal investment circumstances, or those Shareholders subject to special treatment under the federal income tax laws (for example, life insurance companies, tax-exempt organizations, foreign corporations and nonresident alien individuals) or to Shareholders who acquired their Shares through the exercise of employee stock options or other compensation arrangements. In addition, the discussion does not address any aspect of foreign, state or local income taxation or any other form of taxation that may be applicable to a Shareholder.

CONSEQUENCES OF THE OFFER AND THE MERGER TO SHAREHOLDERS

The receipt of the Per Share Amount and the Merger Consideration (and any cash amounts received by dissenting Shareholders pursuant to the exercise of dissenters' rights) will be a taxable transaction for federal income tax purposes (and also may be a taxable transaction under applicable state, local and other income tax laws). In general, for federal income tax purposes, a Shareholder will recognize gain or loss equal to the difference between its adjusted tax basis in the Shares sold pursuant to the Offer or converted to cash in the Merger or pursuant to the exercise of dissenters' rights and the amount of cash received therefor. Such gain or loss will be capital gain or loss and will be long-term gain or loss, if, on the date of sale (or, if applicable, the date of the Merger), the Shares were held for more than one year.

BACKUP TAX WITHHOLDING

Under the Code, a Shareholder may be subject, under certain circumstances, to "backup withholding" at a 31% rate with respect to payments made in connection with the Offer or the Merger. Backup withholding generally applies if the Shareholder (i) fails to furnish his social security number or other taxpayer identification number ("TIN"), (ii) furnishes an incorrect TIN, (iii) fails properly to report interest or dividends, or (iv) under certain circumstances, fails to provide a certified statement, signed under penalties of perjury, that the TIN provided is his correct number and that he or she is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons generally are exempt from backup withholding, including corporations and financial institutions. Certain penalties apply for failure to furnish correct information and for failure to include the reportable payments in income. Each Shareholder should consult with its own tax advisor as to its qualifications for exemption from withholding and the procedure for obtaining such exemption.

THE FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION PURPOSES ONLY. SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE OFFER AND THE MERGER TO THEM IN VIEW OF THEIR OWN PARTICULAR CIRCUMSTANCES.

6. PRICE RANGE OF THE SHARES; DIVIDENDS ON THE SHARES

According to the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 1997 (the "Company 10-K"), and Quarterly Report on Form 10-Q for the quarterly period ended September 25, 1998 (the "Company 1998 Third Quarter 10-Q"), and information supplied to Purchaser by the Company, the principal trading market for the Shares is the NYSE and the Shares are admitted for quotation and traded on the NYSE under the symbol "FHT." The following table sets forth, for the calendar periods indicated, the high and low sale prices for the Shares reported by NYSE Composite Reporting System.

<TABLE>

<CAPTION>

	HIGH	LOW
<S>	<C>	<C>
1997*		
First Quarter	$15 7/8	$11 3/4
Second Quarter	18 1/8	13 1/4
Third Quarter	23	17 1/8
Fourth Quarter	23 1/2	18 13/16
1998*		
First Quarter	$27 11/16	$18 3/4
Second Quarter	33 1/2	25 3/8
Third Quarter	38 9/16	9 7/8
Fourth Quarter	16 7/8	6 5/8
1999		
First Quarter (through February 10)	$21 13/16	$15 7/16

</TABLE>

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* On September 25, 1998, the Company distributed its 83% interest in Metris Companies Inc. ("Metris") to Shareholders through a tax-free spinoff. THE SALES PRICES FOR THE SHARES LISTED ABOVE DO NOT REFLECT ANY ADJUSTMENT FOR THE SPINOFF.

On February 10, 1999, the last full trading day before the public announcement of the Merger Agreement, the last reported sale price on the NYSE was $18 13/16 per Share. On February 17, 1999, the last full trading day before the commencement of the Offer, the last reported sale price on the NYSE was $24 3/8 per Share. SHAREHOLDERS ARE URGED TO OBTAIN CURRENT MARKET QUOTATIONS FOR SHARES.

On October 1, 1998, the Company announced that it would discontinue its prior dividend of $0.04 per share per quarter. The Company has agreed in the Merger Agreement that it will not pay any dividend or other distribution payable in cash, stock or property with respect to the Shares.

7. EFFECT OF THE OFFER ON THE MARKET FOR SHARES, STOCK EXCHANGE LISTING AND EXCHANGE ACT REGISTRATION, AND MARGIN SECURITIES.

The purchase of Shares pursuant to the Offer will reduce the number of Shares that might otherwise trade publicly and may reduce the number of holders of Shares, which could adversely affect the liquidity and market value of the remaining Shares held by Shareholders other than Purchaser.

STOCK EXCHANGE LISTING. According to the NYSE's published guidelines, the NYSE would consider delisting the Shares if, among other things, the number of record holders of at least 100 Shares falls below 1,200, the number of publicly held Shares (exclusive of holdings of officers, directors and their families and other concentrated holdings of 10% or more ("NYSE Excluded Holdings")) falls below 600,000 or the aggregate market value of publicly held Shares (exclusive of NYSE Excluded Holdings) falls below $5,000,000. If, as a result of the purchase of Shares pursuant to the Offer, the Shares no longer meet the requirements of the NYSE for continued listing and the listing of Shares is discontinued, the market for the Shares could be adversely affected. If the NYSE were to delist the Shares, it is possible that the Shares would continue to trade on another securities exchange or in the over-the-counter market and that price or

other quotations would be reported by other sources. The extent of the public market for such Shares and the availability of such quotations would depend, however, upon such factors as the number of Shareholders and/or the aggregate market value of such securities remaining at such time, the interest in maintaining a market in the Shares on the part of securities firms, the possible termination of registration under the Exchange Act as described below, and other factors. Purchaser cannot predict whether the reduction in the number of Shares that might otherwise trade publicly would have an adverse or beneficial effect on the market price for, or marketability of, the Shares or whether it would cause future market prices to be greater or less than the Offer Price.

EXCHANGE ACT REGISTRATION. The Shares are currently registered under the Exchange Act. Such registration may be terminated upon application of the

Company to the Commission if the Shares are not listed on a national securities exchange and there are fewer than 300 record holders of the Shares. The termination of registration of the Shares under the Exchange Act would substantially reduce the information required to be furnished by the Company to holders of Shares and to the Commission and would make certain provisions of the Exchange Act, such as the short-swing profit recovery provisions of Section 16(b), and the requirement of furnishing a proxy statement in connection with Shareholders' meetings pursuant to Section 14(a), no longer applicable to the Shares. Furthermore, if the Shares are no longer registered under the Exchange Act, the requirements of Rule 13e-3 under the Exchange Act with respect to "going private" transactions would no longer be applicable to the Company. In addition, "affiliates" of the Company and persons holding "restricted securities" of the Company may be deprived of the ability to dispose of such securities pursuant to Rule 144 promulgated under the Securities Act of 1933, as amended. Purchaser believes that the purchase of the Shares pursuant to the Offer may result in the Shares becoming eligible for termination of registration under the Exchange Act, and it is the intention of Purchaser to cause the Company to make an application for termination of registration of the Shares as soon as possible after successful completion of the Offer if the Shares are then eligible for such termination.

MARGIN REGULATIONS. The Shares are currently "margin securities," as such term is defined under the rules of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), which has the effect, among other things, of allowing brokers to extend credit on the collateral of such securities. Depending upon factors similar to those described above regarding listing and market quotations, following the Offer, it is possible that the Shares might no longer constitute "margin securities" for purposes of the margin regulations of the Federal Reserve Board, in which event such Shares could no longer be used as collateral for loans made by brokers.

If registration of the Shares under the Exchange Act were terminated, the Shares would no longer be "margin securities" or be eligible for NYSE reporting. Purchaser intends to seek to cause the Company to terminate the registration of the Shares under the Exchange Act as soon after consummation of the Offer as the requirements for termination of the registration of the Shares are met.

8. CERTAIN INFORMATION CONCERNING THE COMPANY

GENERAL INFORMATION. The Company is a Minnesota corporation with its principal executive offices located at 4400 Baker Road, Minnetonka, Minnesota 55343.

The Company is a database marketing company that sells a broad range of products and services directly to consumers via catalogs, direct marketing and the Internet. Its principal subsidiaries are Fingerhut Corporation ("Fingerhut"), Figi's Inc. ("Figi's"), Arizona Mail Order Company Inc. ("AMO"), Popular Club Plan, Inc. ("Popular Club"), Bedford Fair Apparel, Inc. ("Bedford Fair") and Fingerhut National Bank ("FNB"). Fingerhut has been in the direct mail marketing business for 50 years and sells general merchandise using catalogs and other direct marketing solicitations. Figi's markets specialty foods and other gifts, primarily through catalogs. AMO markets and sells women's apparel. Popular Club markets and sells general merchandise and apparel using agent-based catalogers. Bedford Fair markets

and sells women's apparel using catalogs. FNB provides credit for customers' purchases from Fingerhut, in the form of closed-end and revolving credit card loans.

In addition to its retailing business, until recently, the Company owned 83% of Metris, an information-based direct marketer of consumer credit products, fee-based services and extended service plans to moderate income consumers. The Company formed Metris in 1996 and contributed to it the assets, liabilities and equity in the Company's financial services business. In October 1996, Metris completed an initial public offering of approximately 17% of its common stock. On September 25, 1998, the Company spun off to its Shareholders all of the Company's ownership in Metris.

HISTORICAL FINANCIAL INFORMATION. Certain selected consolidated financial information with respect to the Company and its subsidiaries excerpted from the Company 10-K and the Company 1998 Third-Quarter 10-Q is set forth below. The selected consolidated financial information has been restated to give effect to

the Metris spinoff as if it had occurred on December 30, 1994. More comprehensive financial information is included in such reports and other documents filed by the Company with the Commission, and the following summary is qualified in its entirety by reference to such reports and other documents and all of the financial information (including any related notes) contained therein. Such reports and other documents should be available for inspection and copies should be obtainable in the manner set forth below under "Available Information."

FINGERHUT COMPANIES, INC.
SELECTED CONSOLIDATED FINANCIAL INFORMATION
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	FISCAL YEAR ENDED			39 WEEKS ENDED	
<S>	<C>	<C>	<C>	<C>	<C>
	DECEMBER 29, 1995	DECEMBER 27, 1996	DECEMBER 26, 1997	SEPTEMBER 26, 1997	SEPTEMBER 25, 1998
EARNINGS DATA:					
Revenues (owned basis)	$1,764,792	$1,615,002	$1,519,351	$ 959,094	$ 949,374
Earnings (loss) from continuing operations before income taxes and extraordinary items	68,857	32,445	58,988	3,640	(31,970)
Net earnings (loss) from continuing operations before extraordinary items	46,277	21,123	37,721	2,326	(19,995)
PER COMMON SHARE DATA:					
Basic (a)	$ 1.01	$ 0.46	$ 0.82	$ 0.05	$ (0.42)
Diluted (b)	0.96	0.44	0.76	0.05	(0.42)
Dividends declared (c)	0.16	0.16	0.16	0.12	0.08
BALANCE SHEET DATA:					
Total assets	$1,177,967	$1,224,178	$1,229,485	$ 1,177,284	$ 1,096,908
Total current debt	215,099	23,084	84	74,084	292,076
Long-term debt and capitalized leases, less current portion	146,564	271,481	245,187	246,435	149
Total stockholders' equity	547,490	605,401	669,985	626,882	521,824

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(a) Based on a weighted average of 46,166,842, 46,210,151 and 45,834,575 Shares for the fiscal years ended December 26, 1997, December 27, 1996, and December 29, 1995, respectively, and 47,061,954 and 46,122,419 Shares for the 39 weeks ended September 25, 1998, and September 26, 1997, respectively.

(b) Based on a weighted average of 49,377,695, 48,628,308 and 48,478,971 Shares and Share equivalents for the fiscal years ended December 26, 1997, December 27, 1996, and December 29, 1995, respectively, and 47,061,954 and 49,119,663 Shares and Share equivalents for the 39 weeks ended September 25, 1998, and September 26, 1997, respectively.

(c) On October 1, 1998, the Company announced that it would discontinue its prior dividend of $0.04 per share per quarter. The Company has agreed in the Merger Agreement that it will not pay any dividend or other distribution payable in cash, stock or property with respect to the Shares.

1998 EARNINGS RELEASE. On January 21, 1999, the Company issued a press release reporting certain fourth quarter and 1998 full year financial results (the "Company Earnings Release"). According to the Company Earnings Release, the Company's net revenues for the quarter ended December 25, 1998, were $659.8 million, up 18% from the same period of 1997. In addition, net revenues for the full year 1998 were $1,609.2 million, up 6% from the same period in 1997. In addition, the Company reported net earnings from continuing operations of $42.3 million, or $0.81 per Share, for the fourth quarter, up 19 percent compared to earnings of $35.4 million, or $0.71 per Share, in the fourth quarter of 1997. The Company reported full-year 1998 net earnings from ongoing business of $46.1 million, or $0.90 per Share, a 22% increase over $37.7 million, or $0.76 per Share, for the full year 1997. These results exclude the previously announced nonrecurring and extraordinary charges of $30.9 million (after-tax), or $0.60

per Share, and net earnings from discontinued operations of $30.1 million, or $0.59 per Share.

COMPANY 1999 BUDGET. During the course of discussions among Parent, Purchaser and the Company that led to the execution of the Merger Agreement (see Section 11 below), the Company provided Purchaser and Parent with certain business and financial information that was not publicly available. Such information included the Company's preliminary budget for the fiscal year ended December 31, 1999 (the "Preliminary Budget"), which estimated retail sales less returns, exchanges and allowances of approximately $1.9 billion and net income of approximately $55.4 million (equivalent to approximately $1.04 per diluted Share). The Preliminary Budget was prepared by the Company's management in the ordinary course of its annual budgeting process. The Company has informed Parent and Purchaser that it has not updated the Preliminary Budget as of the date of this Offer To Purchase.

THE PRELIMINARY BUDGET WAS NOT PREPARED WITH A VIEW TO PUBLIC DISCLOSURE OR COMPLIANCE WITH PUBLISHED GUIDELINES OF THE COMMISSION OR THE GUIDELINES ESTABLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS REGARDING PROJECTIONS, AND IS INCLUDED IN THIS OFFER TO PURCHASE ONLY BECAUSE IT WAS PROVIDED TO PARENT AND PURCHASER. NONE OF PARENT, PURCHASER NOR ANY OF THEIR REPRESENTATIVES ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OF THE PRELIMINARY BUDGET. WHILE PRESENTED WITH NUMERICAL SPECIFICITY, THE PRELIMINARY BUDGET IS BASED UPON A VARIETY OF ASSUMPTIONS (NOT ALL OF WHICH WERE STATED THEREIN AND NOT ALL OF WHICH WERE PROVIDED TO PARENT OR PURCHASER) RELATING TO THE BUSINESSES OF THE COMPANY, WHICH MAY NOT BE REALIZED AND IS SUBJECT TO SIGNIFICANT FINANCIAL, MARKET, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES WHICH ARE DIFFICULT OR IMPOSSIBLE TO PREDICT ACCURATELY, MANY OF WHICH ARE BEYOND THE CONTROL OF THE COMPANY AND PARENT. THERE CAN BE NO ASSURANCE THAT THE RESULTS IN THE PRELIMINARY BUDGET WILL BE REALIZED, AND ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE SHOWN. THE INCLUSION OF THE PRELIMINARY BUDGET SHOULD NOT BE REGARDED AS A REPRESENTATION BY PARENT, PURCHASER OR ANY OF THEIR RESPECTIVE AFFILIATES OR REPRESENTATIVES OR BY THE COMPANY OR ANY OF ITS AFFILIATES OR REPRESENTATIVES THAT THE BUDGETED RESULTS WILL BE ACHIEVED. THE PRELIMINARY BUDGET SHOULD BE READ TOGETHER WITH THE FINANCIAL STATEMENTS OF THE COMPANY REFERRED TO HEREIN.

AVAILABLE INFORMATION. The Company is subject to the informational filing requirements of the Exchange Act. In accordance with the Exchange Act, the Company files periodic reports, proxy statements and other information with the Commission relating to its business, financial condition and other matters. The Company is required to disclose in such proxy statements certain information, as of particular dates, concerning the Company's directors and officers, their remuneration, stock options granted to them, the principal holders of the Company's securities and any material interest of those persons in transactions

with the Company. Such reports, proxy statements and other information may be inspected at the Commission's office at 450 Fifth Street, N.W., Washington, D.C. 20549, and also should be available for inspection and copying at the regional offices of the Commission located at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661; and 7 World Trade Center, Suite 1300, New York, New York 10048. Copies may be obtained upon payment of the Commission's prescribed fees by writing to its principal office at 450 Fifth Street, N.W., Washington, D.C. 20549, or through the Commission's website (http://www.sec.gov).

Although neither Parent nor Purchaser believes as of the date of the Offer To Purchase that statements contained herein based upon such documents are untrue in any material respect, none of Parent, Purchaser, Dealer Manager or Information Agent assumes any responsibility for the accuracy or completeness of the information concerning the Company, furnished by the Company, or contained in the documents and records referred to herein or for any failure by the Company to disclose events which may have occurred or may affect the significance or accuracy of any such information but which are unknown to Parent and Purchaser.

9. CERTAIN INFORMATION CONCERNING PURCHASER AND PARENT

Purchaser, a Minnesota corporation, was organized to acquire all of the Shares pursuant to the Offer and the Merger and has not conducted any unrelated activities since its organization. All of the outstanding capital stock of Purchaser is owned directly by Parent. The principal executive offices of

Purchaser are located at 7 West Seventh Street, Cincinnati, Ohio 45202.

Parent is a Delaware corporation, with its principal executive offices located at 7 West Seventh Street, Cincinnati, Ohio 45202 and 151 W. 34(th) Street, New York, New York 10061. Parent is one of the leading operators of full-line department stores in the United States, with over 400 department stores in 33 states, as of January 31, 1998. Parent's department stores sell a wide range of merchandise, including men's, women's and children's apparel and accessories, cosmetics, home furnishings and other consumer goods, and are diversified by size of store, merchandising character and character of community served. Parent's department stores are located at urban or suburban sites, principally in densely populated areas across the United States. Parent also operates direct mail catalog and electronic commerce subsidiaries under the names "Bloomingdale's By Mail," "Macy's By Mail" and "Macy's.Com." In general, Parent conducts its business through subsidiaries.

The name, business address, citizenship, present principal occupation and employment listing for the past five years of each of the executive officers and directors of Parent and Purchaser are set forth on Schedule I.

Set forth below is certain selected consolidated financial information with respect to Parent and its subsidiaries, excerpted from Parent's Annual Report on Form 10-K for the fiscal year ended January 31, 1998 (the "Parent 1997 10-K"), and Parent's Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 1998 (the "Parent 1998 Third-Quarter 10-Q"). More comprehensive financial information is included in such reports and other documents filed by Parent with the Commission, and the following summary is qualified in its entirety by reference to such reports and other documents and all the financial information (including any related notes) contained therein. The Parent 1997 10-K and the Parent 1998 Third-Quarter 10-Q are incorporated herein by reference. Such reports and other documents should be available for inspection and copies should be obtainable from the offices of the Commission in the same manner as set forth under "Available Information" in Section 8 above.

FEDERATED DEPARTMENT STORES, INC.
SELECTED CONSOLIDATED FINANCIAL INFORMATION
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	52 WEEKS ENDED (1)			39 WEEKS ENDED	
<S>	<C>	<C>	<C>	<C>	<C>
	FEBRUARY 3, 1996	FEBRUARY 1, 1997	JANUARY 31, 1998	NOVEMBER 1, 1997	OCTOBER 31, 1998
OPERATING DATA:					
Net sales	$ 15,049	$ 15,229	$ 15,668	$ 10,608	$ 10,626
Income before extraordinary items	75	266	575	196	277
Net income	75	266	536	157	254
PER COMMON SHARE DATA:					
Basic earnings per share:					
Income before extraordinary items	$ 0.39	$ 1.28	$ 2.74	$ 0.93	$ 1.32
Extraordinary items	--	--	(0.18)	(0.18)	(0.11)
Net income	0.39	1.28	2.56	0.75	1.21
Diluted earnings per share:					
Income before extraordinary items	0.39	1.24	2.58	0.90	1.24
Extraordinary items	--	--	(0.17)	(0.17)	(0.10)
Net income	0.39	1.24	2.41	0.73	1.14
BALANCE SHEET DATA:					
Working capital	$ 3,262	$ 2,831	$ 3,134	$ 2,493	$ 3,099
Total assets	14,295	14,264	13,738	14,932	14,217
Total Indebtedness	6,365	5,701	4,475	5,582	4,248
Shareholders' equity	4,274	4,669	5,256	4,871	5,368

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(1) The consolidated financial statements from which the above numbers were taken present the financial position of Parent as of and for the 53-week period ending February 3, 1996 and the 52-week periods ending January 31, 1998 and February 1, 1997.

Except as set forth elsewhere in this Offer To Purchase or Schedule I hereto: (i) neither Parent nor Purchaser nor, to the knowledge of Parent or Purchaser, any of the persons listed in Schedule I hereto or any associate or majority-owned subsidiary of Parent or Purchaser or any of the persons so listed, (a) beneficially owns or has a right to acquire any Shares or any other equity securities of the Company, (b) has effected any transaction in the Shares or any other equity securities of the Company during the past 60 days, or (c) has any contract, arrangement, understanding or relationship with any other person with respect to any securities of the Company (including any contract, arrangement, understanding or relationship concerning the transfer or the voting of any such securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or the giving or withholding of proxies, consents or authorizations); (ii) there have been no transactions which would require reporting under the rules and regulations of the Commission between Parent or Purchaser or any of their respective subsidiaries or, to the knowledge of Parent or Purchaser, any of the persons listed in Schedule I hereto, on the one hand, and the Company or any of its executive officers, directors or affiliates, on the other hand; and (iii) there have been no contacts, negotiations or transactions between Parent or Purchaser or any of their respective subsidiaries or, to the knowledge of Parent or Purchaser, any of the persons listed in Schedule I hereto, on the one hand, and the Company or its subsidiaries or affiliates, on the other hand, concerning a merger, consolidation or acquisition, a tender offer or other acquisition of securities, an election of directors or a sale or other transfer of a material amount of assets.

10. SOURCE AND AMOUNT OF FUNDS

SOURCE AND AMOUNT OF FUNDS. The aggregate amount of funds required by Purchaser to pay the aggregate purchase price to be paid pursuant to the Offer and the Merger, to cash out the Options and to pay the fees and expenses related to the Offer and the Merger is estimated to be approximately $1.4 billion. These funds are expected to be provided to Purchaser in the form of capital contributions or advances made by Parent. Parent plans to obtain the funds for such capital contributions or advances from cash on hand, borrowings under its existing bank credit facilities or a combination thereof. Although Parent currently intends to explore refinancing such borrowings with longer term public or private debt securities following the completion of the Offer, no specific arrangements therefor had been entered into as of the date of this Offer To Purchase and whether Parent will pursue such refinancing will depend upon market conditions and other factors at the relevant time.

A summary of the bank credit facilities is incorporated by reference to the Parent 1997 10-K and the Parent 1998 Third-Quarter 10-Q, and copies of the credit agreements providing for the bank credit facilities have been filed with the Commission as exhibits to the Schedule 14D-1. These credit agreements may be examined at, and copies thereof may be obtained from, the offices of the Commission in the same manner as set forth in Section 8 above.

11. BACKGROUND OF THE OFFER

On October 27, 1998, Ronald W. Tysoe, Parent's Vice Chairman, Theodore Deikel, the Company's Chairman and Chief Executive Officer, and a representative of the Company met at Parent's request to discuss a possible commercial relationship under which the Company would provide logistical services to Parent. Mr. Tysoe indicated in that meeting that Parent might also be willing to explore a possible substantial investment or other strategic transaction involving the Company. Mr. Deikel indicated at the October 27th meeting that the Company was not for sale and was pursuing its own long-term growth strategy as an independent company, but that the Company would nonetheless consider Parent's indication of possible interest and respond thereto in due course.

In November 1998, representatives of the Company informed representatives of Parent that the Company would be willing to explore a possible substantial investment by Parent or other strategic transaction involving the Company, but only if Parent signed a customary confidentiality/standstill agreement. Thereafter, such an agreement, dated as of November 11, 1998, was signed and, commencing in December 1998, the Company provided Parent non-public financial and operating information relating to the Company, including at a senior management presentation on December 9, 1998. In mid-December 1998, representatives of Parent informed representatives of the Company that Parent

had an interest in exploring, on a preliminary basis, a possible business combination transaction with the Company and indicated a valuation range of $20-$24 per Share, subject to further due diligence by Parent. The parties determined to continue discussions and the due diligence review in January 1999 following the completion of the Christmas retail season, although representatives of the Company informed representatives of Parent that the Company's willingness to continue discussions did not indicate that the Company agreed with Parent's valuation range.

The parties renewed their preliminary discussions and the due diligence review in mid-January 1999, including at a senior management presentation on January 13, 1999. On January 27, 1999, Parent proposed to acquire the Company at $24 per Share in cash.

On January 29, 1999, representatives of the Company informed representatives of Parent that the Company Board had considered Parent's proposal and instructed the Company's management not to accept it. Representatives of the Company also indicated that they believed that the Company Board would support a transaction at $26 per Share and that the Company was willing to continue discussions of a possible business combination transaction if Parent was interested in so doing.

On February 2, 1999, Mr. Tysoe and Thomas G. Cody, Parent's Executive Vice President, met at Parent's request with William J. Lansing, the Company's President, and other senior executives of the Company to further review the Company's business plans and discuss Parent's desire to assure that the Company's senior management team would remain with the Company if a decision were made to proceed with a transaction. Following that meeting, Mr. Tysoe informed Mr. Deikel that Parent would be willing to increase its indicated price to $25 per Share, subject to confirming the willingness of certain senior executives of the Company to continue with the Company following any such transaction and the negotiation of definitive documentation satisfactory to Parent. Thereafter, representatives of the parties engaged in substantially continuous discussions regarding definitive documentation and other matters relating to a possible transaction and Parent completed its initial due diligence review of the Company. In addition, representatives of Parent engaged in discussions with certain senior executives of the Company relating to their willingness to continue with the Company following a business combination transaction, their terms of employment and Parent's request that certain options and restricted Shares which otherwise would vest in any transaction such as the Offer and the Merger be converted into options to acquire Parent common shares and restricted Parent common shares. For additional information relating to these matters, see Item 3(b) --"Employment Letters"-- in the Company's Schedule 14D-9, which is incorporated herein by reference.

On February 11, 1999, Parent and the Company publicly announced that they had entered into the Merger Agreement. The Offer was formally commenced on the date of this Offer To Purchase.

12. PURPOSE OF THE OFFER AND THE MERGER; PLANS FOR THE COMPANY; THE MERGER AGREEMENT; OTHER MATTERS

PURPOSE OF THE OFFER AND THE MERGER

The purpose of the Offer and the Merger is to enable Purchaser to acquire, in one or more transactions, control of, and the entire equity interest, in the Company. The Offer is intended to increase the likelihood that the Merger will be completed promptly. The acquisition of the entire equity interest in the Company has been structured as a cash tender offer followed by a cash merger in order to provide a prompt and orderly transfer of ownership of the Company from the Shareholders to Parent and to provide the Shareholders with cash in a per Share amount equal to the Per Share Amount for all of their Shares.

PLANS FOR THE COMPANY

Following the Merger, the Company will be operated as a wholly owned subsidiary of Parent. Except as otherwise provided in this Offer To Purchase, and for possible transactions between the Company and other subsidiaries of Parent in connection with the integration of business conducted by the Company with the other businesses of Parent and its subsidiaries, Purchaser, Parent and the directors and officers of Purchaser and Parent listed on Schedule I have no current plans or proposals that would result in (i) an extraordinary corporate transaction, such as a merger, reorganization, liquidation or sale or transfer

of a material amount of assets involving the Company or any of its Subsidiaries, (ii) a sale or transfer of a material amount of the assets of the Company or any of its Subsidiaries, (iii) any change in the present Company Board or management of the Company, (iv) any material change in the present capitalization or dividend policy of the Company, (v) any material change in the Company's corporate structure or business, (vi) causing a class of securities of the Company to be delisted from a national securities exchange or to cease to be authorized to be quoted in an interdealer quotation system of a registered national securities

association, or (vii) a class of equity securities of the Company becoming eligible for termination of registration pursuant to Section 12(g)(4) of the Exchange Act.

Parent intends, from time to time after completion of the Offer, to evaluate and review the Company's and its subsidiaries operations and the potential opportunities for rationalization and the achievement of synergies with Parent's operations, and to consider what, if any, changes would be desirable in light of the results of such evaluations and reviews. After such review, Parent will determine what actions or changes, if any, would be desirable in light of the circumstances which then exist, and reserves the right to effect such actions or changes.

THE MERGER AGREEMENT

The following is a summary of the material terms of the Merger Agreement. This summary is not a complete description of the terms and conditions of the Merger Agreement and is qualified in its entirety by reference to the full text of the Merger Agreement, which is incorporated herein by reference and a copy of which has been filed with the Commission as an exhibit to the Schedule 14D-1. The Merger Agreement may be examined, and copies obtained from the offices of the Commission in the same manner as set forth in Section 8 above.

THE OFFER. The Merger Agreement provides for the commencement of the Offer. Without the prior written consent of the Company, Purchaser will not, and Parent will cause Purchaser not to, (i) decrease or change the form of the Per Share Amount, (ii) decrease the number of Shares sought in the Offer, (iii) amend or waive the Minimum Condition or impose conditions other than the Offer Conditions on the Offer, (iv) extend the Expiration Date (which will initially be 20 business days following the commencement of the Offer) except (a) as required by law and (b) that, in the event that any condition to the Offer is not satisfied or waived at the time that the Expiration Date would otherwise occur, (1) Purchaser must extend the Expiration Date for an aggregate of ten additional business days to the extent necessary to permit such condition to be satisfied and (2) Purchaser may, in its sole discretion, extend the Expiration Date for such additional period as it may determine to be appropriate (but not beyond June 30, 1999) to permit such condition to be satisfied, and (c) that, in the event that the OCC Condition is not satisfied, and all other Offer Conditions have been satisfied or waived, at the time that the Expiration Date (as extended as described in clauses (a) or (b) above) would have otherwise occurred, Purchaser must either irrevocably waive the OCC Condition or extend the Expiration Date (but not beyond the date that is 60 calendar days from the date of the filing with the OCC in respect of the OCC Condition) to the extent necessary to permit the OCC Condition to be satisfied, or (v) amend any term of the Offer in any manner materially adverse to Shareholders (including without limitation to result in any extension which would be inconsistent with the preceding provisions of this sentence), provided, however, that (1) subject to applicable legal requirements, Parent may cause Purchaser to waive any Offer Condition, other than the Minimum Condition, in Parent's sole discretion and (2) the Offer may be extended in connection with an increase in the consideration to be paid pursuant to the Offer so as to comply with applicable rules and regulations of the Commission. Except as set forth above and subject to applicable legal requirements, Purchaser may amend the Offer or waive any Offer Condition in its sole discretion. Assuming the prior satisfaction or waiver of the Offer Conditions, Parent will cause Purchaser to accept for payment, and pay for, in accordance with the terms of the Offer, all Shares validly tendered and not withdrawn pursuant to the Offer as soon as practicable after the Expiration Date.

The Company made representations to Parent in the Merger Agreement that (a) the Company Board and a special committee of the Company Board formed in accordance with Section 302A.673 of the MBCA (the "Special Committee") (each at

a meeting duly called and held) have (i) determined that the Merger Agreement, the Offer and the Merger are fair to and in the best interests of the Company and the Shareholders, (ii) approved the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger, and, assuming the accuracy of Parent's and Purchaser's representation in the Merger Agreement with respect to ownership of Shares, such approval is sufficient to render Sections

302A.671, 302A.673 and 302A.675 of the MBCA inapplicable to the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger, and (iii) resolved to recommend acceptance of the Offer and approval of the Merger Agreement by the Shareholders and (b) SSB has delivered to the Company Board its opinion to the effect that, as of the date of the Merger Agreement, the cash consideration to be received by Shareholders (other than Parent and its affiliates) in the Offer and the Merger is fair to such Shareholders from a financial point of view.

BOARD REPRESENTATION. The Merger Agreement provides that, promptly upon the purchase of Shares by Purchaser pursuant to the Offer (provided that the Minimum Condition has been satisfied), and from time to time thereafter, (i) Parent will be entitled to designate such number of directors ("Parent's Designees"), rounded down to the next whole number, as will give Parent, subject to compliance with Section 14(f) of the Exchange Act, representation on the Company Board equal to the product of (a) the number of directors on the Company Board (giving effect to any increase in the number of directors as described below) and (b) the percentage that such number of Shares so purchased bears to the aggregate number of Shares outstanding (such number being, the "Board Percentage"), provided, however, that the Board Percentage will in all events be at least a majority of the members of the Company Board, and (ii) the Company will, upon request by Parent, promptly satisfy the Board Percentage by either (a) increasing the size of the Company Board or (b) using its reasonable best efforts to secure the resignations of such number of directors as is necessary to enable Parent's Designees to be elected to the Company Board, or both, and will use its reasonable best efforts to cause Parent's Designees promptly to be so elected, subject in all instances to compliance with Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder. At the request of Parent, the Company will take all lawful action necessary to effect any such election. Parent will supply to the Company in writing and be solely responsible for any information with respect to itself, Parent's Designees and Parent's officers, directors and affiliates required by Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder to be included in the Schedule 14D-9. Notwithstanding the foregoing, at all times prior to the Effective Time, the Company Board will include at least three Continuing Directors (as defined below).

The Merger Agreement further provides that, notwithstanding any other provision of the Merger Agreement, of the articles of incorporation or bylaws of the Company or of applicable law to the contrary, following the election or appointment of Parent's Designees pursuant to the Merger Agreement and prior to the Effective Time or, if the Effective Time has not then occurred, February 10, 2000, any amendment or termination of the Merger Agreement or amendment of the articles of incorporation or bylaws of the Company by the Company, extension by the Company for the performance or waiver of the obligations or other acts of Parent or Purchaser hereunder or waiver by the Company of the Company's rights hereunder will require the affirmative vote of the majority of members of a committee comprised solely of Continuing Directors. The term the "Continuing Directors" means at any time (i) those directors of the Company who are Disinterested directors of the Company on the date of the Merger Agreement and who voted to approve the Merger Agreement and (ii) such additional directors of the Company who are Disinterested and who are designated as "Continuing Directors" for purposes of the Merger Agreement by a majority of the Continuing Directors in office at the time of such designation, provided, however, that if there are no such Continuing Directors, the individuals who are appointed to the Company Board who are both Disinterested and independent will constitute the Continuing Directors. The term "Disinterested" has the meaning assigned to it in Section 302A.673, Subd. 1(d) of the MBCA. The term "independent" has the meaning assigned to it in the NEW YORK STOCK EXCHANGE LISTED COMPANY GUIDE.

The Company is today mailing to the Shareholders a copy of an Information Statement prepared in accordance with Rule 14f-1 promulgated under the Exchange Act, relating to the possible designation by Parent, pursuant to the Merger Agreement, of certain persons to be appointed to the Company Board otherwise than at a meeting of the Shareholders.

THE MERGER. The Merger Agreement provides that, at the Effective Time, Purchaser will be merged with and into the Company in accordance with the applicable provisions of the MBCA, and the separate

corporate existence of Purchaser will thereupon cease. The Company will be the Surviving Corporation in accordance with the MBCA.

The articles of incorporation of the Surviving Corporation to be in effect from and after the Effective Time until amended in accordance with its terms and the MBCA will be the articles of incorporation of Purchaser immediately prior to the Effective Time, provided, however, that at the Effective Time, by virtue of the Merger and the Merger Agreement and without any further action by the Company and Purchaser, Article 1 of the Surviving Corporation's articles of incorporation will be amended to read as follows: "The name of the Corporation is Fingerhut Companies, Inc." The bylaws of the Surviving Corporation to be in effect from and after the Effective Time until amended in accordance with their terms, the articles of incorporation of the Surviving Corporation and the MBCA will be the bylaws of Purchaser immediately prior to the Effective Time.

Subject to applicable law, the members of the initial Board of Directors of the Surviving Corporation will be the members of the Board of Directors of Purchaser immediately prior to the Effective Time. All of the members of the Board of Directors of the Surviving Corporation will serve until their successors are duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the articles of incorporation and the bylaws of the Surviving Corporation. The officers of the Surviving Corporation will consist of the officers of the Company immediately prior to the Effective Time. Such persons will continue as officers of the Surviving Corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the articles of incorporation and the bylaws of the Surviving Corporation.

CONSIDERATION TO BE PAID IN THE MERGER. The Merger Agreement provides that, on the terms and subject to the conditions set forth in the Merger Agreement and in accordance with the MBCA, at the Effective Time, by virtue of the Merger and without any action on the part of Parent, Purchaser, the Company or Shareholders, each Share issued and outstanding immediately prior to the Effective Time (other than any Shares to be canceled as described below and any Dissenting Shares (as defined in the Merger Agreement)) and any Shares issuable upon exercise of any Rights will be converted into the right to receive the Merger Consideration in cash payable to the holder thereof, without interest, prorated for fractional Shares. All such Shares, when so converted, will no longer be outstanding and will automatically be canceled and will cease to exist, and each holder of a certificate formerly representing any such Share will cease to have any rights with respect thereto, except the right to receive the Merger Consideration therefor upon the surrender of such certificate. Any payment made will be made net of applicable withholding taxes to the extent such withholding is required by law. Notwithstanding the foregoing, if between the date of the Merger Agreement and the Effective Time the outstanding Shares shall have been changed into a different number of shares or a different class, by reason of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, the Merger Consideration will be correspondingly adjusted on a per-share basis to reflect such stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares.

The Merger Agreement further provides that each Share owned by Parent, Purchaser or any other direct or indirect wholly owned subsidiary of Parent immediately before the Effective Time (other than shares in trust accounts, managed accounts, custodial accounts and the like that are beneficially owned by third parties) will be automatically canceled and will cease to exist and no payment or other consideration will be made with respect thereto.

Each common share of Purchaser issued and outstanding immediately before the Effective Time will be converted into and become one validly issued, fully paid and nonassessable common share of the Surviving Corporation, which, in accordance with the Merger Agreement, will constitute all of the issued and outstanding shares of capital stock of the Surviving Corporation immediately after the Effective Time.

COMPANY STOCK OPTION PLANS. The Merger Agreement provides that the Company

will use its reasonable best efforts (which include satisfying the requirements of Rule 16b-3(e) promulgated under Section 16

of the Exchange Act, without incurring any liability in connection therewith) to provide that, at the Effective Time, each holder of a then-outstanding Option to purchase Shares under the Company's Stock Option Plans, whether or not then exercisable, will, in settlement thereof, receive from the Company for each Share subject to such Option an amount (subject to any applicable withholding tax) in cash equal to the difference between the Merger Consideration and the per Share exercise price of such Option to the extent such difference is a positive number (the "Option Consideration"). Notwithstanding anything stated above, no Option Consideration will be paid with respect to any Option unless, at or prior to the time of such payment, such Option is canceled and the holder of such Option has executed and delivered a release of any and all rights the holder had or may have had in respect of such Option.

In the Merger Agreement, the Company has agreed to use its reasonable best efforts to obtain all necessary consents or releases from holders of Options under the Stock Option Plans and take all such other lawful action as may be necessary to give effect to the transactions contemplated by the Merger Agreement. Except as otherwise agreed to by the parties, (i) the Stock Option Plans will terminate as of the Effective Time and the provisions in any other plan, program or arrangement providing for the issuance or grant of any other interest in respect of the capital stock of the Company or any subsidiary thereof, including the Directors' Retainer Stock Deferral Plan, will be canceled as of the Effective Time and (ii) the Company will use its reasonable best efforts to assure that following the Effective Time no participant in the Stock Option Plans or such other plans, programs or arrangements will have any right thereunder to acquire any equity securities of the Company, the Surviving Corporation or any subsidiary thereof and to terminate all such plans and any Options or other Rights thereunder. Notwithstanding the foregoing, as requested by Parent, the Company will use its reasonable best efforts to assure that following the date of the Merger Agreement, no participant in the 1994 Employee Stock Purchase Plan will have any right to change any election or increase his contribution thereunder, and the Company will take all such actions as may be available to it to cause such plan to be suspended in respect of equity securities of the Company or the Surviving Corporation (other than as to Shares payment for which was deducted from employees' payroll at or prior to the date of the Merger Agreement).

SHAREHOLDER MEETING. The Merger Agreement provides that the Company will take all action necessary in accordance with applicable law and its articles of incorporation and bylaws to convene a meeting of the Shareholders (the "Company Shareholders' Meeting") as promptly as practicable after the Offer Completion Date to consider and vote upon the approval of the Merger Agreement. The Company Board will recommend such approval and the Company will take all lawful action to solicit such approval, including without limitation timely mailing any proxy statement; provided, however, that such recommendation or solicitation (but not such actions to convene the Company Shareholders' Meeting) is subject to any action, including any withdrawal or change of its recommendation, taken by, or upon authority of, the Company Board, as the case may be, in the exercise of its good faith judgment in conformity with the advice of outside counsel (notice of which will be promptly given to Parent and Purchaser) that such action is required in order to satisfy the fiduciary duties of the members of the Company Board to Shareholders imposed by law. Without limiting the generality or effect of any other provision of the Merger Agreement, the Company's obligations to convene the Company Shareholders' Meeting will not be affected by the commencement, public proposal, public disclosure or communication to the Company of any Company Takeover Proposal (as defined below).

The Merger Agreement also provides that, notwithstanding the above, in the event that Parent, Purchaser or any other subsidiary of Parent acquires at least 90% of the outstanding Shares pursuant to the Offer or otherwise, the parties hereto will take all necessary and appropriate action to cause the Merger to become effective in accordance with Section 302A.621 of the MBCA without a meeting of the Shareholders as soon as practicable after the acceptance for payment and purchase of Shares by Purchaser pursuant to the Offer.

REPRESENTATIONS AND WARRANTIES. Pursuant to the Merger Agreement, the Company has made representations and warranties with respect to, among other things: (i) the organization, corporate powers and

qualifications of the Company and its subsidiaries, (ii) the corporate power and authority to enter into the Merger Agreement and, subject to obtaining any necessary shareholder approval of the Merger, to carry out its obligations thereunder; (iii) due authorization, execution and delivery of the Merger Agreement by the Company and consummation by the Company of the transactions contemplated thereby, subject to the approval of the Merger by the Company's Shareholders in accordance with Minnesota law; (iv) the capitalization of the Company and its significant subsidiaries; (v) the ownership of the subsidiaries; (vi) the absence of other interests and investments; (vii) the absence of conflicts between the Merger Agreement and the transactions contemplated thereby with any law, regulation, court order, judgment, decree, permit or license, agreements, contracts or other instruments and obligations; (viii) the absence of any required waivers, consents or approvals; (ix) the compliance of the Company and its subsidiaries with laws, including those relating to the protection of the environment; (x) the accuracy of documents filed with the Commission; (xi) the absence of certain litigation; (xii) the absence of certain events since January 1, 1998, including that there has not been any change in or effect on the business of the Company or other event or condition that has had or can reasonably be expected to have a material adverse effect on the business, results of operations or financial condition of the Company and its subsidiaries, taken as a whole (other than any change, effect, event or condition generally applicable to the industry in which the Company and its subsidiaries operate or changes in general economic conditions, except to the extent such changes, effects, events or conditions disproportionately affect the Company and its subsidiaries taken as a whole) or prevent or materially delay the Company's ability to consummate the transactions contemplated thereby (a "Company Material Adverse Effect"); (xiii) certain tax considerations; (xiv) patents, trademarks and other intellectual property; (xv) owned and leased real property; (xvi) the Company's adoption of a plan to deal with year 2000 problems; (xvii) certain contractual obligations; (xviii) employee benefit plans; (xix) compliance with state takeover statutes; (xx) the vote required by Shareholders to approve the Merger Agreement; (xxi) the absence of brokerage or finders fees or commissions payable in connection with the Merger Agreement and the transactions contemplated thereby (other than with respect to fees payable to SSB and Wit Capital Corporation); (xxii) the opinion from SSB; and (xxiii) the accuracy and completeness of the information supplied by the Company in connection with the Offer or other documents to be filed with the Commission in connection with the transactions contemplated by the Merger Agreement.

Pursuant to the Merger Agreement, Parent and Purchaser have made representations and warranties with respect to, among other things: (i) the organization, corporate powers and qualifications of Parent and Purchaser; (ii) the corporate power and authority to execute the Merger Agreement and to consummate the transactions contemplated thereby; (iii) the absence of conflicts between the Merger Agreement and the transactions contemplated thereby with any law, regulation, court order, judgment, decree, permit or license, agreements, contracts or other instruments and obligations; (iv) the absence of brokerage or finders fees or commissions payable in connection with the Merger Agreement and the transactions contemplated thereby (other than with respect to the fees payable to Credit Suisse First Boston Corporation); (v) the accuracy of documents filed with the Commission; (vi) the availability of funds or borrowing capacity necessary for the transactions contemplated by the Merger Agreement; (vii) the absence of certain litigation; and (viii) the beneficial ownership by Parent or Purchaser of the Company's Shares.

CONDUCT OF BUSINESS PENDING THE MERGER. The Company has agreed that during the period from the date of the Merger Agreement until the Effective Time, except as expressly provided for in the Merger Agreement, the Company will, and will cause its subsidiaries to, carry on their respective businesses in the usual, regular and ordinary course in substantially the same manner conducted prior to the date of the Merger Agreement and, to the extent consistent therewith, will use their reasonable efforts to preserve intact their current business organizations, use their reasonable efforts to keep available the services of their current officers and other key employees and preserve their relationships with those persons having business dealings with them to the end that their goodwill and ongoing businesses will be unimpaired at the Effective Time. The Company has further agreed that, without limiting the generality or effect of the foregoing, except as expressly provided by the Merger Agreement, during the period from the date of the

Merger Agreement to the Effective Time, the Company will not and will not permit

any of its subsidiaries to, without the consent of Parent or Purchaser: (i) other than dividends and distributions (including liquidating distributions) by a direct or indirect wholly owned subsidiary of the Company to its parent, or by a subsidiary that is partially owned by the Company or any of its subsidiaries, provided that the Company or any such subsidiary receives or is to receive its proportionate share thereof, (a) declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock, (b) split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or (c) purchase, redeem or otherwise acquire any shares of capital stock of the Company or any of its Subsidiaries or any other securities thereof or any rights, warrants or options to acquire any such shares of other securities provided that nothing therein stated will limit the Company's right to cancel the Options in exchange for the Option Consideration; (ii) issue, deliver, sell, pledge or otherwise encumber any shares of its capital stock, any other voting securities or any securities convertible into, or any rights, warrants or options to acquire, any such shares, voting securities or convertible securities except for the issuance of Shares pursuant to the exercise of Options that are outstanding on February 8, 1999, or pursuant to the Directors' Retainer Stock Deferral Plan or the 1994 Employee Stock Purchase Plan (to the extent Shares have been paid for with payroll deductions at or prior to the date of the Merger Agreement), provided that nothing therein stated will limit the Company's right to cancel the Options in exchange for the Option Consideration; (iii) amend its articles of incorporation, bylaws or other comparable organizational documents; (iv) acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, limited liability company, partnership, joint venture, association or other business organization or division thereof; (v) sell, lease, license, mortgage or otherwise encumber or subject to any lien or otherwise dispose of any of its properties or assets, other than (a) in the ordinary course of business consistent with past practice and (b) sales of assets which do not individually or in the aggregate exceed $5.0 million; (vi) (a) incur any indebtedness for borrowed money (other than indebtedness of the Company to any subsidiary of the Company or of any subsidiary of the Company to the Company or to any other subsidiary of the Company) or guarantee any such indebtedness of another person, other than the Company or a subsidiary of the Company, issue or sell any debt securities or warrants or other rights to acquire any debt securities of the Company or any of its subsidiaries, guarantee any debt securities of another person, other than the Company or a subsidiary of the Company, enter into any "keep well" or other agreement to maintain any financial statement condition of another person other than the Company or a subsidiary of the Company or enter into any arrangement having the economic effect of any of the foregoing, except for short-term borrowings incurred in the ordinary course of business consistent with past practice, or (b) make any loans, advances or capital contributions to, or investments in, any other person, other than to the Company or any subsidiary of the Company or any of its subsidiaries or to officers and employees of the Company or any of its subsidiaries for travel, business or relocation expenses in the ordinary course of business; (vii) make or agree to make any capital expenditure or capital expenditures other than capital expenditures set forth in the operating budget of the Company previously furnished to Parent and additional capital expenditures not to exceed $5.0 million in the aggregate; (viii) make any change to its accounting methods, principles or practices, except as may be required by generally accepted accounting principles; (ix) except as required by law or contemplated by the Merger Agreement, enter into, adopt or amend in any material respect or terminate any Company Stock Option Plan or any other agreement, plan or policy involving the Company or any of its subsidiaries and one or more of their directors, officers or employees, or materially change any actuarial or other assumption used to calculate funding obligations with respect to any Company pension plans, or change the manner in which contributions to any Company pension plans are made or the basis on which such contributions are determined; (x) increase the compensation of any director, certain executive officers or, except in the ordinary course of business, any other key employee of the Company or pay any benefit or amount not required by a plan or arrangement as in effect on the date of the Merger Agreement to any such person; (xi) enter into or amend in any material respect, any material contract or any contract or agreement, oral or written, with any affiliate, associate or relative of the Company (other than the Company or any

subsidiary of the Company), or make any payment to or for the benefit of, directly or indirectly, any of the foregoing other than payments to directors and officers in the ordinary course of business or pursuant to agreements or

arrangements in effect prior to the date of the Merger Agreement; or (xii) authorize, or commit or agree to take, any of the foregoing actions.

CONSENTS, APPROVALS AND FILINGS. The Merger Agreement provides that each of the parties to the Merger Agreement will use all reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things, necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the Merger and the other transactions contemplated by the Merger Agreement, including all reasonable efforts to (i) obtain all necessary actions or nonactions, waivers, consents and approvals from governmental entities and make all necessary registrations and filings (including filings with governmental entities) and take all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any governmental entity, (ii) obtain all necessary material consents, approvals or waivers from third parties, (iii) defend any lawsuits or other legal proceedings, whether judicial or administrative, challenging the Merger Agreement or the consummation of the transactions contemplated thereby, including seeking to have any adverse order entered by any court or other governmental entity vacated or reversed, and (iv) execute and deliver any additional instruments necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, the Merger Agreement.

The Merger Agreement also provides that, in connection with, and without limiting the foregoing, the Company and Parent will, and Parent will cause Purchaser to, (i) take all action necessary to ensure that no state takeover statute or similar statute or regulation (other than Chapter 80B of the Minnesota Statutes) is or becomes applicable to the Offer, the Merger or any of the other transactions contemplated thereby, and (ii) if any state takeover statute or similar statute or regulation becomes applicable thereto, take all action necessary to ensure that the Offer and the Merger and such other transactions may be consummated as promptly as practicable on the terms contemplated thereby and otherwise to minimize the effect of such statute or regulation thereon.

Notwithstanding any other provision in the Merger Agreement, in no event will Parent be required to agree to any divestiture, hold-separate or other requirement in connection with the Merger Agreement or any of the transactions contemplated thereby.

PUBLICITY. The Merger Agreement provides the Company and Parent will, subject to their respective legal obligations (including requirements of stock exchanges and other similar regulatory bodies), consult with each other, and use reasonable efforts to agree upon the text of any press release, before issuing any such press release or otherwise making public statements with respect to the transactions contemplated thereby and in making any filings with any governmental entity or with any national securities exchange with respect thereto.

INDEMNIFICATION; DIRECTORS' AND OFFICERS' INSURANCE. The Merger Agreement provides that all rights to indemnification and exculpation from liabilities for acts or omissions occurring at or prior to the Effective Time existing in favor of the current or former directors or officers of the Company or each of its subsidiaries as provided in their respective articles of incorporation or bylaws (or comparable organizational documents) will be assumed by Parent and Parent will be directly responsible for such indemnification, without further action, as of the Effective Time and will continue in full force and effect in accordance with their respective terms. In addition, from and after the Effective Time, directors and officers of the Company who become or remain directors or officers of Parent or the Surviving Corporation will be entitled to the same indemnity rights and protections (including those provided by directors' and officers' liability insurance) of Parent. These provisions (i) are intended to be for the benefit of, and will be enforceable by, each indemnified party, his or her heirs and his or her representatives and (ii) are in addition to, and not in substitution for, any other rights to indemnification or contribution that any such person may have by contract or otherwise.

The Merger Agreement further provides that Parent will, and will cause the Surviving Corporation to, maintain in effect for not less than six years after the Effective Time policies of directors' and officers' liability insurance equivalent in all material respects to those maintained by or on behalf of the Company and its Subsidiaries on the date thereof (and having at least the same

coverage and containing terms and conditions which are no less advantageous to the persons currently covered by such policies as insured) with respect to matters existing or occurring at or prior to the Effective Time, provided, however, that if the aggregate annual premiums for such insurance at any time during such period exceed 200% of the per annum rate of premium currently paid by the Company and its Subsidiaries for such insurance on the date of the Merger Agreement, then Parent will cause the Surviving Corporation to, and the Surviving Corporation will, provide the maximum coverage that is then be available at an annual premium equal to 200% of such rate.

EMPLOYEE BENEFIT MATTERS. The Merger Agreement provides that, from and after the Effective Time, the Surviving Corporation will have sole discretion over the hiring, promotion, retention, firing, except for employee benefit plans to the extent set forth below, and other terms and conditions of the employment of employees of the Surviving Corporation. Subject to the immediately preceding sentence, Parent will provide, or will cause the Surviving Corporation or its subsidiaries to provide, for the benefit of employees of the Surviving Corporation or its subsidiaries, as the case may be, who were employees of the Company or its subsidiaries immediately prior to the Effective Time, recognizing all prior service for eligibility and vesting purposes (including for purposes of determining entitlement to vacation, severance and other benefits) of the officers, directors or employees with the Company and any of its subsidiaries as service thereunder, certain existing qualified pension plans of the Company or its subsidiaries until the expiration of two years after the Effective Time, and, in addition, will provide for such two-year period, other "employee benefit plans," within the meaning of Section 3(3) of ERISA, that, together with such existing qualified pension plans, are in the aggregate at least substantially comparable to the "employee benefit plans," within the meaning of Section 3(3) of ERISA, provided to such individuals by the Company or its subsidiaries on the date of the Merger Agreement, provided, however, that notwithstanding the foregoing (i) nothing in the Merger Agreement will be deemed to require Parent to modify the benefit formulas under any pension plan of the Company or any of its subsidiaries in a manner that increases the aggregate expenses thereof as of the date of the Merger Agreement in order to comply with the requirements of ERISA, the Code or the Tax Reform Act of 1986, (ii) employee stock ownership, stock option and similar equity-based plans, programs and arrangements of the Company or any of its subsidiaries are not encompassed within the meaning of the term "employee benefit plans" in the Merger Agreement, (iii) nothing in the Merger Agreement will obligate Parent or the Surviving Corporation to continue any particular employee benefit plan, other than the existing qualified pension plans, for any period after the Effective Time, and (iv) no employee of the Company or any subsidiary of the Company will have any claim or right by reason of the Merger Agreement. Parent will cause the Surviving Corporation to honor (subject to any withholdings under applicable law) all employment, consulting and severance agreements or arrangements to which the Company or any of its subsidiaries is presently a party, which are specifically disclosed to Parent, except to the extent such agreement or arrangement is superseded or amended by any subsequent arrangements or agreements agreed to by the parties thereto in writing.

At the request of Parent, Parent and certain senior executives of the Company, including the Company's President, signed certain employment letters relating to the proposed terms of employment of those executives following the Effective Time. See Item 3(b) ("Employment Letters") in the Schedule 14D-9 for a description of these letters.

NO SOLICITATION. The Merger Agreement provides that the Company, its affiliates and their respective officers, directors, employees, representatives and agents will immediately cease any existing discussions or negotiations, if any, with any parties conducted prior to the date thereof with respect to any Company Takeover Proposal (as defined below). The Company will not, nor will it permit any of its subsidiaries to, nor will it authorize or permit any of its officers, directors or employees or any investment banker, financial advisor, attorney, accountant or other representative retained by it or any of its subsidiaries to, directly or

indirectly, (i) solicit or initiate (including without limitation by way of furnishing information), or take any other action (other than required by law) designed or reasonably likely to facilitate, any inquiries or the making of any proposal which constitutes or reasonably may give rise to any Company Takeover Proposal or (ii) participate in any discussions or negotiations regarding any Company Takeover Proposal; provided, however, that if, at any time prior to the

date on which Purchaser purchases Shares in the Offer (the "Offer Completion Date"), the Company Board determines in good faith and in conformity with the advice of outside counsel, that failure to do so would result in a breach of its fiduciary duties to the Shareholders under applicable law, the Company may, in response to a Company Takeover Proposal which was not solicited by it and did not otherwise result from a breach of any provision of the Merger Agreement, (a) furnish information with respect to the Company and each of its subsidiaries and access to the Company and its subsidiaries and their personnel to any person pursuant to a customary confidentiality agreement not more favorable to the recipient of such information than the confidentiality agreement between Parent and the Company and (b) participate in discussions and negotiations regarding such Company Takeover Proposal. A "Company Takeover Proposal" means any inquiry, proposal or offer from any person relating to any direct or indirect acquisition or purchase of 20% or more of the assets of the Company and its subsidiaries, taken as a whole, or 20% or more of any class of equity securities of the Company or any of its subsidiaries, any tender offer or exchange offer for Shares of any class of equity securities of the Company or any of its subsidiaries, or any merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving the Company or any of its subsidiaries, other than the transactions contemplated by the Merger Agreement, or any other transaction that is intended or could reasonably be expected to prevent the completion of the transactions contemplated thereby.

The Merger Agreement further provides that, except as expressly permitted by the Merger Agreement, neither the Company Board nor any committee thereof may (i) withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to Parent or Purchaser, the approval or recommendation by the Company Board or such committee of the Offer, the Merger or the Merger Agreement, (ii) approve or recommend, or propose publicly to approve or recommend, any Company Takeover Proposal, or (iii) cause or authorize the Company to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement related to any Company Takeover Proposal (each, a "Company Acquisition Agreement"). Notwithstanding the foregoing, in the event that prior to the Offer Completion Date, the Company Board determines in good faith, after the Company has received a Superior Proposal (as defined below) and in conformity with the advice of outside counsel, that failure to do so would result in a breach of its fiduciary duties to the Shareholders under applicable law, the Company Board may upon not less than three business days notice to Parent of its intention to do so withdraw or modify or propose publicly to withdraw or modify its approval or recommendation of the Offer, the Merger or the Merger Agreement, or approve or recommend, or propose publicly to approve or recommend a Superior Proposal or enter into a Company Acquisition Agreement, provided, however, that in connection therewith, the Company simultaneously terminates the Merger Agreement. A "Superior Proposal" means a Company Takeover Proposal that (a) involves the direct or indirect acquisition or purchase of 50% or more of the assets of the Company and its subsidiaries or 50% or more of any class of equity securities of the Company or any of its subsidiaries, (b) involves payment of consideration to the Shareholders and other terms and conditions that, taken as a whole, are superior to the Offer and the Merger, and (c) is made by a person reasonably capable of completing such Company Takeover Proposal, taking into account the legal, financial, regulatory and other aspects of such Company Takeover Proposal and the person making such Company Takeover Proposal.

The Merger Agreement further provides that the Company will (i) immediately advise Parent orally and in writing of any request for information or of any Company Takeover Proposal and the material terms and conditions of such request or Company Takeover Proposal and (ii) keep Parent reasonably informed of the status and details (including amendments or proposed amendments) of any such request or Company Takeover Proposal.

Nothing contained in the Merger Agreement will prohibit the Company from taking and disclosing to Shareholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or from making any disclosure to Shareholders if the Company Board determines in good faith in conformity with the advice of outside counsel that failure to do so would result in a breach of its fiduciary duties to Shareholders under applicable Law, provided, however, that neither the Company nor the Company Board nor any committee thereof may, except as expressly permitted by the Merger Agreement or required by Rule 14e-2(a) promulgated under the Exchange Act, withdraw or modify, or propose publicly to withdraw or modify, its position with respect to the Offer, the Merger Agreement or the Merger or approve or recommend, or propose publicly to approve or recommend, a Company

Takeover Proposal.

CONDITIONS TO THE MERGER. Pursuant to the Merger Agreement, the respective obligations of each party to effect the Merger will be subject to the fulfillment at or prior to the Closing Date, of the following conditions: (i) Purchaser shall have made, or caused to be made, the Offer and shall have purchased, or caused to be purchased, the Shares validly tendered and not withdrawn pursuant to the Offer, provided, that this condition shall be deemed to have been satisfied with respect to the obligation of Parent and Purchaser to effect the Merger if Purchaser fails to accept for payment or pay for Shares pursuant to the Offer in violation of the terms of the Offer or of the Merger Agreement; (ii) if so required by law, the Merger Agreement and the transactions contemplated thereby shall have been approved in the manner required by applicable law by the holders of the issued and outstanding shares of capital stock of the Company; and (iii) no order or law enacted, entered, promulgated, enforced or issued by any court of competent jurisdiction or other governmental entity or other legal restraint or prohibition (collectively, "Restraints") preventing the consummation of the Merger shall be in effect.

The Merger Agreement further provides that the obligation of Parent and Purchaser to effect the Merger will be subject to the fulfillment at or prior to the Closing Date of the additional condition that the Company shall have performed in all material respects its obligations to elect the Parent Designees to the Company Board.

TERMINATION AND FEES. The Merger Agreement may be terminated and the Merger and the transactions contemplated therein may be abandoned (i) at any time prior to the Effective Time, before or after approval of the Merger Agreement by the Shareholders, by mutual consent of Parent and the Company; (ii) by action of the Board of Directors of either Parent or the Company if (a) the Offer Completion Date shall not have occurred by June 30, 1999 (the "Outside Date") or, if the Offer Completion Date occurs but the Effective Time shall not have occurred by February 10, 2000 (the "Drop-Dead Date"), provided, that no party may terminate the Merger Agreement pursuant to this clause (ii)(a) if such party's failure to fulfill any of its obligations under the Merger Agreement shall have been the reason that the Offer Completion Date or the Effective Time, as the case may be, shall not have occurred on or before the applicable date, (b) any governmental entity shall have issued a Restraint or taken any other action permanently enjoining, restraining or otherwise prohibiting the consummation of the Offer, the Merger or any of the other transactions contemplated by the Merger Agreement and such restraint or other action shall have become final and nonappealable, or (c) the Offer expires or is terminated or withdrawn pursuant to its terms without any Shares being purchased thereunder by Purchaser as a result of the failure of any of the Offer Conditions to be satisfied or waived prior to the Expiration Date; (iii) at any time prior to the Offer Completion Date, by action of the Company Board, if (a) there has been a material breach by Parent or Purchaser of any representation or warranty contained in the Merger Agreement which is not curable or, if curable, is not cured by the Outside Date and such breach could reasonably be likely to prevent or materially delay Parent's or Purchaser's ability to consummate the transactions contemplated by the Merger Agreement (a "Parent Material Adverse Effect"), (b) there has been a material breach of any of the covenants set forth in the Merger Agreement on the part of Parent or Purchaser, which breach is not curable or, if curable, is not cured within 15 calendar days after written notice of such breach is given by the Company to Parent, or (c) in accordance with the Company Board's exercise of its fiduciary duties as described in the section entitled "No Solicitation" above; (iv) at any time prior to the Offer Completion

Date by Parent, if (a) the Company Board shall have (1) withdrawn or modified in a manner adverse to Parent or Purchaser its approval or recommendation of the Merger Agreement, the Offer or the Merger, (2) approved or recommended, or proposed publicly to approve or recommend, a third-party Company Takeover Proposal, (3) caused or authorized the Company or any of its subsidiaries to enter into a Company Acquisition Agreement, (4) approved the breach of the Company's obligations not to withdraw or modify approval of the Offer or the Merger (or publicly propose to do so), not to approve or recommend any Company Takeover Proposal (or publicly propose to do so) and not to cause or authorize a Company Acquisition Agreement to be entered into, as described in the section entitled "No Solicitation" above, or (5) resolved or publicly disclosed any intention to take any of the foregoing actions, (b) there has been a material breach by the Company of any representation or warranty contained in the Merger Agreement which is not curable or, if curable, is not cured by the Outside Date

and such breach had or could reasonably be likely to have a Company Material Adverse Effect, or (c) there has been a material breach of any of the covenants set forth in the Merger Agreement on the part of the Company, which breach is not curable or, if curable, is not cured within 15 days after written notice of such breach is given by Parent to the Company.

The Merger Agreement provides that the Company will pay to Purchaser an amount equal to $40.0 million (the "Termination Fee") in any of the following circumstances: (w) the Merger Agreement is terminated at such time that the Merger Agreement is terminable as described in clause (iii)(c) or clause (iv)(a) of the preceding paragraph; (x) the Merger Agreement is terminated by either Parent or the Company as described in clause (ii)(a) of the preceding paragraph, and (1) at the time of such termination the Minimum Condition shall not have been satisfied, (2) at the time of such termination the Company shall not have the right to terminate the Merger Agreement as described in clause (iii)(a) or (b) of the preceding paragraph, (3) prior to such termination, a Company Takeover Proposal involving at least 50% of the assets of the Company and its subsidiaries, taken as a whole, or 50% of any class of equity securities of the Company (any such Company Takeover Proposal, a "Competing Proposal"), is (a) publicly disclosed or has been made directly to Shareholders generally or (b) any person (including without limitation the Company or any of its subsidiaries) publicly announces an intention (whether or not conditional) to make such a Competing Proposal (a "Takeover Proposal Event"), and (4) prior to the termination of the Merger Agreement or within 12 months after the termination of the Merger Agreement, the Company or a subsidiary thereof enters into a Company Acquisition Agreement providing for a Competing Proposal (any such agreement, a "Competing Proposal Agreement"); (y) the Merger Agreement is terminated by either Parent or the Company as described in clause (ii)(c) of the preceding paragraph and (1) at the time of such termination the Minimum Condition shall not have been satisfied, (2) at the time of such termination the Company shall not have the right to terminate the Merger Agreement as described in clause (iii)(a) or (b) of the preceding paragraph, (3) prior to such termination a Takeover Proposal Event shall have occurred, and (4) prior to the termination of the Merger Agreement or within 12 months after the termination of the Merger Agreement, the Company or a subsidiary thereof enters into a Competing Proposal Agreement; or (z) the Merger Agreement is terminated by Parent as described in clause (iv)(b) or (c) of the preceding paragraph, and (1) prior to such termination a Takeover Proposal Event shall have occurred, and (2) prior to the termination of the Merger Agreement or within 12 months after the termination of the Merger Agreement, the Company or a subsidiary thereof enters into a Competing Proposal Agreement.

If the Merger Agreement is terminated in circumstances where a Termination Fee is then payable, the Merger Agreement provides that, in any such case, the Company will promptly, but in no event later than two business days after submission of a request therefor, pay Parent up to $4.0 million of Parent's documented expenses.

The Merger Agreement further provides that if a Termination Fee is payable as described in clause (x), (y) or (z) of the second preceding paragraph, then the Company will pay the Termination Fee to Parent upon the signing of a Competing Proposal Agreement or, if no Competing Proposal Agreement is

signed, then at the closing (and as a condition of closing) of a Competing Proposal. Notwithstanding any other provision thereof, (a) in no event may the Company enter into a Competing Proposal Agreement unless, prior thereto, the Company has paid any amount due or which will become due under the Merger Agreement, (b) the Company may not terminate the Merger Agreement unless prior thereto it has paid to Parent all amounts then due under the Merger Agreement, (c) all amounts due as described in clause (w) of the second preceding paragraph and in the circumstances in which the Company has not entered into a Competing Proposal Agreement will be payable promptly, but in no event more than two business days after request therefor is made, and (d) all amounts due under the Merger Agreement will be paid on the date due in immediately available funds wire transferred to the account designated by Parent.

The Merger Agreement further provides that, except as set forth above, all fees and expenses (including Commission filing fees) incurred in connection with the Offer, the Merger, the Merger Agreement and the transactions contemplated thereby will be paid by the party incurring such fees or expenses, whether or not the Merger is consummated, except that Parent and the Company will bear and pay one-half of the costs and expenses incurred in connection with the printing

and mailing of the Offer documents, the Schedule 14D-9 and the proxy statement.

AMENDMENT. The Merger Agreement may be amended by the parties thereto, by action taken by their respective Boards of Directors, at any time before or after approval of matters presented in connection with the Merger by Shareholders of the Company but after any such Shareholder approval, no amendment will be made which by law requires the further approval of such Shareholders without obtaining such further approval. The Merger Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties thereto.

ASSIGNMENT. Neither the Merger Agreement nor any of the rights, interests or obligations thereunder may be assigned by any of the parties thereto (whether by operation of law or otherwise) without the prior written consent of the other parties. Subject to the preceding sentence, the Merger Agreement will be binding upon and will inure to the benefit of the parties thereto and their respective successors and assigns. Notwithstanding anything contained in the Merger Agreement to the contrary, except as described in the section entitled "Indemnification; Directors' and Officers' Insurance," nothing in the Merger Agreement, expressed or implied, is intended to confer on any person other than the parties thereto or their respective heirs, successors, executors, administrators and assigns any rights, remedies, obligations or liabilities under or by reason of the Merger Agreement.

TIMING. The exact timing and details for the Merger will depend upon legal requirements and a variety of other factors, including the number of Shares acquired by Purchaser pursuant to the Offer. Although Purchaser has agreed to cause the Merger to be consummated on the terms set forth above, there can be no assurance as to the timing of the Merger.

OTHER MATTERS

EFFECTS OF INABILITY TO CONSUMMATE THE MERGER. Pursuant to the Merger Agreement, following the consummation of the Offer and subject to certain other conditions, Purchaser will be merged with and into the Company. If, following the Offer, approval of the Company's Shareholders is required by applicable law in order to consummate the Merger of Purchaser with the Company, the Company will submit the Merger to the Company's Shareholders for approval. If the Merger is submitted to the Company's Shareholders for approval, the Merger will require the approval of the holders of a majority of the outstanding Shares, including the Shares owned by Purchaser. If the Offer is consummated, and the Minimum Condition is satisfied without being reduced or waived, Purchaser will be able to approve the Merger without the vote of any other Shareholder.

If the Merger is consummated, Shareholders of the Company who elected not to tender their Shares in the Offer will receive the same amount of consideration in exchange for each Share as they would have received in the Offer, subject to their rights to exercise dissenters' rights.

If, following the consummation of the Offer, the Merger is not consummated, Parent, which owns 100% of the Common Stock of Purchaser, indirectly will control the number of Shares acquired by Purchaser pursuant to the Offer. Under the Merger Agreement, promptly following payment by Purchaser for Shares purchased pursuant to the Offer, and from time to time thereafter, subject to applicable law, the Company has agreed to take all actions necessary to cause a majority of the directors of the Company selected by Parent to consist of persons designated by Parent (whether, by election or by the resignation of existing directors and causing Parent designees to be elected). As a result of its ownership of such Shares and right to designate nominees for election to the Company Board, Parent indirectly will be able to influence decisions of the Board and the decisions of Purchaser as a Shareholder of the Company. This concentration of influence in one Shareholder may adversely affect the market value of the Shares.

If Parent controls more than 50% of the outstanding Shares following the consummation of the Offer but the Merger is not consummated, Shareholders of the Company, other than those affiliated with Parent, will lack sufficient voting power to elect directors or to cause other actions to be taken which require majority approval. If for any reason following completion of the Offer, the Merger is not consummated, Parent and Purchaser reserve the right, subject to its confidentiality agreement with the Company (as amended by the Merger Agreement) and to any applicable legal restrictions, to acquire additional

Shares through private purchases, market transactions, tender or exchange offers or otherwise on terms and at prices that may be more or less favorable than those of the Offer or, subject to any applicable legal restrictions, to dispose of any or all Shares acquired by Parent and Purchaser.

STATUTORY REQUIREMENTS. Under the MBCA and the Company's articles of incorporation, the approval of the Company Board, and, unless Parent shall directly or indirectly acquire 90% or more of the outstanding Shares, the affirmative vote of the holders of a majority of the outstanding Shares, including the Shares held by Purchaser and its affiliates, are required to approve the Merger Agreement and the transactions contemplated thereby, including the Merger.

The Company Board and a special committee of the Company Board formed under the MBCA have each unanimously (with one director being absent from the Company Board and two directors being absent from the special committee) approved the Offer, the Merger and the Merger Agreement and the transactions contemplated thereby. Unless the Merger is consummated pursuant to the short-form merger provisions under the MBCA described below (in which case no further corporate action by the Shareholders of the Company will be required to complete the Merger), the only remaining required corporate action of the Company will be the approval of the Merger Agreement and the transactions contemplated thereby by the affirmative vote of the holders of a majority of the outstanding Shares.

Under Section 302A.621 of the MBCA, if Purchaser acquires at least 90% of the outstanding Shares, Purchaser will be able to approve the Merger without a vote of the Company's Shareholders. In such event, Purchaser anticipates that it will take all necessary and appropriate action to cause the Merger to become effective as soon as reasonably practicable after such acquisition without a meeting of the Company's Shareholders. If Purchaser does not acquire at least 90% of the outstanding Shares pursuant to the Offer or otherwise, a significantly longer period of time may be required to effect the Merger, because a vote of the Company's Shareholders would be required under the MBCA.

Pursuant to the Merger Agreement, the Company has agreed to take all action necessary under the MBCA and its articles of incorporation and bylaws to convene a meeting of its Shareholders promptly following consummation of the Offer to consider and vote on the Merger, if a Shareholders' vote is required. If Purchaser owns a majority of the outstanding Shares, approval of the Merger can be obtained without the affirmative vote of any other Shareholder of the Company.

DISSENTERS' RIGHTS. No rights to seek to obtain the "fair value" of their Shares are available to Shareholders in connection with the Offer. However, if the Merger is consummated, a Shareholder will have certain rights under Sections 302A.471 and 302A.473 of the MBCA to dissent from the Merger and obtain payment in cash for the fair value of that Shareholder's Shares. Those rights, if the statutory procedures are complied with, could lead to a judicial determination of the fair value (immediately prior to the effective date of the Merger) required to be paid in cash to dissenting Shareholders for their Shares. Any judicial determination of the fair value of Shares could be based upon considerations other than or in addition to the Merger Consideration and the market value of the Shares, including asset values and the investment value of the Shares. The value so determined could be more or less than the Merger Consideration.

The Merger Agreement provides that, notwithstanding any provision of the Merger Agreement to the contrary, any Shares held by a holder who has not voted such Shares in favor of the Merger Agreement and who has properly exercised dissenters' rights with respect to such Shares in accordance with the MBCA (including Sections 302A.471 and 302A.473 thereof) and as of the Effective Time has neither effectively withdrawn nor lost its right to exercise such dissenters' rights ("Dissenting Shares"), will not be converted into or represent a right to receive the Merger Consideration, but the holder thereof will be entitled to only such rights as are granted by the MBCA.

The Merger Agreement further provides that if any Shareholder who asserts dissenters' rights with respect to its Shares under the MBCA effectively withdraws or loses (through failure to perfect or otherwise) dissenters' rights, then as of the Effective Time or the occurrence of such event, whichever later occurs, such holder's Shares will automatically be converted into and represent only the right to receive the Merger Consideration, without interest thereon,

upon surrender of the certificate or certificates formerly representing such Shares.

FAILURE TO PRECISELY FOLLOW THE STEPS REQUIRED BY SECTIONS 302A.471 AND 302A.473 OF THE MBCA FOR THE PERFECTION OF DISSENTERS' RIGHTS MAY RESULT IN THE LOSS OF THOSE RIGHTS.

THE FOREGOING SUMMARY OF THE RIGHTS OF DISSENTING SHAREHOLDERS UNDER THE MBCA IS NOT A COMPLETE STATEMENT OF THE PROCEDURES TO BE FOLLOWED BY SHAREHOLDERS DESIRING TO EXERCISE ANY DISSENTERS' RIGHTS AVAILABLE UNDER THE MBCA.

THE PRESERVATION AND EXERCISE OF DISSENTERS' RIGHTS REQUIRE STRICT ADHERENCE TO THE APPLICABLE PROVISIONS OF THE MBCA.

GOING PRIVATE TRANSACTIONS. Rule 13e-3 under the Exchange Act is applicable to certain "going-private" transactions. Purchaser does not believe that Rule 13e-3 will be applicable to the Merger, unless, among other things, the Merger is completed more than one year after termination of the Offer. If applicable, Rule 13e-3 would require, among other things, that certain financial information regarding the Company and certain information regarding the fairness of the Merger and the consideration offered to minority Shareholders be filed with the Commission and disclosed to minority Shareholders prior to consummation of the Merger.

13. DIVIDENDS AND DISTRIBUTIONS

The Merger Agreement provides that, if, between the date of the Merger Agreement and the Effective Time, the outstanding Shares shall have been changed into a different number of shares or a different class, by reason of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, the Per Share Amount will be correspondingly adjusted on a per-share basis to reflect such stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares.

The Merger Agreement further provides that, other than dividends and distributions (including liquidating distributions) by a direct or indirect wholly owned Subsidiary of the Company to its parent, or

by a Subsidiary that is partially owned by the Company or any of its Subsidiaries, provided that the Company or any such Subsidiary receives or is to receive its proportionate share thereof, the Company will not, and will not permit any of its subsidiaries to, without the consent of Parent or Purchaser (i) declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock, (ii) split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or (iii) purchase, redeem or otherwise acquire any shares of capital stock of the Company or any of its Subsidiaries or any other securities thereof or any rights, warrants or options to acquire any such shares or other securities provided that nothing therein stated will limit the Company's right to cancel the Options in exchange for the Option Consideration.

14. CERTAIN CONDITIONS OF THE OFFER

Notwithstanding any other provision of the Offer, Purchaser will not be required to accept for payment or, subject to any applicable rules and regulations of the Commission, including Rule 14e-1(c) under the Exchange Act (relating to Purchaser's obligation to pay for or return tendered Shares promptly after expiration or termination of the Offer), to pay for any Shares tendered, and (subject to any such rules or regulations) may postpone the acceptance for payment or payment for any Shares tendered, and may amend or terminate (if, when and as permitted by the Merger Agreement) the Offer (whether or not any Shares have theretofore been purchased or paid for pursuant to the Offer) (1) unless the following conditions have been satisfied: (i) there shall have been validly tendered and not withdrawn prior to the Expiration Date a number of Shares which represents at least a majority of the total voting power of the outstanding securities of the Company entitled to vote in the election of directors or in a merger ("Voting Securities"), calculated on a fully diluted basis, on the date of purchase ("on a fully diluted basis" having the following meaning, as of any date: the number of Shares outstanding, together with the number of Shares the Company is then required to issue pursuant to obligations

outstanding at that date under employee stock option or other benefit plans or otherwise), (ii) any applicable waiting periods under the HSR Act shall have expired or been terminated prior to the expiration of the Offer, and (iii) the OCC shall have consented in writing to, or stated in writing that it would not disapprove of, the Offer and the Merger or all applicable filing, approval or waiting periods or extensions thereof under the CIBC Act shall have expired without the OCC providing notice of objection to the Offer or the Merger (the "OCC Condition"), or (2) if at any time on or after the date of the Merger Agreement and before the Expiration Date, any of the following shall have occurred:

(i) any governmental entity or authority or any court shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, temporary or preliminary injunction that shall not have been lifted prior to the Expiration Date or permanent injunction or other order which is in effect and which (a) restricts, prevents or prohibits consummation of the transactions contemplated by the Merger Agreement, including the Offer or the Merger, (b) prohibits, limits or otherwise adversely affects the ownership or operation by Parent or any of its subsidiaries of all or any material portion of the business or assets of the Company and its subsidiaries or compels the Company, Parent or any of their subsidiaries to dispose of or hold separate all or any portion of the business or assets of the Company and its subsidiaries as a result of the completion of the Offer or the Merger, or (c) imposes limitations on the ability of Parent, Purchaser or any other subsidiary of Parent to exercise effectively full rights of ownership of any Shares, including without limitation the right to vote any Shares acquired by Purchaser pursuant to the Offer or otherwise on all matters properly presented to the Company's Shareholders, including without limitation the approval and adoption of the Merger Agreement and the transactions contemplated thereby;

(ii) there shall be instituted or pending any action or proceeding before any United States or foreign court or governmental entity or authority by any United States or foreign governmental entity or authority seeking any order, decree or injunction having any effect set forth in paragraph (i) above;

(iii) the representations and warranties of the Company contained in the Merger Agreement (without giving effect to the materiality, material adverse effect or knowledge limitations contained therein) shall not be true and correct as of the Expiration Date (as the same may be extended from time to time) as though made anew on and as of such date (except for representations and warranties made as of a specified date, unless they shall not be true and correct as of the specified date), except for any breach or breaches of any representations or warranties in Section 3.1 (except the first sentence) of the Merger Agreement and Sections 3.4 through 3.20 of the Merger Agreement which, individually or in the aggregate, could not be reasonably expected to have a Company Material Adverse Effect;

(iv) the Company shall not have performed or complied in all material respects with its covenants under the Merger Agreement to which it is a party and such failure continues until the later of (a) 15 calendar days after actual receipt by it of written notice from Parent setting forth in reasonable detail the nature of such failure and (b) the Expiration Date;

(v) there shall have occurred any material adverse change, or any development that is reasonably likely to result in a material adverse change, in the business, financial condition or results of operations of the Company and its subsidiaries, taken as a whole;

(vi) the Merger Agreement shall have been terminated in accordance with its terms;

(vii) the Company Board shall have (a) withdrawn or materially modified or changed (including by amendment of Schedule 14D-9) its recommendation of the Offer, the Merger or the Merger Agreement in a manner adverse to Purchaser or Parent, (b) taken a position inconsistent with its recommendation of the Offer, the Merger or the Merger Agreement in a manner adverse to Purchaser or Parent, (c) approved or recommended any Company Takeover Proposal, (d) taken any action referred to in Section 5.2(b) of the Merger Agreement that is prohibited thereby or would be so prohibited but for the exceptions thereto, or (e) resolved or publicly disclosed any

intention to do any of the foregoing; or

(viii) the U.S. Federal Reserve Board or any other federal government authority shall have declared a general banking moratorium or general suspension or material limitation on the extension of credit or in respect of payments in respect of credit by banks or other lending institutions in the United States.

The foregoing conditions are for the sole benefit of Purchaser and its affiliates and may be asserted by Purchaser, or Parent on behalf of Purchaser, regardless of the circumstances (including without limitation any action or inaction by Purchaser or any of its affiliates other than a material breach by Purchaser or Parent of the Merger Agreement) giving rise to any such conditions or may be waived by Purchaser, in whole or in part, from time to time in its sole discretion, except as otherwise provided in the Merger Agreement. The failure by Purchaser at any time to exercise any of the foregoing rights will not be deemed a waiver of any such right and each such right will be deemed an ongoing right and may be asserted at any time and from time to time.

A public announcement may be made of a material change in, or waiver of, such conditions and the Offer may, in certain circumstances, be extended in connection with any such change or waiver.

Purchaser acknowledges that the Commission believes that (i) if Purchaser is delayed in accepting the Shares it must either extend the Offer or terminate the Offer and promptly return the Shares and (ii) the circumstances in which a delay in payment is permitted are limited and do not include unsatisfied conditions of the Offer, except with respect to most required regulatory approvals.

15. CERTAIN LEGAL MATTERS AND REGULATORY APPROVALS

Except as described in this Section 15, based on a review of publicly available filings made by the Company with the Commission and other publicly available information concerning the Company, but without any independent investigation, neither Purchaser nor Parent is aware of any license or regulatory permit that appears to be material to the business of the Company and its subsidiaries, taken as a whole, that might be adversely affected by Purchaser's acquisition of Shares as contemplated in this Offer To Purchase or of any approval or other action by any governmental authority that would be required for the acquisition or ownership of Shares by Purchaser as contemplated in this Offer To Purchase. Should any such approval or other action be required, Purchaser and Parent presently contemplate that such approval or other action will be sought, except as described below under "State Takeover Laws." There can be no assurance, however, that any such approval or other action, if needed, would be obtained or would be obtained without substantial conditions or that failure to obtain any such approval or other action might not result in consequences adverse to the Company's business or that certain parts of the Company's business might not have to be disposed of if such approvals were not obtained or other actions were not taken or in order to obtain any such approval or other action. If certain types of adverse action are taken with respect to the matters discussed below, Purchaser could decline to accept for payment or pay for any Shares tendered. See Section 14 above for certain conditions to the Offer.

OCC FILING. The Company currently controls FNB, a limited purpose national credit card bank, in Sioux Falls, South Dakota. Completion of the Offer will result in Parent indirectly controlling FNB. In accordance with federal law that requires prior federal approval of controlling shareholders of an insured institution such as FNB, on February 11, 1999, Parent filed a Notice of Change of Control (the "Notice") with the OCC. Under the CIBC Act, the OCC has 60 days to review a complete Notice, although it has the discretionary authority to extend the period. The OCC also has the discretion to act within a shorter period.

The OCC will review the Notice to ensure that the acquisition enhances and maintains public confidence in the national bank system through the prevention of identifiable serious adverse effects resulting from anti-competitive combinations of interest, inadequate financial support or unsuitable management in national banks. Parent is unaware of any reason why the OCC would object to the Notice. The receipt of an affirmative non-objection from the OCC or the expiration of the 60-day period without the OCC having filed a notice of objection is a condition precedent to Parent's closure of the Offer.

STATE TAKEOVER LAWS. A number of states throughout the United States have enacted takeover statutes that purport, in varying degrees, to be applicable to attempts to acquire securities of corporations that are incorporated or have assets, shareholders, executive offices or places of business in those states. To the extent that certain provisions of certain of these state takeover statutes purport to apply to the Offer or the Merger, Parent and Purchaser believe that such laws conflict with federal law and constitute an unconstitutional burden on interstate commerce. In EDGAR V. MITE CORP., the Supreme Court of the United States invalidated on constitutional grounds the Illinois Business Takeover Act, which, as a matter of state securities law, made certain corporate acquisitions more difficult. In CTS CORP. V. DYNAMICS CORP. OF AMERICA, however, the Supreme Court of the United States held that a state may, as a matter of corporate law and, in particular, those laws concerning corporate governance, constitutionally disqualify a potential acquiror from voting on the affairs of a target corporation without prior approval of the remaining shareholders, provided that the laws were applicable only under certain conditions. Subsequently, in TLX ACQUISITION CORP. V. TELEX CORP., a Federal district court in Oklahoma ruled that the Oklahoma statutes were unconstitutional insofar as they apply to corporations incorporated outside Oklahoma in that they would subject such corporations to inconsistent regulations. Similarly, in TYSON FOODS, INC. V. MCREYNOLDS, a Federal district court in Tennessee ruled that four Tennessee takeover statutes were unconstitutional as applied to corporations incorporated outside Tennessee. This decision was affirmed by the United States Court of Appeals for the Sixth Circuit. In December 1988, a Federal district court in Florida held, in GRAND METROPOLITAN PLC V. BUTTERWORTH, that the provisions of the Florida Affiliated Transactions Act and Florida

Control Share Acquisition Act were unconstitutional as applied to corporations incorporated outside of Florida.

In Minnesota, Section 302A.673 of the MBCA limits the ability of a publicly held Minnesota corporation to engage in business combinations with "interested shareholders" (defined in Section 302A.011 as any beneficial owner, directly or indirectly, of 10% or more of the voting power of the outstanding shares of such corporation entitled to vote) unless, among other things, a committee of that corporation's board comprised of all disinterested directors (defined in Section 302A.673 as a director or person who is neither an officer nor an employee of that corporation or a related organization, nor has been an officer or an employee within five years preceding the formation of the committee) has given its prior approval of either the business combination or the transaction which resulted in the shareholder becoming an "interested shareholder."

Section 302A.671 of the MBCA (the "Control Share Act") provides that, unless the acquisition of certain additional percentages of voting control of an issuing public corporation (in excess of 20%, 33 1/3% or 50%) by an acquiring person is approved by the holders of a majority of the outstanding voting power of all shares entitled to vote (other than shares held by the acquirer and certain other persons), the shares acquired at or above any such new percentage level of voting control will not be entitled to voting rights. In addition, if the statutory requirements are not satisfied, the issuing public corporation may redeem the shares so acquired by the acquirer at their market value. Section 302A.671 does not apply to a cash offer to purchase all shares of voting stock of the issuing public corporation if such offer has been approved by a majority vote of the same committee of the disinterested directors of the issuing public corporation formed in accordance with Section 302A.673 if following the completion of the cash offer, the offeror will own over 50% of the voting power of the shares of the corporation. This section does not apply to a control share acquisition of shares of an issuing public corporation whose articles of incorporation or bylaws approved by its shareholders provide that the Control Share Act does not apply to control share acquisitions of its shares. The Company's Articles of Incorporation, as amended and restated, and Bylaws currently do not exclude the Company from the restrictions imposed by the Control Share Act.

Section 302A.675 of the MBCA imposes a fair price requirement limiting a purchaser's ability to acquire shares of a publicly held corporation within two years following the last purchase of shares pursuant to a takeover offer with respect to that class, including new acquisitions made by purchase. This fair price requirement does not apply if the second acquisition is approved by a committee of that corporation's board of directors comprised of the

disinterested directors formed in accordance with Section 302A.673 of the MBCA before the purchase of any shares pursuant to the first takeover offer.

As described in Section 12 of the Offer to Purchase ("The Merger Agreement--The Offer"), the Company Board and a special committee consisting of its disinterested directors formed in accordance with Section 302A.673 of the MBCA have approved the Offer and the Merger prior to the purchase of Shares and prior to Parent or Purchaser becoming an "interested shareholder." The Company has represented in the Merger Agreement that Sections 302A.671, 302A.673 and 302A.675 of the MBCA do not apply to the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger. Accordingly, Parent and Purchaser believe that the foregoing restrictions do not apply to them with respect to such transactions.

The Minnesota Takeover Disclosure Law, Minnesota Statutes Chapter 80B.01-80B.13 (the "Takeover Statute"), by its terms requires certain disclosures and the filing of certain disclosure material with the Minnesota Commissioner of Commerce (the "Commissioner") with respect to any offer for a corporation, such as the Company, that has its principal place of business in Minnesota and a certain number of shareholders resident in Minnesota. Purchaser will file a registration statement with the Commissioner on February 18, 1999. Although the Commissioner does not approve or disapprove the Offer, he does review the disclosure material for the adequacy of such disclosure and is empowered to suspend summarily the Offer in Minnesota within three days of such filing if he determines that the registration statement does

not (or the materials provided beneficial owners of the Shares residing in Minnesota do not) provide full disclosure. If such summary suspension occurs, a hearing must be held (within 10 days of the summary suspension) as to whether to permanently suspend the Offer in Minnesota, subject to corrective disclosure. If the Commissioner takes action under the Takeover Statute, then Purchaser may not be obligated to accept for payment or pay for Shares tendered pursuant to the Offer because such action may have the effect of significantly delaying the Offer. See Section 14 for certain conditions of the Offer, including conditions with respect to governmental actions. In such event, Purchaser may, among other things, terminate the Offer or amend the terms and conditions of the Offer.

Based on information supplied by the Company and the Company's representations in the Merger Agreement, Purchaser does not believe that any other state takeover statutes apply to the Offer or the Merger. Except as described above, neither Purchaser nor Parent believes that any state takeover statute or regulation applies to the Offer or the Merger. Purchaser reserves the right to challenge the applicability or validity of any state law purportedly applicable to the Offer or the Merger and nothing in this Offer To Purchase or any action taken in connection with the Offer or the Merger is intended as a waiver of that right. If it is asserted that any state takeover statute is applicable to the Offer or the Merger and an appropriate court does not determine that it is inapplicable or invalid as applied to the Offer or the Merger, Purchaser might be required to file certain information with, or to receive approvals from, the relevant state authorities, and Purchaser might be unable to accept for payment or pay for Shares tendered pursuant to the Offer, or be delayed in consummating the Offer or the Merger. In such case, Purchaser may not be obligated to accept for payment or pay for any Shares tendered pursuant to the Offer.

ANTITRUST. Under the provisions of the HSR Act applicable to the Offer, the purchase of Shares under the Offer may be consummated following the expiration of a 15-calendar-day waiting period following the filing by Purchaser of a Notification and Report Form with respect to the Offer, unless Purchaser receives a request for additional information or documentary material from the Antitrust Division of the United States Department of Justice (the "Antitrust Division") or the Federal Trade Commission (the "FTC") or unless early termination of the waiting period is granted. Such filing was made on February 17, 1999 and such waiting period will expire at 11:59 p.m. on March 3, 1999. If, however, within the initial 15-day waiting period, either the Antitrust Division or the FTC requests additional information or documentary material from Purchaser concerning the Offer, the waiting period will be extended and would expire 11:59 p.m., New York City time, on the tenth calendar day after the date of substantial compliance by Purchaser with such request. Only one extension of the waiting period pursuant to a request for additional information is authorized by the HSR Act. Thereafter, the waiting period may be extended only by court order or with the consent of Purchaser. In practice, complying with a

request for additional information or documentary material can take a significant amount of time. In addition, if the Antitrust Division or the FTC raises substantive issues in connection with a proposed transaction, the parties frequently engage in negotiations with the relevant governmental agency concerning possible means of addressing those issues and may agree to delay consummation of the transaction while the negotiations continue. For information regarding the obligations of the Company, Parent and Purchaser in this regard, see "The Merger Agreement-- Consents, Approvals and Filings" in Section 12.

The FTC and the Antitrust Division frequently scrutinize the legality under the antitrust laws of transactions such as Purchaser's proposed acquisition of the Company. At any time before or after Purchaser's purchase of Shares pursuant to the Offer, the Antitrust Division or the FTC could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the purchase of Shares pursuant to the Offer or the consummation of the Merger or seeking the divestiture of Shares acquired by Purchaser or the divestiture of substantial assets of Purchaser or its subsidiaries, or the Company or its subsidiaries. Private parties may also bring legal action under the antitrust laws under certain circumstances. While Parent and Purchaser believe that the Offer and the Merger do not involve a violation of antitrust laws, there can be no assurance that a challenge to the Offer

on antitrust grounds will not be made or, if such a challenge is made, of the result of that challenge. See Section 14 for certain conditions to the Offer, including conditions with respect to litigation.

16. FEES AND EXPENSES

Credit Suisse First Boston is acting as Dealer Manager in connection with the Offer and as financial advisor to Parent in connection with Parent's proposed acquisition of the Company, for which services CSFB will receive customary compensation. In addition, Parent has agreed to reimburse CSFB for its reasonable expenses incurred in rendering its services (including reasonable legal expenses) under its engagement agreement with Parent and has agreed to indemnify CSFB against certain liabilities and expenses in connection with the Offer and the Merger, including certain liabilities under the federal securities laws. CSFB from time to time renders various investment banking services to Parent and its affiliates for which it is paid customary fees.

In the ordinary course of its business, CSFB engages in securities trading, market-making and brokerage activities and may, at any time, hold long or short positions and may trade or otherwise effect transactions in securities of the Company and Parent.

Georgeson & Company Inc. has been retained by Purchaser as Information Agent in connection with the Offer. The Information Agent may contact holders of Shares by mail, telephone, telex, telegraph and personal interview and may request brokers, dealers and other nominee shareholders to forward material relating to the Offer to beneficial owners of Shares. Purchaser will pay the Information Agent reasonable and customary compensation for all such services in addition to reimbursing the Information Agent for reasonable out-of-pocket expenses in connection therewith.

In addition, Norwest Bank Minnesota, N.A. has been retained as the Depositary. Purchaser will pay the Depositary reasonable and customary compensation for its services in connection with the Offer, will reimburse the Depositary for its reasonable out-of-pocket expenses in connection therewith and will indemnify the Depositary against certain liabilities and expenses in connection therewith, including certain liabilities under the federal securities laws.

Except as set forth above, neither Parent nor Purchaser will pay any fees or commissions to any broker dealer or other person for soliciting tenders of Shares pursuant to the Offer. Brokers, dealers, commercial banks and trust companies and other nominees will, upon request, be reimbursed by Parent or Purchaser for customary clerical and mailing expenses incurred by them in forwarding offering materials to their customers.

17. MISCELLANEOUS

The Offer is not being made to (nor will tenders be accepted from or on behalf of) Shareholders residing in any jurisdiction in which the making of the

Offer or the acceptance thereof would not be in compliance with the securities, blue sky or other laws of the jurisdiction. However, Purchaser may, in its discretion, take such action as it may deem necessary to make the Offer in any jurisdiction and extend the Offer to Shareholders in that jurisdiction. In any jurisdiction where the securities, blue sky or other laws require the Offer to be made by a licensed broker or dealer, the Offer will be deemed to be made on behalf of Purchaser by one or more registered brokers or dealers that are licensed under the laws of the jurisdiction.

Purchaser has filed with the Commission the Schedule 14D-1 pursuant to Rule 14d-1 under the Exchange Act containing certain additional information with respect to the Offer. The Schedule 14D-1 and any amendments to the Schedule 14D-1, including exhibits, may be examined and copies may be obtained from the principal office of the Commission in the manner set forth in Section 8 above (except that they will not be available at the regional offices of the Commission).

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION ON BEHALF OF PURCHASER NOT CONTAINED IN THIS OFFER TO PURCHASE OR IN THE LETTER OF TRANSMITTAL AND, IF GIVEN OR MADE, THE INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED.

Neither the delivery of the Offer To Purchase nor any purchase pursuant to the Offer will under any circumstances create any implication that there has been no change in the affairs of Parent, Purchaser, the Company or any of their respective subsidiaries since the date as of which information is furnished or the date of this Offer To Purchase.

BENGAL SUBSIDIARY CORP.

February 18, 1999

SCHEDULE I

DIRECTORS AND EXECUTIVE OFFICERS OF PURCHASER AND PARENT

A. DIRECTORS AND EXECUTIVE OFFICERS OF PARENT

The following table sets forth the name, present principal occupation or employment and material occupations, positions, offices or employment for the past five years of each director and executive officer of Parent and Purchaser. Unless otherwise indicated below, (i) each individual has held his or her positions for more than the past five years, (ii) the business address of each person is 7 West Seventh Street, Cincinnati, Ohio 45202, and (iii) all directors and officers listed below are citizens of the United States. Directors are identified with a single asterisk.

<TABLE>
<CAPTION>

NAME	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
<S>	<C>
*James M. Zimmerman	Chairman and Chief Executive Officer since 1997 and Director since 1988 (member of Executive and Finance Committees) President and Chief Operating Officer from 1988 to 1997 Member of boards of directors of The Chubb Corporation and H.J. Heinz Company
Joel A. Belsky	Corporate Vice President and Controller since 1996 Served as Divisional Vice President and Deputy Controller from 1993 to 1996 Served as Vice President of Finance and Chief Financial Officer for Federated's Atlanta-based Rich's/Goldsmith's since 1982
Dennis J. Broderick	Senior Vice President and General Counsel since 1990, Corporate Secretary since 1993 Vice President and Deputy General Counsel for Federated's regional Law Department operation from February 1987 until 1990 Served as Assistant General Counsel at The Firestone Tire & Rubber Company

Thomas G. Cody	Executive Vice President--Legal and Human Resources since 1988 Senior Vice President--Law and Public Affairs from 1982 to 1988 Served as Senior Vice President, General Counsel and Secretary for Pan American World Airways, Inc. Member of Board of Directors of CTS Corporation
*Meyer Feldberg	Director since 1992 (member of the Board Organization and Corporate Governance ("BOCG"), Compensation, Executive and Public Policy Committees and the Section 162(m) Subcommittee) Dean of the Columbia Business School at Columbia University since 1989 Member of boards of directors of PaineWebber Mutual Funds, Revlon, Inc. and Primedia, Inc.

NAME	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
*Earl G. Graves, Sr.	Director since 1994 (member of the Audit Review, BOCG, Executive and Public Policy Committees of the Board) Chairman and Chief Executive Officer of Earl G. Graves, Ltd. since 1970 Publisher and Chief Executive Officer of "Black Enterprise" magazine Chairman Emeritus of Pepsi-Cola of Washington, D.C., L.P. since 1996 Member of boards of directors of Aetna, Inc., AMR Corporation, Daimler Chrysler Corporation and Rohm & Haas Corporation
*George V. Grune	Director since 1992 (member of the Audit Review, Compensation, Executive and Public Policy Committees and the Section 162(m) Subcommittee) Chairman of the DeWitt Wallace Reader's Digest Fund, Inc. and the Lila Wallace Reader's Digest Fund, Inc. Interim Chairman and Chief Executive Officer of The Reader's Digest Association, Inc. from 1997 to 1998 Member of boards of directors of Avon Products, Inc., Bestfoods and The Chase Manhattan Corporation
Karen M. Hoguet	Chief Financial Officer since 1997, Senior Vice President of Planning since 1991 and Treasurer since 1992 Served as Vice President from 1988 to 1991 Served as Operating Vice President of Financial Planning and Analysis from 1987 to 1988 Served as Manager and then Director of Capital and Business Planning from 1985 to 1988 Buyer at Shillito Rikes, a Federated division in Cincinnati for 1984 Served as Senior Consultant in marketing and long-range planning from 1982 to 1984 Member of Board of Directors of Cincinnati Bell Inc.
*Sara Levinson	Director since 1997 (member of the Audit Review and Public Policy Committees) President of NFL Properties, Inc. since 1994 Served as President-Business Operations of MTV: Music Television, a division of Viacom International, Inc. from 1993 to 1994 Member of the Board of Directors of Harley Davidson, Inc.
*Terry J. Lundgren	President and Chief Merchandising Officer since 1997 (151 West 34th Street, New York, New York 10001) Director since 1997 (member of the Public Policy Committee) Served as Chairman of Federated Merchandising Group, a division of Parent, from 1994 to 1998

NAME	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
*Joseph Neubauer	Director since 1992 (member of the BOCG, Compensation, Executive and Finance Committees) Chairman and Chief Executive Officer of ARAMARK Corporation since 1984 Served as President of ARAMARK Corporation from 1983 through 1997

Member of the boards of directors of ARAMARK Corporation, Bell Atlantic Corporation, First Union Corporation and CIGNA Corporation

*Joseph A. Pichler — Director since 1997 (member of the BOCG and Compensation Committees and the Section 162(m) Subcommittee of the Board)
Chairman and Chief Executive Officer of The Kroger Co.
Member of the boards of directors of The Kroger Co. and Milacron Inc.

*Ronald W. Tysoe (Canadian citizen) — Vice Chairman since 1990 and Director since 1988 (member of the Finance Committee)
Chief Financial Officer from 1990 through 1997
Member of the board of directors of E.W. Scripps Company.

*Karl M. von der Heyden — Director since 1992 (member of the Audit Review, Public Policy and Finance Committees)
Vice Chairman of the Board of Directors of PepsiCo, Inc. since 1996
Chief Financial Officer of PepsiCo, Inc. from 1996 to 1998
Served as President and Chief Executive Officer of Metallgesellschaft Corp. from 1993 to 1994
Served as Co-Chairman and Chief Executive Officer of RJR Nabisco, Inc. from March 1993 to May 1993
Served as Executive Vice President and Chief Financial Officer of RJR Nabisco, Inc. from 1989 to 1993
Member of the board of directors of Zeneca Group PLC.

*Craig E. Weatherup — Director since 1996 (member of the BOCG, Compensation and Public Policy Committees)
Chairman and Chief Executive Officer of The Pepsi Bottling Group since January 1999
Served as Chairman and Chief Executive Officer of Pepsi-Cola Company from 1996 to 1998
Served as President of Pepsi Co, Inc. from April 1998 to July 1998
President and Chief Executive Officer of Pepsi-Cola North America from 1990 to 1998
Member of board of directors of PepsiCo, Inc. and Starbucks Inc

*Marna C. Whittington — Director since 1993 (member of the Audit Review, BOCG, Executive and Finance Committees)
Chief Operating Officer of Morgan Stanley Dean Witter Investment Management since 1996
Served as Partner at Miller, Anderson & Sherrerd, LLP from 1992 through 1996
Member of the board of directors of Rohm & Haas Company

</TABLE>

B. DIRECTORS AND EXECUTIVE OFFICERS OF PURCHASER

The directors and executive officers of Purchaser are Dennis J. Broderick and John R. Sims. Mr. Broderick is also an executive officer of Parent. Information concerning the name, present principal occupation or employment and material occupation, positions, offices or employment for the past five years of Mr. Broderick is set forth in the table of the directors and executive officers of Parent. Such information is set forth below for Mr. Sims. The business address of each is 7 West Seventh Street, Cincinnati, Ohio 45202. Both directors and officers of Purchaser are citizens of the United States.

<TABLE>
<CAPTION>

NAME	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
<S>	<C>
John R. Sims	Vice President, Deputy General Counsel of Parent since 1990 Operating Vice President and Deputy General Counsel of Parent from 1988 to 1990 Deputy Regional Counsel for Parent from 1987 to 1988 Assistant Counsel for Parent from 1975 to 1987

</TABLE>

Manually signed facsimile copies of the Letter of Transmittal, properly

completed and duly signed, will be accepted. The Letter of Transmittal, certificates for Shares and any other required documents should be sent or delivered by each Shareholder of the Company or his broker dealer, commercial bank, trust company or other nominee to the Depositary, at one of the addresses set forth below:

The Depositary for the Offer is:

Norwest Bank Minnesota, N.A.

<TABLE>
<CAPTION>

By Mail:	By Hand in New York:	By Hand/Overnight Courier:
<S>	<C>	<C>
Norwest Bank Minnesota, N.A.	The Depositary Trust Company	Norwest Bank Minnesota, N.A.
Shareowner Services	Transfer Agent Drop	Shareowner Services
Reorganization Department	55 Water Street-1st Floor	161 North Concord Exchange
P.O. Box 64858	New York, New York 10041-0099	South St. Paul, MN 55075
St. Paul, MN 55164-0858		

</TABLE>

By Facsimile Transmission:
(651) 450-4163

Questions and requests for assistance may be directed to the Information Agent or the Dealer Manager at their respective addresses and telephone numbers listed below. Additional copies of this Offer To Purchase, the Letter of Transmittal and other tender offer materials may be obtained from the Information Agent and Dealer Manager as set forth below and will be furnished promptly at Purchaser's expense. You may also contact your broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

The Information Agent for the Offer is:

[LOGO]

Wall Street Plaza
New York, New York 10005

Banks and Brokers Call Collect (212) 440-9800
All Others Call Toll-Free (800) 223-2064

The Dealer Manager for the Offer is:

Credit Suisse First Boston Corporation
Eleven Madison Avenue
New York, New York 10010-3629
Call Toll-Free (800) 881-8320

LETTER OF TRANSMITTAL
To Tender Common Shares
of
Fingerhut Companies, Inc.
Pursuant to the Offer To Purchase
Dated February 18, 1999
of
Bengal Subsidiary Corp.,
a direct, wholly owned subsidiary
of
Federated Department Stores, Inc.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON WEDNESDAY, MARCH 17, 1999, UNLESS THE OFFER IS EXTENDED.

The Depositary for the Offer is:
Norwest Bank Minnesota, N.A.

<TABLE>
<CAPTION>

By Mail:	By Hand in New York:	By Hand/Overnight Courier:
<S>	<C>	<C>
Norwest Bank Minnesota, N.A. Shareowner Services Reorganization Department P.O. Box 64858 St. Paul, MN 55164-0858	The Depositary Trust Company Transfer Agent Drop 55 Water Street-1st Floor New York, New York 10041-0099	Norwest Bank Minnesota, N.A. Shareowner Services 161 North Concord Exchange South St. Paul, MN 55075

</TABLE>

By Facsimile Transmission:
(651) 450-4163
To Confirm Receipt of Notice of Guaranteed Delivery:
(651) 450-4110

<TABLE>
<S> <C> <C> <C>

DESCRIPTION OF SHARES TENDERED

<CAPTION>

Name(s) and Address(es) of Registered Holder(s) (Please fill in, if blank, exactly as name(s) appear(s) on the Certificate(s))	Share Certificate(s) Enclosed (Attach additional signed list if necessary)		
<S>	<C>	<C>	<C>
<CAPTION>	Certificate Number(s)*	Total Number of Shares Represented by Certificate(s)*	Number of Shares Tendered**
<S>	<C>	<C>	<C>
	Total Number of Shares		

* Need not be completed by shareholders delivering Shares by book-entry transfer through the Depositary.
** Unless otherwise indicated, it will be assumed that all Shares represented by Certificates delivered to the Depositary are being tendered. See Instruction 4.
/ / CHECK HERE IF CERTIFICATES HAVE BEEN LOST OR MUTILATED. SEE SECTION 11.

</TABLE>

<TABLE>
<S> <C> <C> <C> <C>

FOR OFFICE USE ONLY
Debit shares Partial SBL/LT Alt Payee Spec Del
Approved Input Audit Mailed
</TABLE>

DELIVERY OF THIS LETTER OF TRANSMITTAL TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE TRANSMISSION TO A NUMBER OTHER THAN AS SET FORTH ABOVE WILL NOT CONSTITUTE A VALID DELIVERY TO THE DEPOSITARY. YOU MUST SIGN THIS LETTER OF TRANSMITTAL IN THE APPROPRIATE SPACE PROVIDED BELOW AND COMPLETE THE SUBSTITUTE FORM W-9 SET FORTH BELOW.

THE INSTRUCTIONS ACCOMPANYING THIS LETTER OF TRANSMITTAL SHOULD BE READ CAREFULLY BEFORE THIS LETTER OF TRANSMITTAL IS COMPLETED.

This Letter of Transmittal is to be completed by holders of Shares (as defined below) either if certificates evidencing Shares ("Certificates") are to be forwarded with this Letter of Transmittal or, unless an Agent's Message (as defined in the Offer To Purchase) is utilized, if delivery of Shares is to be made by book-entry transfer to an account maintained by Norwest Bank Minnesota, N.A. (the "Depositary") at The Depository Trust Company (the "Book-Entry Transfer Facility"), pursuant to the procedures set forth in Section 3 of the Offer To Purchase (as defined below).

Shareholders whose Certificates are not immediately available or who cannot deliver their Certificates and all other required documents to the Depositary prior to the Expiration Date (as defined in Section 1 of the Offer To Purchase) or who cannot complete the procedures for book-entry transfer on a timely basis, must tender their Shares according to the guaranteed delivery procedures set forth in Section 3 of the Offer To Purchase. See Instruction 2 hereof. DELIVERY OF DOCUMENTS TO THE BOOK-ENTRY TRANSFER FACILITY DOES NOT CONSTITUTE DELIVERY TO THE DEPOSITARY.

/ / CHECK HERE IF TENDERED SHARES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER MADE TO AN ACCOUNT MAINTAINED BY THE DEPOSITARY WITH THE BOOK-ENTRY TRANSFER FACILITY, AND COMPLETE THE FOLLOWING (ONLY PARTICIPANTS IN THE BOOK-ENTRY TRANSFER FACILITY MAY DELIVER SHARES BY BOOK-ENTRY TRANSFER).

Name of Tendering Institution: _____

Account Number: _____

Transaction Code Number: _____

/ / CHECK HERE IF SHARES ARE BEING TENDERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE DEPOSITARY AND COMPLETE THE FOLLOWING. PLEASE ENCLOSE A PHOTOCOPY OF SUCH NOTICE OF GUARANTEED DELIVERY.

Name(s) of Registered Shareholder(s): _____

Window Ticket Number (if any): _____

Date of Execution of Notice of Guaranteed Delivery: _____

Name of Institution which Guaranteed Delivery: _____

NOTE: SIGNATURES MUST BE PROVIDED BELOW
PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY

- ---

SPECIAL PAYMENT INSTRUCTIONS
(SEE INSTRUCTIONS 1, 5, 6 AND 7)

To be completed ONLY if Certificates for Shares not tendered or not accepted for payment and/or the check for the purchase price of Shares accepted for payment are to be issued in the name of someone other than the undersigned, or if Shares delivered by book-entry transfer that are not accepted for payment are to be returned by credit to an account maintained at the Book-Entry Transfer Facility other than the account indicated above.

Issue check and/or certificate(s) to:

Name: _____

_____
(PLEASE TYPE OR PRINT)

Address: _____

_____
(INCLUDE ZIP CODE)

_____
(RECIPIENT'S TAX IDENTIFICATION OR SOCIAL SECURITY NO.)
(ALSO COMPLETE SUBSTITUTE FORM W-9 BELOW)

- ----------
- ----------

SPECIAL DELIVERY INSTRUCTIONS
(SEE INSTRUCTIONS 1, 5, 6 AND 7)

To be completed ONLY if Certificates for Shares not tendered or not accepted for payment and/or the check for the purchase price of Shares accepted for payment are to be sent to someone other than the undersigned or to the undersigned at an address other than that shown above.

Mail check and/or certificate(s) to:

Name: _____

_____
(PLEASE TYPE OR PRINT)

Address: _____

_____
(INCLUDE ZIP CODE)

- ----------

IMPORTANT:
SHAREHOLDER: SIGN HERE AND COMPLETE SUBSTITUTE FORM W-9 BELOW

_____

_____
SIGNATURE(S) OF SHAREHOLDER(S)

Dated: _____, 1999

(MUST BE SIGNED BY THE REGISTERED HOLDER(S) EXACTLY AS NAME(S) APPEAR(S) ON THE CERTIFICATE OR ON A SECURITY POSITION LISTING OR BY PERSON(S) AUTHORIZED TO BECOME REGISTERED HOLDER(S) BY CERTIFICATES AND DOCUMENTS TRANSMITTED HEREWITH. IF SIGNATURE IS BY TRUSTEES, EXECUTORS, ADMINISTRATORS, GUARDIANS, ATTORNEYS-IN-FACT, AGENTS, OFFICERS OR CORPORATIONS OR OTHERS ACTING IN A FIDUCIARY OR REPRESENTATIVE CAPACITY, PLEASE PROVIDE THE FOLLOWING INFORMATION. SEE INSTRUCTION 5.)

Name(s): _____
(PLEASE TYPE OR PRINT)

_____

Capacity (Full Title): _____

Address: _____

_____
(INCLUDE A ZIP CODE)

Area Code and Telephone No.: _____
(HOME)

_____
(BUSINESS)

Tax Identification or
Social Security No._____
(COMPLETE SUBSTITUTE FORM W-9 BELOW)

GUARANTEE OF SIGNATURE(S)
(SEE INSTRUCTIONS 1 AND 5)

Authorized Signature(s): _____

Name: _____
(PLEASE TYPE OR PRINT)

Title: _____

Name of Firm: _____

Address: _____

_____
(INCLUDE ZIP CODE)

Area Code and Telephone No.: _____

Dated: _____, 1999

TO BE COMPLETED BY ALL TENDERING SHAREHOLDERS OF SECURITIES
(SEE INSTRUCTION 9)

<TABLE>
<C> <S> <C>

PAYOR'S NAME: NORWEST BANK MINNESOTA, N.A.

SUBSTITUTE FORM W-9 | PART 1--PLEASE PROVIDE YOUR TIN IN THE BOX AT RIGHT AND CERTIFY BY SIGNING AND DATING BELOW. | TIN (Social Security Number or Employer Identification Number)

DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE | PART 2--FOR PAYEES EXEMPT FROM BACKUP WITHHOLDING (SEE INSTRUCTIONS)

PAYER'S REQUEST FOR TAXPAYER IDENTIFICATION NUMBER ("TIN") AND CERTIFICATION | PART 3--CERTIFICATIONS--UNDER PENALTIES OF PERJURY, I CERTIFY THAT: (1) The number shown on this form is my correct Taxpayer Identification Number (or I am waiting for a number to be issued to me) and (2) I am not subject to backup withholding either because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (the "IRS") that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding.
Signature Date , 1999
</TABLE>

You must cross out item (2) above if you have been notified by the IRS that you are subject to backup withholding because of underreporting interest or dividends on your tax return.

YOU MUST COMPLETE THE FOLLOWING CERTIFICATE IF YOU WROTE "APPLIED FOR" IN PART 1 OF THE SUBSTITUTE FORM W-9.

CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER

I certify under penalties of perjury that a taxpayer identification number has not been issued to me, and either (1) I have mailed or delivered an application to receive a taxpayer identification number to the appropriate Internal Revenue Service Center or Social Security Administration Office or (2)

I intend to mail or deliver an application in the near future. I understand that if I do not provide a taxpayer identification number to the payor within 60 days, 31% of all reportable payments made to me will be withheld.
Signature _____ Date _____

NOTE: FAILURE TO COMPLETE AND RETURN THIS FORM MAY RESULT IN BACKUP WITHHOLDING OF 31% OF ANY PAYMENTS MADE TO YOU PURSUANT TO THE OFFER. PLEASE REVIEW THE ENCLOSED GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9 FOR INSTRUCTIONS.

Ladies and Gentlemen:

The undersigned hereby tenders to Bengal Subsidiary Corp. (the "Purchaser"), a direct, wholly owned subsidiary of Federated Department Stores, Inc. ("Parent"), the above-described common shares (the "Shares") of Fingerhut Companies, Inc. (the "Company") at a purchase price of $25.00 per Share, net to the seller in cash, without interest thereon, on the terms and subject to the conditions set forth in the Offer To Purchase, dated February 18, 1999 (as amended from time to time, the "Offer To Purchase"), receipt of which is hereby acknowledged, and in this Letter of Transmittal (which, together with any amendments or supplements hereto or thereto, collectively constitute the "Offer"). The undersigned understands that Purchaser reserves the right to transfer or assign, in whole or from time to time in part, to one or more direct or indirect wholly owned subsidiaries of Parent, the right to purchase all or any portion of the Shares tendered pursuant to the Offer, but any such transfer or assignment will not relieve Purchaser of its obligations under the Offer or prejudice the rights of the tendering shareholders to receive payment for Shares validly tendered and accepted for payment pursuant to the Offer.

Subject to, and effective upon, acceptance for payment of, or payment for, the Shares tendered herewith in accordance with the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms or conditions of any such extension or amendment), the undersigned hereby sells, assigns and transfers to, or upon the order of, Purchaser all right, title and interest in and to all of the Shares that are being tendered hereby and any and all dividends on the Shares (including, without limitation, the issuance of additional Shares pursuant to a stock dividend or stock split, the issuance of other securities, the issuance of rights for the purchase of any securities or any cash or other dividends) that are declared or paid by the Company on or after the date of the Offer To Purchase and are payable or distributable to shareholders of record on a date prior to the transfer into the name of the Purchaser or its nominees or transferees on the Company's stock transfer records of the Shares purchased pursuant to the Offer (collectively "Distributions"), and irrevocably constitutes and appoints the Depositary the true and lawful agent and attorney-in-fact of the undersigned with respect to such Shares (and any Distributions), with full power of substitution and resubstitution (such power of attorney being deemed to be an irrevocable power coupled with an interest), to (i) deliver Certificates evidencing such Shares (and any Distributions), or transfer ownership of such Shares (and any Distributions) on the account books maintained by the Book-Entry Transfer Facility, together, in any such case, with all accompanying evidences of transfer and authenticity to, or upon the order of, Purchaser, upon receipt by the Depositary as the undersigned's agent, of the purchase price with respect to such Shares, (ii) present such Shares (and any Distributions) for transfer on the books of the Company, and (iii) receive all benefits and otherwise exercise all rights of beneficial ownership of such Shares (and any Distributions), all in accordance with the terms and subject to the conditions of the Offer.

The undersigned hereby irrevocably appoints each designee of Purchaser as the attorney-in-fact and proxy of the undersigned, each with full power of substitution and resubstitution, to the full extent of the undersigned's rights with respect to all Shares tendered herewith and accepted for payment by Purchaser (and any Distributions), including without limitation the right to vote such Shares (and any Distributions) in such manner as each such attorney and proxy or his substitute will, in his sole discretion, deem proper. All such powers of attorney and proxies, being deemed to be irrevocable, will be considered coupled with an interest in the Shares tendered with this Letter of Transmittal. Such appointment will be effective when, and only to the extent that, Purchaser accepts such Shares for payment. Upon such acceptance for payment, all prior powers of attorney and proxies given by the undersigned with respect to such Shares (and any Distributions) will be revoked, without further action, and no subsequent powers of attorneys and proxies may be given with

respect thereto (and, if given, will be deemed ineffective). The designees of Purchaser will, with respect to the Shares (and any Distributions) for which such appointment is effective, be empowered to exercise all voting and other rights of the undersigned with respect to such Shares (and any Distributions) as they in their sole discretion may deem proper. Purchaser reserves the absolute right to require that, in order for Shares to be deemed validly tendered, immediately upon the acceptance for

payment of such Shares, Purchaser or its designees be able to exercise full voting rights with respect to such Shares (and any Distributions), including voting at any meeting of shareholders then scheduled.

The undersigned hereby represents and warrants that the undersigned has full power and authority to tender, sell, assign and transfer the Shares tendered hereby (and any Distributions) and that, when the same are accepted for payment and paid for by Purchaser, Purchaser will acquire good, marketable and unencumbered title thereto, free and clear of all liens, restrictions, charges and encumbrances, and that the Shares tendered hereby (and any Distributions) will not be subject to any adverse claim. The undersigned, upon request, will execute and deliver any additional documents deemed by the Depositary or Purchaser to be necessary or desirable to complete the sale, assignment and transfer of Shares tendered hereby (and any Distributions). In addition, the undersigned will promptly remit and transfer to the Depositary for the account of Purchaser any and all Distributions in respect of the Shares tendered hereby, accompanied by appropriate documentation of transfer, and pending such remittance and transfer or appropriate assurance thereof, the Purchaser will be entitled to all rights and privileges as owner of any such Distributions and may withhold the entire purchase price or deduct from the purchase price the amount of value thereof, as determined by Purchaser in its sole discretion.

The undersigned understands that the valid tender of Shares pursuant to any one of the procedures described in Section 3 of the Offer To Purchase and in the instructions to this Letter of Transmittal will constitute a binding agreement between the undersigned and the Purchaser with respect to such Shares upon the terms and subject to the conditions of the Offer.

All authority herein conferred or herein agreed to be conferred will not be affected by, and will survive, the death or incapacity of the undersigned and any obligation of the undersigned hereunder will be binding upon the heirs, executors, administrators, legal representatives, successors and assigns of the undersigned. Tenders of Shares pursuant to the Offer are irrevocable, except that Shares tendered pursuant to the Offer may be withdrawn at any time on or prior to the Expiration Date.

The undersigned recognizes that, under certain circumstances set forth in the Offer To Purchase, the Purchaser may not be required to accept for payment any of the Shares tendered hereby.

Unless otherwise indicated in this Letter of Transmittal under "Special Payment Instructions," please issue the check for the purchase price and return any Certificates evidencing Shares not tendered or not accepted for payment in the name(s) of the registered holder(s) appearing under "Description of Shares Tendered." Similarly, unless otherwise indicated under "Special Delivery Instructions," please mail the check for the purchase price and return any Certificates evidencing Shares not tendered or not accepted for payment (and accompanying documents, as appropriate) to the address(es) of the registered holder(s) appearing under "Description of Shares Tendered." In the event that both the "Special Payment Instructions" and the "Special Delivery Instructions" are completed, please issue the check for the purchase price and return any such Certificates evidencing Shares not tendered or not accepted for payment (and accompanying documents, as appropriate) in the name(s) of, and deliver such check and return such Certificates (and accompanying documents, as appropriate) to, the person(s) so indicated. Unless otherwise indicated herein under "Special Payment Instructions," in the case of book-entry delivery of Shares, please credit the account maintained at the Book-Entry Transfer Facility with respect to any Shares not accepted for payment. The undersigned recognizes that Purchaser has no obligation pursuant to the "Special Payment Instructions" to transfer any Shares from the name of the registered holder if the Purchaser does not accept for payment any of the Shares tendered hereby.

INSTRUCTIONS

FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER

1. GUARANTEE OF SIGNATURES. Except as otherwise provided below, no signature guarantee is required on this Letter of Transmittal (a) if this Letter of Transmittal is signed by the registered holder(s) (which term, for the purposes of this document, includes any participant in any of the Book-Entry Transfer Facility systems whose name appears on a security position listing as the owner of the Shares) of Shares tendered herewith and such registered holder has not completed either the box entitled "Special Delivery Instructions" or the box entitled "Special Payment Instructions" on this Letter of Transmittal or (b) if such Shares are tendered for the account of a financial institution (including most commercial banks, savings and loan associations and brokerage houses) that is a participant in the Security Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program (an "Eligible Institution"). In all other cases, all signatures on the Letter of Transmittal must be guaranteed by an Eligible Institution. See Instruction 5. If the Certificates are registered in the name of a person other than the signer of this Letter of Transmittal or if payment is to be made or Certificates for Shares not tendered or not accepted for payment are to be returned to a person other than the registered holder of the Certificates tendered, then the tendered Certificates must be endorsed or accompanied by duly executed stock powers, in either case signed exactly as the name or names of the registered owner or owners appear on the Certificates, with the signatures on the Certificates or stock powers guaranteed by an Eligible Institution as provided in this Letter of Transmittal. See Instruction 5.

2. REQUIREMENTS OF TENDER. This Letter of Transmittal is to be completed by shareholders if either Certificates evidencing Shares are to be forwarded with this Letter of Transmittal or, unless an Agent's Message is utilized, if delivery of Shares is to be made pursuant to the procedures for book-entry transfer set forth in Section 3 of the Offer To Purchase. For Shares to be validly tendered pursuant to the Offer, either (a) a Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any required signature guarantees (or, in the case of book-entry transfer, an Agent's Message (as defined in Section 2 of the Offer To Purchase)) and any other documents required by this Letter of Transmittal, must be received by the Depositary at one of its addresses set forth in this Letter of Transmittal on or prior to the Expiration Date and either (i) Certificates representing tendered Shares must be received by the Depositary at one of those addresses on or prior to the Expiration Date or (ii) Shares must be delivered pursuant to the procedures for book-entry transfer set forth in Section 3 of the Offer To Purchase and a Book-Entry Confirmation must be received by the Depositary on or prior to the Expiration Date, or (b) the tendering shareholder must comply with the guaranteed delivery procedures set forth below and in Section 3 of the Offer To Purchase.

Shareholders whose Certificates are not immediately available or who cannot deliver their Certificates and all other required documents to the Depositary or complete the procedures for book-entry transfer on or prior to the Expiration Date may nevertheless tender their Shares by following the guaranteed delivery procedures set forth in Section 3 of the Offer To Purchase. Pursuant to such procedure: (i) such tender must be made by or through an Eligible Institution, (ii) a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form made available by Purchaser, must be received by the Depositary on or prior to the Expiration Date, and (iii) Certificates representing all tendered Shares in proper form for transfer, or a Book-Entry Confirmation with respect to all the tendered Shares, together with a Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, and any required signature guarantees (or, in the case of book-entry transfers, an Agent's Message) and any other documents required by this Letter of Transmittal, must be received by the Depositary within three New York Stock Exchange trading days after the date of such Notice of Guaranteed Delivery. If Certificates are forwarded separately to the Depositary, a properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof) must accompany each delivery.

THE METHOD OF DELIVERY OF CERTIFICATES, THIS LETTER OF TRANSMITTAL AND ANY OTHER REQUIRED DOCUMENTS IS AT THE OPTION AND SOLE RISK OF THE TENDERING SHAREHOLDER AND DELIVERY WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED BY THE DEPOSITARY. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ENSURE TIMELY DELIVERY.

No alternative, conditional or contingent tenders will be accepted and no fractional Shares will be purchased. All tendering shareholders, by execution of this Letter of Transmittal (or a manually signed facsimile thereof), waive any right to receive any notice of the acceptance of their Shares for payment.

3. INADEQUATE SPACE. If the space provided in this Letter of Transmittal is inadequate, the information required under "Description of Shares Tendered" should be listed on a separate signed schedule attached to this Letter of Transmittal.

4. PARTIAL TENDERS. If fewer than all of the Shares represented by any Certificates delivered to the Depositary with this Letter of Transmittal are to be tendered, fill in the number of Shares which are to be tendered in the box entitled "Number of Shares Tendered." In such cases, a new Certificate for the remainder of the Shares that were evidenced by your old Certificate(s) will be sent, without expense, to the person(s) signing this Letter of Transmittal, unless otherwise provided in the box entitled "Special Payment Instructions" or the box entitled "Special Delivery Instructions" on this Letter of Transmittal, as soon as practicable after the Expiration Date. All Shares evidenced by Certificate(s) delivered to the Depositary will be deemed to have been tendered unless otherwise indicated.

5. SIGNATURES ON LETTER OF TRANSMITTAL, INSTRUMENTS OF TRANSFER AND ENDORSEMENTS. If this Letter of Transmittal is signed by the registered holder(s) of the Shares tendered hereby, the signature(s) must correspond exactly with the name(s) as written on the face of the Certificate(s) without alteration, enlargement or any change whatsoever.

If any of the Shares tendered hereby are owned of record by two or more joint owners, all the owners must sign this Letter of Transmittal.

If any of the tendered Shares are registered in different names on several Certificates, it will be necessary to complete, sign and submit as many separate Letters of Transmittal as there are different registrations of Certificates.

If this Letter of Transmittal or any Certificates or instruments of transfer are signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, that person should so indicate when signing, and proper evidence satisfactory to the Purchaser of that person's authority to so act must be submitted.

If this Letter of Transmittal is signed by the registered holder(s) of the Shares listed and transmitted hereby, no endorsements of Certificates or separate instruments of transfer are required unless payment is to be made, or Certificates not tendered or not purchased are to be issued or returned, to a person other than the registered holder(s). Signatures on the Certificates or instruments of transfer must be guaranteed by an Eligible Institution.

If this Letter of Transmittal is signed by a person other than the registered holder(s) of the Shares evidenced by the Certificate(s) listed and transmitted hereby, the Certificate(s) must be endorsed or accompanied by appropriate instruments of transfer, in either case signed exactly as the name(s) of the registered holder(s) appear on the Certificates for such Shares. Signatures on the Certificates or instruments of transfer must be guaranteed by an Eligible Institution.

6. TRANSFER TAXES. Except as set forth in this Instruction 6, the Purchaser will pay or cause to be paid any transfer taxes with respect to the transfer and sale of Shares to it or its order pursuant to the Offer. If, however, payment of the purchase price is to be made to, or (in the circumstances permitted hereby) if Certificates for Shares not tendered or not purchased are to be registered in the name of, any person other

than the registered holder(s), or if tendered Certificates are registered in the name of any person other than the person(s) signing this Letter of Transmittal, the amount of any transfer taxes (whether imposed on the registered holder(s) or such person) payable on account of the transfer to such person will be deducted from the purchase price unless satisfactory evidence of the payment of such taxes or exemption therefrom is submitted.

EXCEPT AS PROVIDED IN THIS INSTRUCTION 6, IT WILL NOT BE NECESSARY FOR TRANSFER TAX STAMPS TO BE AFFIXED TO THE CERTIFICATE(S) LISTED IN THIS LETTER OF TRANSMITTAL.

7. SPECIAL PAYMENT AND DELIVERY INSTRUCTIONS. If a check and Certificates for unpurchased Shares are to be issued in the name of a person other than the signer of this Letter of Transmittal or if a check is to be sent and Certificates are to be returned to someone other than the signer of this Letter of Transmittal or to an address other than that shown above, the appropriate boxes on this Letter of Transmittal should be completed. If any tendered Shares are not purchased for any reason and the Shares are delivered by book-entry transfer, the Shares will be credited to an account maintained at the Book-Entry Transfer Facility.

8. REQUESTS FOR ASSISTANCE OR ADDITIONAL COPIES. Questions and requests for assistance may be directed to the Information Agent at its address or telephone number set forth below. Requests for additional copies of the Offer To Purchase, this Letter of Transmittal and the Notice of Guaranteed Delivery may be directed to the Information Agent or to brokers, dealers, commercial banks and trust companies. Such materials will be furnished at Purchaser's expense.

9. WAIVER OF CONDITIONS. The conditions of the Offer may be waived by the Purchaser (subject to certain limitations in the Merger Agreement (as defined in the Offer To Purchase)), in whole or in part, at any time or from time to time, in the Purchaser's sole discretion.

10. BACKUP WITHHOLDING TAX. Each tendering shareholder is required to provide the Depositary with a correct Taxpayer Identification Number ("TIN") on Substitute Form W-9, which is provided under "Important Tax Information" below and to certify that the shareholder is not subject to backup withholding. Failure to provide the information on the Substitute Form W-9 may subject the tendering shareholder to a penalty and 31% federal income tax backup withholding on the payment of the purchase price for the Shares. If the tendering shareholder has not been issued a TIN and has applied for a TIN or intends to apply for a TIN in the near future, the tendering shareholder should follow the instructions set forth in Part III of the Substitute Form W- 9 and sign and date both the Substitute Form W-9 and the "Certificate of Awaiting Taxpayer Identification." If the shareholder has indicated in Part III that a TIN has been applied for and the Depositary is not provided with a TIN by the time of payment, the Depositary will withhold 31% of all payments of the purchase price, if any, made thereafter pursuant to the Offer until a TIN is provided to the Depositary.

11. LOST OR DESTROYED CERTIFICATES. If any Certificate(s) representing Shares has been lost or destroyed, the holders should promptly notify the Depositary, Norwest Bank Minnesota, N.A., at (800) 468-9716. The holders will then be instructed as to the procedure to be followed in order to replace the Certificate(s). This Letter of Transmittal and related documents cannot be processed until the procedures for replacing lost or destroyed Certificates have been followed.

IMPORTANT: THIS LETTER OF TRANSMITTAL OR A MANUALLY SIGNED FACSIMILE, TOGETHER WITH ANY REQUIRED SIGNATURE GUARANTEES, OR, IN THE CASE OF BOOK-ENTRY TRANSFER, AN AGENT'S MESSAGE (TOGETHER WITH CERTIFICATES OR A BOOK-ENTRY CONFIRMATION FOR SHARES AND ANY OTHER REQUIRED DOCUMENTS) MUST BE RECEIVED BY THE DEPOSITARY, OR A NOTICE OF GUARANTEED DELIVERY MUST BE RECEIVED BY THE DEPOSITARY, ON OR PRIOR TO THE EXPIRATION DATE.

IMPORTANT TAX INFORMATION

Under current federal income tax law, a Shareholder whose tendered Shares are accepted for payment is required to provide the Depositary (as payor) with such Shareholder's correct TIN on Substitute Form W-9 below. If such Shareholder is an individual, the TIN is such Shareholder's social security number. If the tendering Shareholder has not been issued a TIN and has applied for a TIN or intends to apply for a TIN in the near future, the Shareholder should so indicate on the Substitute Form W-9. See Instruction 10. If the Depositary is not provided with the correct TIN, the Shareholder may be subject to a $50 penalty imposed by the Internal Revenue Service. In addition, payments that are made to the Shareholder with respect to Shares purchased pursuant to the Offer may be subject to backup federal income tax withholding.

Certain Shareholders (including, among others, all corporations and certain foreign individuals) are not subject to these backup withholding and reporting requirements and should indicate their status by writing "exempt" across the face of, and by signing and dating, the Substitute Form W-9. In order for a foreign individual to qualify as an exempt recipient, that Shareholder must submit a statement, signed under penalties of perjury, attesting to that individual's exempt status. Forms for such statements can be obtained from the Depositary. See the enclosed Guidelines for Certificates of Taxpayer Identification Number on Substitute Form W-9 for additional instructions.

If backup withholding applies, the Depositary is required to withhold 31% of any payments made to the Shareholder. Backup withholding is not an additional tax. Rather, the federal income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained from the Internal Revenue Service.

PURPOSE OF SUBSTITUTE FORM W-9

To prevent backup federal income tax withholding with respect to payment of the purchase price for Shares purchased pursuant to the Offer, a Shareholder must provide the Depositary with his correct TIN by completing the Substitute Form W-9 below, certifying that the TIN provided on Substitute Form W-9 is correct (or that the Shareholder is awaiting a TIN) and that (i) such Shareholder is exempt from backup withholding, (ii) the Shareholder has not been notified by the Internal Revenue Service that he is subject to backup withholding as a result of failure to report all interest or dividends, or (iii) the Internal Revenue Service has notified the Shareholder that he is no longer subject to backup withholding.

WHAT NUMBER TO GIVE THE DEPOSITARY

The Shareholder is required to give the Depositary the social security number or employer identification number of the record holder of the Shares tendered hereby. If the Shares are registered in more than one name or are not in the name of the actual owner, consult the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for additional guidance on which number to report.

MANUALLY SIGNED FACSIMILE COPIES OF THE LETTER OF TRANSMITTAL, PROPERLY COMPLETED AND DULY EXECUTED, WILL BE ACCEPTED. THE LETTER OF TRANSMITTAL, CERTIFICATES FOR SHARES AND ANY OTHER REQUIRED DOCUMENTS SHOULD BE SENT OR DELIVERED BY EACH SHAREHOLDER OF THE COMPANY OR HIS BROKER, DEALER, COMMERCIAL BANK, TRUST COMPANY OR OTHER NOMINEE TO THE DEPOSITARY AT ONE OF ITS ADDRESSES SET FORTH ON THE FIRST PAGE.

Questions and requests for assistance may be directed to the Information Agent or the Dealer Manager at their respective addresses and telephone numbers listed below. Additional copies of the Offer to Purchase, the Letter of Transmittal and other tender offer materials may be obtained from the Information Agent or the Dealer Manager as set forth below, and will be furnished promptly at the Purchaser's expense. You may also contact your broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

The Information Agent for the Offer is:

[LOGO]

Wall Street Plaza
New York, New York 10005
Banks and Brokers Call Collect (212) 440-9800
Call Toll Free (800)-223-2064

The Dealer Manager for the Offer is:

Credit Suisse First Boston Corporation

Eleven Madison Avenue
New York, New York 10010-3629
Call Toll Free (800) 881-8320

Notice of Guaranteed Delivery
for
Tender of Common Shares
of
Fingerhut Companies, Inc.
(Not to Be Used for Signature Guarantees)

This Notice of Guaranteed Delivery, or one substantially equivalent to this form, must be used to accept the Offer (as defined below) if certificates representing common shares (the "Shares") of Fingerhut Companies, Inc. are not immediately available or time will not permit all required documents to reach Norwest Bank Minnesota, N.A. (the "Depositary") on or prior to the Expiration Date (as defined in the Offer To Purchase), or the procedures for delivery by book- entry transfer cannot be completed on a timely basis. This Notice of Guaranteed Delivery may be delivered by hand or transmitted by facsimile transmission or mailed to the Depositary. See Section 3 of the Offer To Purchase.

The Depositary for the Offer is:
Norwest Bank Minnesota, N.A.

<TABLE>
<S> <C> <C>
By Mail: By Hand in New York: By Hand/Overnight Courier:
Norwest Bank Minnesota, N.A. The Depositary Trust Company Norwest Bank Minnesota, N.A.
Shareowner Services Transfer Agent Drop Shareowner Services
Reorganization Department 55 Water Street - 1st Floor 161 North Concord Exchange
P.O. Box 64858 New York, New York 10041-0099 South St. Paul, MN 55075
St. Paul, MN 55164-0858
</TABLE>

By Facsimile Transmission:
(651) 450-4163
To Confirm Receipt of Notice of Guaranteed Delivery:
(651) 450-4110

DELIVERY OF THIS NOTICE OF GUARANTEED DELIVERY TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA A FACSIMILE TRANSMISSION TO A NUMBER OTHER THAN AS SET FORTH ABOVE WILL NOT CONSTITUTE A VALID DELIVERY.

This Notice of Guaranteed Delivery is not to be used to guarantee signatures. If a signature on a Letter of Transmittal is required to be guaranteed by an "Eligible Institution" under the instructions thereto, such signature guarantee must appear in the applicable space provided in the signature box on the Letter of Transmittal.

The Eligible Institution that completes this form must communicate the guarantee to the Depositary and must deliver the Letter of Transmittal and certificates for Shares to the Depositary within the time period shown herein. Failure to do so could result in a financial loss to such Eligible Institution.

THE GUARANTEE ON THE REVERSE SIDE MUST BE COMPLETED.
Ladies and Gentlemen:

The undersigned hereby tenders to Bengal Subsidiary Corp., a direct, wholly owned subsidiary of Federated Department Stores, Inc., on the terms and subject to the conditions set forth in the Offer To Purchase, dated February 18, 1999 (the "Offer To Purchase"), and the related Letter of Transmittal (which, together with any amendments or supplements thereto, collectively constitute the "Offer"), receipt of which is hereby acknowledged, the number of Shares indicated below pursuant to the guaranteed delivery procedures set forth in Section 3 of the Offer To Purchase.

- ----------

Number of Shares: _____

Certificate No(s). (if available):
_____

If Share(s) will be tendered by book-entry transfer, check the box.

/ / The Depository Trust Company

Account Number: _____

Date: _____ Area Code and Telephone Number(s): _____

Name(s) of Record Holder(s): _____
(PLEASE PRINT)

Signature(s): _____

Address(es): _____ _____
(ZIP CODE)

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THE GUARANTEE SET FORTH BELOW MUST BE COMPLETED.

GUARANTEE

(Not to be used for signature guarantee)

The undersigned, a firm that is a bank, broker, dealer, credit union, savings association or other entity which is a member at the Securities Transfer Agents Medallion Program, hereby guarantees to deliver to the Depositary at one of its addresses set forth above (i) the certificates representing all tendered Shares, in proper form for transfer, or a Book Entry Confirmation (as defined in Section 3 of the Offer To Purchase) with respect to such Shares, together with the properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof), with all required signature guarantees, or (ii) in the case of a book-entry transfer of Shares, an Agent's Message (as defined in Section 2 of the Offer To Purchase), and all other documents required by the Letter of Transmittal, all within three New York Stock Exchange trading days after the date hereof. A "NYSE trading day" is any day on which the NYSE is open for business.

<TABLE>
<S> <C>
Name of Firm: ----------
AUTHORIZED SIGNATURE

Address: ---------- Name: ----------
PLEASE TYPE OR PRINT

- ---------- Title:

ZIP CODE

Area Code and Tel. No.: Dated: , 1999
- ----------
</TABLE>

NOTE: DO NOT SEND CERTIFICATES FOR SHARES WITH THIS NOTICE OF GUARANTEED DELIVERY. CERTIFICATES FOR SHARES SHOULD BE DELIVERED ONLY WITH THE LETTER OF TRANSMITTAL.

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<TABLE>
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Offer To Purchase For Cash
All of the Outstanding Common Shares
of
Fingerhut Companies, Inc.
at
$25.00 Net Per Share
by
Bengal Subsidiary Corp.,
a direct, wholly owned subsidiary
of
Federated Department Stores, Inc.

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THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON WEDNESDAY, MARCH 17, 1999, UNLESS THE OFFER IS EXTENDED.

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February 18, 1999

To Brokers, Dealers, Commercial Banks,
Trust Companies and Other Nominees:

We have been appointed by Bengal Subsidiary Corp. ("Purchaser"), a direct, wholly owned subsidiary of Federated Department Stores, Inc. ("Parent"), to act as Dealer Manager in connection with Purchaser's offer to purchase all of the outstanding common shares (the "Shares") of Fingerhut Companies, Inc. (the "Company") at $25.00 per Share, net to the seller in cash, without interest, on the terms and subject to the conditions set forth in Purchaser's Offer To Purchase, dated February 18, 1999, and the related Letter of Transmittal (which, together with any amendments or supplements thereto, collectively constitute the "Offer"), enclosed herewith. Please furnish copies of the enclosed materials to those of your clients for whose accounts you hold Shares in your name or in the name of your nominee.

Enclosed herewith for your information and for forwarding to your clients are copies of the following documents:

1. Offer To Purchase, dated February 18, 1999.

2. Letter of Transmittal to tender Shares for your use and for the information of your clients, together with Guidelines of the Internal Revenue Service for Certification of Taxpayer Identification Number on Substitute Form W-9 providing information relating to backup federal income tax withholding. Manually signed facsimile copies of the Letter of Transmittal may be used to tender Shares.

3. A letter to shareholders of the Company ("Shareholders") from Theodore Deikel, Chairman and Chief Executive Officer of the Company, together with a Solicitation/Recommendation Statement on Schedule 14D-9.

4. Notice of Guaranteed Delivery for Shares to be used to accept the Offer if neither of the two procedures for tendering Shares set forth in the Offer To Purchase can be completed on a timely basis.

5. A form of letter which may be sent to your clients for whose accounts you hold Shares registered in your name or in the name of your nominee, with space provided for obtaining such clients' instructions with regard to the Offer.

6. Return envelope addressed to the Depositary.

YOUR PROMPT ACTION IS REQUESTED. WE URGE YOU TO CONTACT YOUR CLIENTS AS PROMPTLY AS POSSIBLE. PLEASE NOTE THAT THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON WEDNESDAY, MARCH 17, 1999, UNLESS THE OFFER IS EXTENDED.

Please note the following:

1. The tender price is $25.00 per Share, net to the seller in cash without interest thereon, upon the terms and subject to the conditions set forth in the Offer To Purchase.

2. The Offer is conditioned upon, among other things, there being validly tendered and not properly withdrawn prior to the Expiration Date (as defined in the Offer To Purchase) that number of Shares that (together with any Shares then owned by Parent or any of its subsidiaries) constitutes a majority of the Shares outstanding on a fully diluted basis on the date of purchase. The Offer is also subject to the conditions set forth in the Offer To Purchase, including certain actions by the United States Comptroller of the Currency. See the Introduction and Sections 1, 14, and 15 of the Offer To Purchase.

3. The Offer is being made for all of the outstanding Shares.

4. Tendering Shareholders will not be obligated to pay brokerage fees or commissions to the Dealer Manager, the Depositary or the Information Agent or, except as set forth in Instruction 6 of the Letter of Transmittal, transfer taxes on the purchase of Shares by Purchaser pursuant to the Offer. However, federal income tax backup withholding at a rate of 31% may be required, unless an exemption is provided or unless the required tax identification information is provided. See Instruction 10 of the Letter of Transmittal.

5. The Offer and withdrawal rights will expire at 12:00 midnight, New York City time, on Wednesday, March 17, 1999, unless the Offer is extended.

6. The Board of Directors of the Company has unanimously (with one director being absent) resolved to recommend that Shareholders accept the Offer and approve the Merger Agreement (as defined in the Offer To Purchase) and the Merger and has determined that the Offer and the Merger are fair to and in the best interests of the Company and the Shareholders.

7. Notwithstanding any other provision of the Offer, payment for Shares accepted for payment pursuant to the Offer will in all cases be made only after timely receipt by the Depositary of (a) certificates for Shares (the "Certificates") or a timely Book-Entry Confirmation (as defined in the Offer To Purchase) with respect to such Shares pursuant to the procedures set forth in Section 3 of the Offer To Purchase, (b) the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed with any required signature guarantees (or, in the case of book-entry transfers, an Agent's Message), and (c) any other documents required by the Letter of Transmittal. Accordingly, payment may not be made to all tendering Shareholders at the same time depending upon when Certificates for or confirmations of book-entry transfer of such Shares are actually received by the Depositary.

In order to take advantage of the Offer, (i) a duly executed and properly completed Letter of Transmittal (or a manually signed facsimile thereof) and any required signature guarantees (or, in the case of book-entry transfers, an Agent's Message) and any other required documents should be sent to the Depositary and (ii) either Certificates representing the tendered Shares or a timely Book-Entry Confirmation (as defined in the Offer To Purchase) should be delivered to the Depositary in accordance with the instructions set forth in the Letter of Transmittal and the Offer To Purchase.

If Shareholders wish to tender their Shares, but it is impracticable for them to forward the Certificates for such Shares or other required documents or complete the procedures for book-entry transfer prior to the Expiration Date, a tender may be effected by following the guaranteed delivery procedures specified in Section 3 of the Offer To Purchase.

Neither Purchaser nor Parent will pay any fees or commissions to any broker or dealer or other person (other than the Dealer Manager, the Information Agent or the Depositary, as described in the Offer To Purchase) for soliciting tenders of Shares pursuant to the Offer. Purchaser will, however, upon request, reimburse you for customary mailing and handling expenses incurred by you in forwarding any of the enclosed materials to your clients. Purchaser will pay or cause to be paid any stock transfer taxes payable on the transfer of the Shares to it, except as otherwise provided in Instruction 6 of the Letter of Transmittal.

Any inquiries you may have with respect to the Offer should be addressed to Credit Suisse First Boston Corporation, the Dealer Manager, or Georgeson & Company Inc., the Information Agent, at their respective addresses and telephone numbers set forth on the back cover of the Offer To Purchase. Additional copies of the enclosed materials may be obtained from the Information Agent or the Dealer Manager or from brokers, dealers, commercial banks or trust companies.

Very truly yours,

Credit Suisse First Boston Corporation

NOTHING CONTAINED HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL CONSTITUTE YOU OR ANY OTHER PERSON AS AN AGENT OF PURCHASER, PARENT, THE COMPANY, THE DEALER MANAGER, THE INFORMATION AGENT, THE DEPOSITARY OR ANY AFFILIATE OF ANY OF THEM OR AUTHORIZE YOU OR ANY OTHER PERSON TO USE ANY DOCUMENT OR MAKE ANY STATEMENT ON BEHALF OF ANY OF THEM IN CONNECTION WITH THE OFFER OTHER THAN THE DOCUMENTS ENCLOSED HEREWITH AND THE STATEMENTS CONTAINED THEREIN.

Offer To Purchase for Cash
All of the Outstanding Common Shares
of
Fingerhut Companies, Inc.
at
$25.00 Net Per Share
by
Bengal Subsidiary Corp.,
a direct, wholly owned subsidiary
of
Federated Department Stores, Inc.

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THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON WEDNESDAY, MARCH 17, 1999, UNLESS THE OFFER IS EXTENDED.

- ---

February 18, 1999

To Our Clients:

Enclosed for your consideration are the Offer To Purchase, dated February 18, 1999 (the "Offer To Purchase"), and the related Letter of Transmittal (which, together with any amendments or supplements thereto, collectively constitute the "Offer") and other materials relating to the offer by Bengal Subsidiary Corp. ("Purchaser"), a direct, wholly owned subsidiary of Federated Department Stores, Inc. ("Parent"), to purchase all of the outstanding common shares (the "Shares") of Fingerhut Companies, Inc. (the "Company") at a purchase price of $25.00 per Share, net to the seller in cash, without interest, on the terms and subject to the conditions set forth in the Offer To Purchase and the related Letter of Transmittal enclosed herewith. Shareholders whose certificates for such Shares (the "Certificates") are not immediately available or who cannot deliver their Certificates and all other required documents to the Depositary or complete the procedures for book-entry transfer on or prior to the Expiration Date (as defined in the Offer To Purchase) must tender their Shares according to the guaranteed delivery procedures set forth in Section 3 of the Offer To Purchase.

We are (or our nominee is) the holder of record of Shares held by us for your account. A tender of such Shares can be made only by us as the holder of record and pursuant to your instructions. The Letter of Transmittal accompanying this letter is furnished to you for your information only and cannot be used by you to tender Shares held by us for your account.

Accordingly, we request instructions as to whether you wish to have us tender any or all of the Shares held by us for your account, upon the terms and subject to the conditions set forth in the Offer.

Your attention is directed to the following:

1. The tender price is $25.00 per Share, net to the seller in cash without interest thereon, upon the terms and subject to the conditions set forth in the Offer.

2. The Offer is conditioned upon, among other things, there being validly tendered and not properly withdrawn prior to the Expiration Date that number of Shares that (together with any Shares then owned by Parent or any of its subsidiaries) constitutes a majority of the Shares outstanding on a fully diluted basis on the date of purchase. The Offer is also subject to the conditions set forth in the Offer To Purchase, including certain actions by the United States Comptroller of the Currency. See the Introduction and Sections 1, 14 and 15 of the Offer To Purchase.

3. The Offer is being made for all outstanding Shares.

4. Tendering Shareholders will not be obligated to pay brokerage fees or commissions to the Dealer Manager, the Depositary or the Information Agent or, except as set forth in Instruction 6 of the Letter of Transmittal, transfer taxes on the purchase of Shares by Purchaser pursuant to the Offer. However, federal income tax backup withholding at a rate of 31% may be required, unless an exemption is provided or unless the required taxpayer identification information is provided. See Instruction 10 of the Letter of Transmittal.

5. The Offer and withdrawal rights will expire at 12:00 midnight, New York City time, on Wednesday, March 17, 1999, unless the Offer is extended.

6. The Board of Directors of the Company has unanimously (with one director being absent) resolved to recommend that Shareholders accept the Offer and approve the Merger Agreement (as defined in the Offer To Purchase) and the Merger and has determined that the Offer and the Merger are fair to and in the best interests of the Company and the Shareholders.

7. Notwithstanding any other provision of the Offer, payment for Shares accepted for payment pursuant to the Offer will in all cases be made only after timely receipt by the Depositary of (a) Certificates for Shares or a timely Book-Entry Confirmation (as defined in the Offer To Purchase) with respect to such Shares pursuant to the procedures set forth in Section 3 of the Offer To Purchase, (b) the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed with any required signature guarantees (or, in the case of book-entry transfers, an Agent's Message (as defined in the Offer To Purchase)), and (c) any other documents required by the Letter of Transmittal. Accordingly, payment may not be made to all tendering Shareholders at the same time depending upon when Certificates for or confirmations of book-entry transfer of such Shares are actually received by the Depositary.

If you wish to have us tender any or all of the Shares held by us for your account, please so instruct us by completing, executing, detaching and returning to us the instruction form set forth below. Please forward your instructions to us in ample time to permit us to submit a tender on your behalf prior to the Expiration Date. An envelope to return your instructions to us is enclosed. If you authorize the tender of your Shares, all such Shares will be tendered unless otherwise specified on the instruction form set forth below.

The Offer is not being made to (nor will tenders be accepted from or on behalf of) holders of Shares residing in any jurisdiction in which the making of the Offer or acceptance thereof would not be in compliance with the laws of such jurisdiction. In any jurisdiction where the securities, blue sky or other laws require the Offer to be made by a licensed broker or dealer, the Offer shall be deemed to be made on behalf of the Purchaser by one or more registered brokers or dealers licensed under the laws of such jurisdictions.

Instructions with Respect to the
Offer To Purchase for Cash
All of the Outstanding Common Shares
of
Fingerhut Companies, Inc.
by
Bengal Subsidiary Corp.,
a direct, wholly owned subsidiary
of
Federated Department Stores, Inc.

The undersigned acknowledge(s) receipt of your letter, the enclosed Offer To Purchase, dated February 18, 1999, and the related Letter of Transmittal (which, together with any amendments or supplements thereto, collectively constitute the "Offer") in connection with the offer by Bengal Subsidiary Corp. (the "Purchaser"), a direct, wholly owned subsidiary of Federated Department Stores, Inc., to purchase all of the outstanding common shares (the "Shares") of Fingerhut Companies, Inc. at a purchase price of $25.00 per share without interest thereon, on the terms and subject to the conditions set forth in the Offer.

This will instruct you to tender to the Purchaser the number of Shares indicated below (or if no number is indicated below, all Shares) which are held by you for the account of the undersigned, upon the terms and subject to the conditions set forth in the Offer.

- ---

Number of Shares to be Tendered:* _____ Shares

Date: _____, 1999

SIGN HERE

Signature(s): _____

Print Name(s): _____

Print Address(es): _____

_____

Area Code and Telephone Number(s): _____

Taxpayer Identification or Social Security Number(s):
- ----------

* Unless otherwise indicated, it will be assumed that all Shares held by us for your account are to be tendered.

THIS FORM MUST BE RETURNED TO THE BROKERAGE FIRM MAINTAINING YOUR ACCOUNT.

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9

GUIDELINES FOR DETERMINING THE PROPER IDENTIFICATION NUMBER TO GIVE THE PAYER. The taxpayer identification number for an individual is the individual's Social Security number. Social Security numbers have nine digits separated by two hyphens: E.G., 000-00-0000. The taxpayer identification number for an entity is the entity's Employer Identification number. Employer Identification numbers have nine digits separated by only one hyphen: e.g., 00-0000000. The table below will help determine the number to give the payer.

<TABLE>
<CAPTION>

FOR THIS TYPE OF ACCOUNT:	GIVE THE NAME AND SOCIAL SECURITY NUMBER OF--
1. Individual	The individual
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, the first individual on the account(1)
3. Husband and wife (joint account)	The actual owner of the account or, if joint funds, either person(1)
4. Custodian account of a minor (Uniform Gift to Minors Act)	The minor(2)
5. Adult and minor (joint account)	The adult or, if the minor is the only contributor, the minor(1)
6. Account in the name guardian or committee for a designated ward, minor, or incompetent person	The ward, minor, or incompetent person(3)
7. a. The usual revocable savings trust (grantor is also trustee)	The grantor-trustee(1)
b. So-called trust account that is not a legal or valid trust under state law	The actual owner(1)

<CAPTION>

FOR THIS TYPE OF ACCOUNT:	GIVE THE NAME AND EMPLOYER IDENTIFICATION NUMBER OF--
8. Sole proprietorship	The owner(4)
9. A valid trust, estate, or pension	The legal entity (Do not furnish the

	trust	identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title.)(5)
10.	Corporate	The corporation
11.	Association, club, religious, charitable, educational or other tax-exempt organization	The organization
12.	Partnership	The partnership
13.	A broker or registered nominee	The broker or nominee
14.	Account with the Department of Agriculture in the name of a public entity (such as a state or local government, school district, or prison) that receives agriculture program payments	The public entity

</TABLE>

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(1) List first and circle the name of the person whose number you furnish.

(2) Circle the minor's name and furnish the minor's social security number.

(3) Circle the ward's, minor's or incompetent person's name and furnish such person's social security number.

(4) Show the name of the owner.

(5) List first and circle the name of the legal trust, estate, or pension trust.

NOTE: IF NO NAME IS CIRCLED WHEN THERE IS MORE THAN ONE NAME, THE NUMBER WILL BE CONSIDERED TO BE THAT OF THE FIRST NAME LISTED.

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9

PAGE 2

SECTION REFERENCES ARE TO THE INTERNAL REVENUE CODE.

OBTAINING A NUMBER

If you do not have a taxpayer identification number or you don't know your number, obtain Form SS-5, Application for a Social Security Number Card, or Form SS-4, Application for Employer Identification Number, at the local office of the Social Security Administration or the Internal Revenue Service (the "IRS") and apply for a number.

To complete the Substitute Form W-9, if you do not have a taxpayer identification number, write "Applied For" in the space for the taxpayer identification number in Part 1, sign and date the Form, and give it to the requester. If the requester does not receive your taxpayer identification number within 60 days, backup withholding, if applicable, will begin and will continue until you furnish your taxpayer identification number to the requester.

PAYEES EXEMPT FROM BACKUP WITHHOLDING

The following is a list of payees exempt from backup withholding and for which no information reporting is required. For interest and dividends, all listed payees are exempt except item (9). For broker transactions, payees listed in (1) through (13) and a person registered under the Investment Advisers Act of 1940 who regularly acts as a broker are exempt. Payments subject to reporting under sections 6041 and 6041A are generally exempt from backup withholding only if made to payees described in items (1) through (7), except that a corporation that provides medical and health care services or bills and collects payments for such services is not exempt from backup withholding or information reporting. Only payees described in items (2) through (6) are exempt from backup withholding for barter exchange transactions, patronage dividends, and payments by certain fishing boat operators.

(1) A corporation.

(2) An organization exempt from tax under section 501(a), or an individual retirement plan ("IRA"), or a custodial account under 403(b)(7), if the account satisfies the requirements of section 401(f)(2).

(3) The United States or any of its agencies or instrumentalities.

(4) A State, the District of Columbia, a possession of the United States, or any of their political subdivisions or instrumentalities.

(5) A foreign government or any of its political subdivisions, agencies or instrumentalities.

(6) An international organization or any of its agencies or instrumentalities.

(7) A foreign central bank of issue.

(8) A dealer in securities or commodities required to register in the United States, the District of Columbia, or a possession of the United States.

(9) A futures commission merchant registered with the Commodity Futures Trading Commission.

(10) A real estate investment trust.

(11) An entity registered at all times during the tax year under the Investment Company Act of 1940.

(12) A common trust fund operated by a bank under section 584(a).

(13) A financial institution.

(14) A middleman known in the investment community as a nominee or listed in the most recent publication of the American Society of Corporate Secretaries, Inc., Nominee List.

(15) A trust exempt from tax under section 664 or described in section 4947.

Payments of dividends and patronage dividends generally not subject to backup withholding also include the following:

- - Payments to nonresident aliens subject to withholding under section 1441.

- - Payments to partnerships not engaged in a trade or business in the United States and that have at least one nonresident partner.

- - Payments of patronage dividends not paid in money.

- - Payments made by certain foreign organizations.

- - Payments made to a nominee.

Payments of interest generally not subject to backup withholding include the following:

- - Payments of interest on obligations issued by individuals.

Note: YOU MAY BE SUBJECT TO BACKUP WITHHOLDING IF THIS INTEREST IS $600 OR MORE AND IS PAID IN THE COURSE OF THE PAYER'S TRADE OR BUSINESS AND YOU HAVE NOT PROVIDED YOUR CORRECT TAXPAYER IDENTIFICATION NUMBER TO THE PAYER.

- - Payments of tax-exempt interest (including exempt interest dividends under section 852).

- - Payments described in section 6049(b)(5) to nonresident aliens.

- - Payments on tax-free covenant bonds under section 1451.

- - Payments made by certain foreign organizations.

- - Mortgage interest paid by you.

Payments that are not subject to information reporting are also not subject to backup withholding. For details see sections 6041, 6041A(a), 6042, 6044, 6045, 6049, 6050A and 6050N, and the regulations under such sections.

Exempt payees described above should file Form W-9 to avoid possible erroneous backup withholding. ENTER YOUR TAXPAYER IDENTIFICATION NUMBER. WRITE "EXEMPT" ON THE FACE OF THE FORM, SIGN AND DATE THE FORM AND RETURN IT TO THE PAYER.

PRIVACY ACT NOTICE

Section 6109 requires you to give your correct taxpayer identification number to persons who must file information returns with the IRS to report interest, dividends, and certain other income paid to you, mortgage interest you paid, the acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA. The IRS uses the numbers for identification purposes and to help verify the accuracy of your tax return. You must provide your taxpayer identification number whether or not you are qualified to file a tax return. Payers must generally withhold 31% of taxable interest, dividend, and certain other payments to a payee who does not furnish a taxpayer identification number to a payer. Certain penalties may also apply.

PENALTIES

(1) PENALTY FOR FAILURE TO FURNISH TAXPAYER IDENTIFICATION NUMBER. If you fail to furnish your taxpayer identification number to a payer, you are subject to a penalty of $50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

(2) CIVIL PENALTY FOR FALSE INFORMATION WITH RESPECT TO WITHHOLDING. If you make a false statement with no reasonable basis that results in no backup withholding, you are subject to a $500 penalty.

(3) CRIMINAL PENALTY FOR FALSIFYING INFORMATION. Falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

FOR ADDITIONAL INFORMATION CONTACT YOUR TAX CONSULTANT OR THE INTERNAL REVENUE SERVICE

Exhibit (a)(7)

THIS ANNOUNCEMENT IS NEITHER AN OFFER TO PURCHASE NOR A SOLICITATION OF AN OFFER TO SELL SHARES. THE OFFER IS MADE SOLELY BY THE OFFER TO PURCHASE DATED FEBRUARY 18, 1999 AND THE RELATED LETTER OF TRANSMITTAL, AND ANY AMENDMENTS OR SUPPLEMENTS THERETO, AND IS BEING MADE TO ALL HOLDERS OF SHARES. THE OFFER, HOWEVER, IS NOT BEING MADE TO(NOR WILL TENDERS BE ACCEPTED FROM OR ON BEHALF OF) HOLDERS OF SHARES RESIDING IN ANY JURISDICTION IN WHICH THE MAKING OF THE OFFER OR ACCEPTANCE THEREOF WOULD NOT BE IN COMPLIANCE WITH THE LAWS OF SUCH JURISDICTION. IN ANY JURISDICTION WHERE SECURITIES, BLUE SKY OR OTHER LAWS REQUIRE THE OFFER TO BE MADE BY A LICENSED BROKER OR DEALER, THE OFFER SHALL BE DEEMED TO BE MADE ON BEHALF OF BENGAL SUBSIDIARY CORP. BY CREDIT SUISSE FIRST BOSTON CORPORATION ("CREDIT SUISSE FIRST BOSTON") OR ONE OR MORE REGISTERED BROKERS OR DEALERS LICENSED UNDER THE LAWS OF SUCH JURISDICTIONS.

NOTICE OF OFFER TO PURCHASE FOR CASH
ALL OF THE OUTSTANDING COMMON SHARES
OF
FINGERHUT COMPANIES, INC.
AT
$25.00 NET PER SHARE
BY
BENGAL SUBSIDIARY CORP.
A DIRECT, WHOLLY OWNED SUBSIDIARY
OF
FEDERATED DEPARTMENT STORES, INC.

Bengal Subsidiary Corp., ("Purchaser"), a direct, wholly owned subsidiary of Federated Department Stores, Inc. ("Parent"), is offering to purchase all of the outstanding common shares (the "Shares") of Fingerhut Companies, Inc. (the "Company") at $25.00 per Share, net to the seller in cash, without interest, on the terms and subject to the conditions set forth in the Offer To Purchase dated February 18, 1999 (the "Offer To Purchase") and in the related Letter of Transmittal (which together constitute the "Offer"). Tendering Shareholders who have Shares registered in their name and who tender directly will not be charged brokerage fees or commissions or, subject to Instruction 6 of the Letter of Transmittal, transfer taxes on the purchase of Shares pursuant to the Offer. Following the Offer, the Purchaser intends to effect the Merger described below.

- ----------

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON WEDNESDAY, MARCH 17, 1999, UNLESS THE OFFER IS EXTENDED.

- ----------

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE THAT NUMBER OF SHARES THAT (TOGETHER WITH ANY SHARES THEN OWNED BY PARENT OR ANY OF ITS SUBSIDIARIES) CONSTITUTES A MAJORITY OF THE SHARES OUTSTANDING ON A FULLY DILUTED BASIS ON THE DATE OF PURCHASE (THE "MINIMUM CONDITION"). THE OFFER IS ALSO SUBJECT TO CERTAIN OTHER CONDITIONS SET FORTH IN THE OFFER TO PURCHASE, INCLUDING CERTAIN ACTIONS BY THE UNITED STATES COMPTROLLER OF THE CURRENCY. SEE THE INTRODUCTION AND SECTIONS 1, 14 AND 15 OF THE OFFER TO PURCHASE.

The Offer is being made pursuant to an Agreement and Plan of Merger, dated as of February 10, 1999 (the "Merger Agreement"), among Parent, Purchaser and the Company. The Merger Agreement provides that, among other things, Purchaser will make the Offer and that, following the purchase of Shares pursuant to the Offer, subject to the satisfaction or waiver of certain conditions set forth in the Merger Agreement and in accordance with relevant provisions of the Minnesota Business Corporation Act ("MBCA"), Purchaser will be merged with and into the Company (the "Merger"). Following consummation of the Merger, the Company will continue as the surviving

corporation and will be a wholly owned subsidiary of Parent. At the effective time of the Merger (the "Effective Time"), each Share (excluding Shares owned by Parent or any subsidiary of Parent and any Shares owned by Shareholders who have properly exercised their dissenters' rights under Minnesota law) issued and outstanding immediately prior to the Effective Time will be converted into the right to receive cash in an amount equal to the price per Share paid pursuant to the Offer, without interest (and less any required withholding taxes). The Merger Agreement is more fully described in Section 12 of the Offer To Purchase.

THE BOARD OF DIRECTORS OF THE COMPANY HAS UNANIMOUSLY (WITH ONE DIRECTOR BEING ABSENT) RESOLVED TO RECOMMEND THAT SHAREHOLDERS ACCEPT THE OFFER AND APPROVE THE MERGER AGREEMENT AND THE MERGER AND HAS DETERMINED THAT THE OFFER AND THE MERGER ARE FAIR TO AND IN THE BEST INTERESTS OF THE COMPANY AND THE SHAREHOLDERS.

For purposes of the Offer, Purchaser shall be deemed to have accepted for payment (and thereby purchased) Shares validly tendered and not withdrawn as, if and when Purchaser gives oral or written notice to Depositary (as defined in the Offer To Purchase) of its acceptance of such Shares for payment pursuant to the Offer. In all cases, on the terms and subject to the conditions of the Offer, payment for Shares purchased pursuant to the Offer will be made by deposit of the purchase price therefor with the Depositary, which will act as agent for tendering Shareholders for the purpose of receiving payment from Purchaser and transmitting payment to validly tendering Shareholders. Payment for Shares accepted for payment pursuant to the Offer will be made only after timely receipt by the Depositary of (i) certificates for such Shares (or a confirmation of a book-entry transfer of such Shares into the Depositary's account at the Book-Entry Transfer Facility (as defined in the Offer to Purchase)), (ii) a properly completed and duly executed Letter of Transmittal (or facsimile thereof) or, in the case of book-entry transfer, an Agent's Message (as defined in the Offer To Purchase), and (iii) any other documents required by the Letter of Transmittal.

The consummation of the Merger is subject to the satisfaction or waiver of certain conditions set forth in the Merger Agreement, including, if required, the approval of the Merger by the requisite vote of the Shareholders of the Company. The Shareholder vote necessary to approve the Merger is the affirmative vote of the holders of a majority of the issued and outstanding Shares, voting as a single class. If the Minimum Condition is satisfied and Purchaser purchases Shares pursuant to the Offer, Purchaser will be able to effect the Merger without the affirmative vote of any other Shareholder. If Purchaser acquires at least 90% of the outstanding Shares pursuant to the Offer or otherwise, Purchaser will be able to effect the Merger pursuant to the "short-form" merger provisions of Section 302A.621 of the MBCA, without any action by any other shareholder. In that event, Purchaser intends to effect the Merger as promptly as practicable following the purchase of Shares in the Offer.

UNDER NO CIRCUMSTANCES WILL INTEREST BE PAID ON THE PURCHASE PRICE TO BE PAID FOR THE SHARES PURSUANT TO THE OFFER, REGARDLESS OF ANY EXTENSION OF THE OFFER OR ANY DELAY IN MAKING SUCH PAYMENT. NO INTEREST WILL BE PAID ON THE CONSIDERATION TO BE PAID IN THE MERGER TO SHAREHOLDERS WHO FAIL TO TENDER THEIR SHARES PURSUANT TO THE OFFER, REGARDLESS OF ANY DELAY IN EFFECTING THE MERGER OR MAKING SUCH PAYMENT.

The term "Expiration Date" means 12:00 Midnight, New York City time, on Wednesday, March 17, 1999, unless and until Purchaser (in accordance with the terms of the Merger Agreement) shall have extended the period of time during which the Offer is open, in which event the term "Expiration Date" means the latest time and date at which the Offer, as so extended by the Purchaser, shall expire.

Subject to the terms of the Merger Agreement and the applicable rules and regulations of the Securities and Exchange Commission, the Purchaser may, under certain circumstances, (i) extend the period of time during which the Offer is open and thereby delay acceptance for payment of and the payment for any Shares by giving oral or written notice of such extension to the Depositary and (ii) amend the Offer in any other respect by giving oral or written notice of such amendment to the Depositary. Any extension, delay, waiver, amendment or termination of the Offer will be followed as promptly as practicable by a public announcement thereof, the announcement in the case of

an extension to be issued no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date. During any such extension, all Shares previously tendered and not properly withdrawn will remain subject to the Offer, subject to the right of a tendering Shareholder to withdraw such Shareholder's Shares.

Tenders of Shares made pursuant to the Offer may be withdrawn at any time prior to the Expiration Date. Thereafter, such tenders are irrevocable, except that they may be withdrawn at any time after April 18, 1999, unless theretofore accepted for payment as provided in the Offer To Purchase. For a withdrawal to be effective, a written, telegraphic, telex or facsimile transmission notice of withdrawal must be timely received by the Depositary at one of its addresses set forth in the Offer To Purchase and must specify the name of the Person who tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holders of the Shares, if different from the person who tendered the Shares. If the Shares to be withdrawn have been delivered to the Depositary, a signed notice of withdrawal with (except in the case of Shares tendered by an Eligible Institution (as defined in the Offer To Purchase)) signatures guaranteed by an Eligible Institution must be submitted prior to the release of such Shares. In addition, such notice must specify, in the case of Shares tendered by delivery of certificates, the name of the registered holder (if different from that of the tendering Shareholder) and the serial numbers shown on the particular certificates evidencing the Shares to be withdrawn or, in the case of Shares tendered by book-entry transfer, the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Shares.

The information required to be disclosed by paragraph (e)(1)(vii) of Rule 14d-6 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, is contained in the Offer To Purchase and is incorporated herein by reference.

Company has provided Purchaser with the Company's shareholder list and security position listings for the purpose of disseminating the Offer to Shareholders. The Offer To Purchase and the related Letter of Transmittal will be mailed to record Shareholders and will be furnished to brokers, banks and similar persons whose names, or the names of whose nominees, appear on the shareholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial Share owners.

THE OFFER TO PURCHASE AND THE RELATED LETTER OF TRANSMITTAL CONTAIN IMPORTANT INFORMATION WHICH SHOULD BE READ CAREFULLY BEFORE ANY DECISION IS MADE WITH RESPECT TO THE OFFER.

Questions and requests for assistance and copies of the Offer To Purchase, the related Letter of Transmittal and other tender offer materials may be directed to the Information Agent or the Dealer Manager as set forth below, and copies will be furnished promptly at Purchaser's expense. Purchaser will not pay any fees or commissions to any broker or dealer or any other person (other than the Dealer Manager and the Information Agent) for soliciting tenders of Shares pursuant to the Offer.

The Information Agent for the Offer is:

GEORGESON
& COMPANY INC.

Wall Street Plaza
New York, New York 10005

Banks and Brokers
Call Collect (212) 440-9800
All Others Call Toll Free (800) 223-2064

The Dealer Manager for the Offer is:

CREDIT SUISSE FIRST BOSTON

Eleven Madison Avenue

New York, New York 10010-3629
Call Toll Free (800) 881-8320

February 18, 1999

Exhibit 99.(a)(8)

FEDERATED TO ACQUIRE FINGERHUT; ACQUISITION TO STRENGTHEN/COMPLEMENT CATALOG AND INTERNET BUSINESSES

CINCINNATI--(BUSINESS WIRE)--Feb. 11, 1999--Federated Department Stores, Inc. (NYSE:FD) and Fingerhut Companies, Inc. (NYSE:FHT) today jointly announced a definitive merger agreement under which Federated will acquire Fingerhut, a leading direct marketing company. In the transaction, Fingerhut shareholders will receive $25 per share in cash under a tender offer expected to commence within a week. The transaction, valued at approximately $1.7 billion (including net debt of Fingerhut), is subject to regulatory approvals and other conditions. The transaction has been approved by the boards of directors of both companies.

Federated said Fingerhut's state-of-the-art infrastructure for catalog and Internet order fulfillment, coupled with its prowess in database management and direct marketing, provides an excellent platform for further growth of Federated's strong retail brands and non-store retailing operations--Bloomingdale's By Mail and Macy's By Mail direct mail catalogs and the Macys.Com e-commerce website.

"Joining forces with a company such as Fingerhut allows us to capitalize on and leverage our own retailing strengths and infrastructure in new, rapidly expanding channels. The acquisition, therefore, will help fuel Federated's potential for continued growth," said James M. Zimmerman, Federated's chairman and chief executive officer. "This is an excellent opportunity for Federated and Fingerhut because our businesses and core competencies complement each other so well. One of the reasons we are attracted to Fingerhut is its exceptionally strong management team and workforce. We regard both as tremendous resources."

"This is an excellent transaction for our shareholders and a natural fit that will benefit both organizations," said Ted Deikel, chairman and chief executive officer of Fingerhut. "This relationship will provide Fingerhut with the capital to more rapidly expand our e-commerce efforts, as well as Fingerhut Business Services, our fulfillment and marketing services operation."

While the near-term financial effects of the acquisition will depend on numerous factors, Federated expects the acquisition to be dilutive initially. On a longer-term basis, Federated expects that this transaction will accelerate its future growth and increase its return on investment.

The Fingerhut core catalog represents a majority of the company's approximately $2 billion annual sales, but the company also operates catalogs under the names of Figi's, a food and gift catalog; Arizona Mail Order and Bedford Fair, both apparel catalogs; and Popular Club, a membership-based general merchandise catalog. In addition to its own e-commerce websites, Fingerhut also owns minority equity interests in four e-commerce Companies--PC Flowers & Gifts, an on-line provider of flowers, gift baskets and gourmet food; The Zone Network, parent company of mountainzone.com; FreeShop.com, an online provider of free merchandise and links to other e-commerce sites; and Roxy Systems, Inc., an Internet marketer of digital communications and entertainment services.

Beyond catalog and Internet selling, Fingerhut's range of business services include telemarketing, direct marketing, information management, warehousing, product fulfillment and distribution, order and returns processing and customer service. Fingerhut and its subsidiaries employ about 10,000 people.

Credit Suisse First Boston and Jones, Day, Reavis & Pogue are advising Federated on the transaction, and Fingerhut is being advised by Salomon Smith Barney and Faegre & Benson.

Federated, with corporate offices in Cincinnati and New York, is one of the nation's leading department store retailers, with annual sales of more

than $15.8 billion. Federated currently operates more than 400 department stores in 33 states under the names of Bloomingdale's, The Bon Marche, Burdines, Goldsmith's, Lazarus, Macy's, Rich's and Stern's. Federated also operates direct mail catalog and electronic commerce subsidiaries under the names of Bloomingdale's By Mail, Macy's By Mail and Macys.Com.

Forward-looking statements contained in this release involve risks and uncertainties that could cause actual results to differ materially from those contemplated. Factors that could cause such differences include the risks associated with retailing generally, transactional effects, integration risks and other investment considerations described from time to time by the companies in their filings with the Securities and Exchange Commission.

CONTACT: Federated
Carol Sanger - Media, 513/579 7764
Susan Robinson - Investor, 513/579-7780
or
Fingerhut
Lynda Nordeen - Media, 612/936-5015
Gerald Knight - Investor, 612/936-5507

COMED INTERACTIVE/MULTIMEDIA/INTERNET MERGERS/ACQ

[LETTERHEAD]

Exhibit 99.c.1

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AGREEMENT AND PLAN OF MERGER

BY AND AMONG

FINGERHUT COMPANIES, INC.

FEDERATED DEPARTMENT STORES, INC.

AND

BENGAL SUBSIDIARY CORP.

DATED AS OF FEBRUARY 10, 1999

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (this "AGREEMENT"), dated as of February 10, 1999, by and among Fingerhut Companies, Inc., a Minnesota corporation (the "COMPANY"), Federated Department Stores, Inc., a Delaware corporation ("PARENT"), and Bengal Subsidiary Corp., a Minnesota corporation and a wholly owned subsidiary of Parent ("PURCHASER") (the Company and Purchaser being sometimes hereinafter referred to as the "CONSTITUENT CORPORATIONS").

RECITALS

A. Each of the Boards of Directors of the Company, Parent and Purchaser has determined that it is in the best interests of its respective shareholders for Purchaser to acquire the Company on the terms and subject to the conditions set forth herein (the "ACQUISITION");

B. As a first step in the Acquisition, the Company, Parent and Purchaser each desire that Parent cause Purchaser to commence a cash tender offer (the "OFFER") to purchase all of the Company's issued and outstanding shares, par value $0.01 per share (the "SHARES") for $25.00 per Share, or such higher price as may be paid in the Offer (the "PER SHARE AMOUNT"), on the terms and subject to the conditions set forth in this Agreement;

C. To complete the Acquisition, each of the Boards of Directors of the Company, Parent, on its behalf and as sole shareholder of Purchaser, and Purchaser have approved this Agreement and the merger of Purchaser with and into the Company (the "MERGER"), wherein any issued and outstanding Shares not tendered and purchased by Purchaser pursuant to the Offer (other than Dissenting Shares and Shares described in Section 2.6(b)) will be converted into the right to receive the Per Share Amount, on the terms and subject to the conditions of this Agreement and in accordance with the Minnesota Business Corporation Act (the "MBCA");

D. The Board of Directors of the Company (the "COMPANY BOARD") has unanimously (with one director being absent) resolved to recommend that holders of Shares ("SHAREHOLDERS") accept the Offer and approve this Agreement and the Merger and has determined that the Offer and the Merger are fair to and in the best interests of the Company and the Shareholders; and

E. The parties desire to make certain representations, warranties and covenants in connection with the Offer and the Merger and also to prescribe various conditions to the Offer and the Merger.

I. THE TENDER OFFER

1.1. THE OFFER. (a) Subject to the last sentence of this Section 1.1(a), as promptly as practicable (but in any event not later than five business days after the public announcement of the execution and delivery of this Agreement), Parent will cause Purchaser to commence (within the meaning of Rule 14d-2 under the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT")), the Offer whereby Purchaser will offer to purchase for cash all of the Shares at the Per Share Amount, net to the seller in cash (subject to reduction for any stock transfer taxes payable by the seller, if payment is to be made to a Person other than the Person in whose name the certificate for such Shares is registered, or any applicable federal back-up withholding), provided, however, that Parent may designate another direct or indirect subsidiary of Parent as the bidder thereunder (within the meaning of Rule 14d-1(e) under the Exchange Act), in which event references herein to Purchaser will be deemed to apply to such subsidiary, as applicable. Notwithstanding the foregoing, if between the date of this Agreement and the Effective Time the outstanding Shares shall have been changed into a different number of shares or a different class, by reason of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, the Per Share Amount will be correspondingly adjusted on a per-share basis to reflect such stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares. The obligation of Parent to cause Purchaser to commence the Offer, to consummate the Offer and to accept for payment and to pay for Shares validly tendered in the Offer and not withdrawn in accordance therewith will be subject to, and only to, those conditions set forth in Annex A hereto (the "OFFER CONDITIONS").

(b) Without the prior written consent of the Company, Purchaser will not, and Parent will cause Purchaser not to, (i) decrease or change the form of the Per Share Amount, (ii) decrease the number of Shares sought in the Offer, (iii) amend or waive the Minimum Condition (as defined in Annex A hereto) or impose conditions other than the Offer Conditions on the Offer, (iv) extend the expiration date of the Offer (the "EXPIRATION DATE") (which will initially be 20 business days following the commencement of the Offer) except (A) as required by Law, (B) that, in the event that any condition to the Offer is not satisfied or waived at the time that the Expiration Date would otherwise occur, (1) Purchaser must extend the Expiration Date for an aggregate of 10 additional business days to the extent necessary to permit such condition to be satisfied and (2) Purchaser may, in its sole discretion, extend the Expiration Date for such additional period as it may determine to be appropriate (but not beyond June 30, 1999) to permit such condition to be satisfied, and (C) that, in the event that the OCC Condition (as defined in Annex A hereto) is not satisfied, and all other Offer Conditions have been satisfied or waived at the time that the Expiration Date (as extended pursuant to Section 1.1(b)(iv)(A) or (B)), would have otherwise occurred, Purchaser must either

irrevocably waive the OCC Condition or extend the Expiration Date (but not beyond the date that is 60 calendar days from the date of the filing with the Office of the Comptroller of the Currency (the "OCC") in respect of the OCC Condition) to the extent necessary to permit the OCC Condition to be satisfied, or (v) amend any term of the Offer in any manner materially adverse to Shareholders (including without limitation to result in any extension which would be inconsistent with the preceding provisions of this sentence), provided, however, that (1) subject to applicable legal requirements, Parent may cause Purchaser to waive any Offer Condition, other than the Minimum Condition, in Parent's sole discretion and (2) the Offer may be extended in connection with an increase in the consideration to be paid pursuant to the Offer so as to comply with applicable rules and regulations of the Securities and Exchange Commission (the "SEC"). Except as set forth above and subject to applicable legal requirements, Purchaser may amend the Offer or waive any Offer Condition in its sole discretion. Assuming the prior satisfaction or waiver of the Offer Conditions, Parent will cause Purchaser to accept for payment, and pay for, in accordance with the terms of the Offer, all Shares validly tendered and not withdrawn pursuant to the Offer as soon as practicable after the Expiration Date or any extension thereof.

1.2. OFFER DOCUMENTS. (a) As soon as practicable on the date of commencement of the Offer, Parent and Purchaser will file or cause to be filed with the SEC a tender offer statement on Schedule 14D-1 (the "SCHEDULE 14D-1") which will contain an offer to purchase and related letter of transmittal and other ancillary Offer documents and instruments pursuant to which the Offer will

be made (collectively with any supplements or amendments thereto, the "OFFER DOCUMENTS") and which Parent and Purchaser represent, warrant and covenant will comply in all material respects with the Exchange Act and other applicable Laws and will contain (or will be amended in a timely manner so as to contain) all information which is required to be included therein in accordance with the Exchange Act and the rules and regulations thereunder and other applicable Laws, provided, however, that (i) no representation, warranty or covenant hereby is made or will be made by Parent or Purchaser with respect to information supplied by the Company in writing expressly for inclusion in, or information extracted from the Company's public SEC filings which is incorporated by reference or included in, the Offer Documents ("COMPANY SEC INFORMATION") and (ii) no representation, warranty or covenant is made or will be made herein by the Company with respect to information contained in the Offer Documents other than the Company SEC Information.

(b) Parent, Purchaser and the Company will each promptly correct any information provided by them for use in the Offer Documents if and to the extent that it becomes false or misleading in any material respect and Parent and Purchaser will jointly and severally take all lawful action necessary to cause the Offer Documents as so corrected to be filed promptly with the SEC and to be disseminated to the Shareholders, in each case as

and to the extent required by applicable Law. In conducting the Offer, Parent and Purchaser will comply in all material respects with the provisions of the Exchange Act and other applicable Laws. Parent and Purchaser will afford the Company and its counsel a reasonable opportunity to review and comment on the Offer Documents and any amendments thereto prior to the filing thereof with the SEC and will not mail the Offer Documents to the Shareholders if the Company reasonably asserts that the Company SEC Information is inaccurate.

(c) Parent and Purchaser will file with the Commissioner of Commerce of the State of Minnesota any registration statement relating to the Offer required to be filed pursuant to Chapter 80B of the Minnesota Statutes.

1.3. COMPANY ACTIONS. The Company hereby consents to the Offer and represents that (a) the Company Board and a special committee of the Company Board formed in accordance with Section 302A.673 of the MBCA (the "SPECIAL COMMITTEE") (each at a meeting duly called and held) have (i) determined that this Agreement, the Offer and the Merger are fair to and in the best interests of the Company and the Shareholders, (ii) approved this Agreement and the transactions contemplated hereby, including the Offer and the Merger, and, assuming the accuracy of Parent's and Purchaser's representation in Section 4.8, such approval is sufficient to render Sections 302A.671, 302A.673 and 302A.675 of the MBCA inapplicable to this Agreement and the transactions contemplated hereby, including the Offer and the Merger, and (iii) resolved to recommend acceptance of the Offer and approval of this Agreement by the Shareholders and (b) Salomon Smith Barney Inc. ("SSB") has delivered to the Company Board the opinion described in Section 3.20. The Company hereby consents to the inclusion in the Offer Documents of the recommendation referred to in this Section 1.3, provided, however, that the Company Board may withdraw, modify or change such recommendation to the extent, and only to the extent and on the conditions, specified in Section 5.2(b). The Company will file with the SEC simultaneously with the filing by Parent and Purchaser of the Schedule 14D-1, a Solicitation/Recommendation Statement on Schedule 14D-9 (together with all amendments and supplements thereto, "SCHEDULE 14D-9") containing such recommendations of the Company Board in favor of the Offer and the Merger, subject to the rights of the Company Board set forth in Section 5.2(b). The Company represents, warrants and covenants that the Schedule 14D- 9 will comply in all material respects with the Exchange Act and any other applicable Laws and will contain (or will be amended in a timely manner so as to contain) all information which is required to be included therein in accordance with the Exchange Act and the rules and regulations thereunder and other applicable Laws, provided, however, (i) that no representation, warranty or covenant is made or will be made herein by the Company with respect to information supplied by Parent or Purchaser expressly for inclusion in, or information extracted from Parent's public SEC filings which is incorporated or included in, the Schedule 14D-9 (the "PARENT SEC INFORMATION"), and (ii) no representation,

warranty or covenant is made or will be made herein by Parent or Purchaser with respect to information contained in the Schedule 14D-9 other than the Parent SEC Information (which Parent SEC Information will include the information furnished by Parent as contemplated by the next sentence). The Company will include in the Schedule 14D-9 information furnished by Parent in writing concerning Parent's Designees as required by Section 14(f) of the Exchange Act and Rule 14f-1 thereunder and will use its reasonable best efforts to have the Schedule 14D-9 available for inclusion in the initial mailing (and any subsequent mailing) of the Offer Documents to the Shareholders. Each of the Company and Parent will promptly correct any information provided by them for use in the Schedule 14D-9 if and to the extent that it becomes false or misleading in any material respect and the Company will further take all lawful action necessary to cause the Schedule 14D-9 as so corrected to be filed promptly with the SEC and disseminated to the Shareholders, in each case as and to the extent required by applicable Law. Parent and its counsel will be given a reasonable opportunity to review the Schedule 14D-9 and any amendments thereto prior to the filing thereof with the SEC. In connection with the Offer, the Company will promptly furnish Parent with mailing labels, security position listings and all available listings or computer files containing the names and addresses of the record Shareholders as of the latest practicable date and will furnish Parent such information and assistance (including updated lists of the Shareholders, mailing labels and lists of security positions) as Parent or its agents may reasonably request in communicating the Offer to the record and beneficial Shareholders. Subject to the requirements of applicable Law, and except for such actions as are necessary to disseminate the Offer Documents and any other documents necessary to consummate the Offer and the Merger, Parent and Purchaser will, and will instruct each of their respective Affiliates, associates, partners, employees, agents and advisors to, hold in confidence the information contained in such labels, lists and files, will use such information only in connection with the Offer and the Merger, and, if this Agreement is terminated in accordance with its terms, will deliver promptly to the Company all copies of such information (and any copies, compilations or extracts thereof or based thereon) then in their possession or under their control.

1.4. DIRECTORS. (a) Promptly upon the purchase of Shares by Purchaser pursuant to the Offer (provided that the Minimum Condition has been satisfied), and from time to time thereafter, (i) Parent will be entitled to designate such number of directors ("PARENT'S DESIGNEES"), rounded down to the next whole number, as will give Parent, subject to compliance with Section 14(f) of the Exchange Act, representation on the Company Board equal to the product of (A) the number of directors on the Company Board (giving effect to any increase in the number of directors pursuant to this Section 1.4) and (B) the percentage that such number of Shares so purchased bears to the aggregate number of Shares outstanding (such number being, the "BOARD PERCENTAGE"), provided, however, that the Board Percentage will in all events

be a majority of the members of the Company Board, and (ii) the Company will, upon request by Parent, promptly satisfy the Board Percentage by (A) increasing the size of the Company Board or (B) using its reasonable best efforts to secure the resignations of such number of directors as is necessary to enable Parent's Designees to be elected to the Company Board or both and will use its reasonable best efforts to cause Parent's Designees promptly to be so elected, subject in all instances to compliance with Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder. At the request of Parent, the Company will take all lawful action necessary to effect any such election. Parent will supply to the Company in writing and be solely responsible for any information with respect to itself, Parent's Designees and Parent's officers, directors and Affiliates required by Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder to be included in the Schedule 14D-9. Notwithstanding the foregoing, at all times prior to the Effective Time, the Company Board will include at least three Continuing Directors.

(b) Notwithstanding any other provision hereof, of the articles of incorporation or bylaws of the Company or of applicable Law to the contrary, following the election or appointment of Parent's Designees pursuant to this Section 1.4 and prior to the Effective Time or, if the Effective Time has not then occurred, the Drop-Dead Date, any amendment or termination of this Agreement or amendment of the articles of incorporation or bylaws of the Company by the Company, extension by the Company for the performance or waiver of the

obligations or other acts of Parent or Purchaser hereunder or waiver by the Company of any of the Company's rights hereunder will require the affirmative vote of the majority of members of a committee comprised solely of Continuing Directors. For purposes of this Agreement, the term the "CONTINUING DIRECTORS" means at any time (i) those directors of the Company who are Disinterested directors of the Company on the date hereof and who voted to approve this Agreement and (ii) such additional directors of the Company who are Disinterested and who are designated as "Continuing Directors" for purposes of this Agreement by a majority of the Continuing Directors in office at the time of such designation, provided, however, that if there are no such Continuing Directors, the individuals who are appointed to the Company Board who are both Disinterested and "independent" within the meaning given such term in the New York Stock Exchange Listed Company Guide will constitute the Continuing Directors. For purposes of this Agreement, the term "DISINTERESTED" has the meaning assigned to it in Section 302A.673, Subd.1(d)of the MBCA.

II. THE MERGER

2.1. THE MERGER. (a) On the terms and subject to the conditions of this Agreement, at the Effective Time, Purchaser will be merged with and into the Company in accordance with the applicable provisions of the MBCA, and the separate corporate existence of Purchaser will thereupon cease. The Company will be

the surviving corporation in the Merger (as such, the "SURVIVING CORPORATION") in accordance with the MBCA.

(b) The Merger will have the effects specified in Section 302A.641 of the MBCA.

2.2. THE CLOSING. The closing of the transactions contemplated by this Agreement (the "CLOSING") will take place at the offices of Jones, Day, Reavis & Pogue, 599 Lexington Avenue, New York, New York, at 10:00 a.m., local time, on the second business day after the date on which the last of the conditions (excluding conditions that by their terms cannot be satisfied until the Closing Date) set forth in Article VI is satisfied or waived in accordance herewith, or at such other place, time or date as the parties may agree. The date on which the Closing occurs is hereinafter referred to as the "CLOSING DATE."

2.3. EFFECTIVE TIME. On the Closing Date or as soon as practicable following the date on which the last of the conditions set forth in Article VI is satisfied or waived in accordance herewith, Purchaser and the Company will cause articles of merger to be filed with the Secretary of State of the State of Minnesota as provided in the MBCA. Upon completion of such filing, the Merger will become effective in accordance with the MBCA. The time and date on which the Merger becomes effective is herein referred to as the "EFFECTIVE TIME." Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers, immunities and franchises of the Company and Purchaser will vest in the Surviving Corporation, and all debts, liabilities, obligations and duties of the Company and Purchaser will become the debts, liabilities, obligations and duties of the Surviving Corporation.

2.4. ARTICLES OF INCORPORATION AND BYLAWS OF SURVIVING CORPORATION. (a) The articles of incorporation of the Surviving Corporation to be in effect from and after the Effective Time until amended in accordance with its terms and the MBCA will be the articles of incorporation of Purchaser immediately prior to the Effective Time (in the form attached hereto as Exhibit A), provided, however that, at the Effective Time, by virtue of the Merger and this Agreement and without any further action by the Constituent Corporations, Article 1 of the Articles of Incorporation will be amended to read as follows: "The name of the Corporation is Fingerhut Companies, Inc."

(b) The bylaws of the Surviving Corporation to be in effect from and after the Effective Time until amended in accordance with their terms, the articles of incorporation of the Surviving Corporation and the MBCA will be the bylaws of Purchaser immediately prior to the Effective Time.

2.5. DIRECTORS AND OFFICERS OF SURVIVING CORPORATION. (a) The members of the initial Board of Directors of the Surviving Corporation will be the members of the Board of Directors of Purchaser immediately prior to the Effective Time. All of the members of the Board of Directors of the Surviving Corporation will serve until their successors are duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the articles of incorporation and the bylaws of the Surviving Corporation.

(b) The officers of the Surviving Corporation will consist of the officers of the Company immediately prior to the Effective Time. Such Persons will continue as officers of the Surviving Corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the articles of incorporation and the bylaws of the Surviving Corporation.

2.6. CONVERSION OF SECURITIES. The manner and basis of converting the shares of stock of each of the Constituent Corporations is hereinafter set forth in this Section 2.6. At the Effective Time, by virtue of the Merger and without any action on the part of Parent, Purchaser, the Company or the holder of any of the following securities:

(a) CONVERSION OF SHARES. Each Share issued and outstanding immediately prior to the Effective Time (other than any Shares to be canceled pursuant to Section 2.6(b) and any Dissenting Shares) and any Shares issuable upon exercise of any option, conversion or other right to acquire Shares existing immediately prior to the Effective Time (collectively, "RIGHTS") will be converted into the right to receive the Per Share Amount in cash payable to the holder thereof, without interest (the "MERGER CONSIDERATION"), prorated for fractional shares, in accordance with Section 2.8. All such Shares, when so converted, will no longer be outstanding and will automatically be canceled and will cease to exist, and each holder of a certificate formerly representing any such Share will cease to have any rights with respect thereto, except the right to receive the Merger Consideration therefor upon the surrender of such certificate in accordance with Section 2.8. Any payment made pursuant to this Section 2.6(a) and Section 2.8 will be made net of applicable withholding taxes to the extent such withholding is required by Law. Notwithstanding the foregoing, if between the date of this Agreement and the Effective Time the outstanding Shares shall have been changed into a different number of shares or a different class, by reason of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, the Merger Consideration will be correspondingly adjusted on a per-share basis to reflect such stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares.

(b) CANCELLATION PARENT-OWNED SHARES. Each Share owned by Parent, Purchaser or any other direct or indirect wholly owned subsidiary of Parent immediately before the Effective Time (other than shares in trust accounts, managed accounts, custodial accounts and the like that are beneficially owned by third parties) will be automatically canceled and will cease to exist and no payment or other consideration will be made with respect thereto.

(c) COMMON STOCK OF PURCHASER. Each share of common stock, no par value, of Purchaser issued and outstanding immediately before the Effective Time will be converted into and become one validly issued, fully paid and nonassessable share of common stock, no par value, of the Surviving Corporation, which, in accordance with this Agreement, will constitute all of the issued and outstanding shares of capital stock of the Surviving Corporation immediately after the Effective Time.

2.7. DISSENTING SHARES. (a) Notwithstanding any provision of this Agreement to the contrary, any Shares held by a holder who has not voted such Shares in favor of this Agreement and who has properly exercised dissenters' rights with respect to such Shares in accordance with the MBCA (including Sections 302A.471 and 302A.473 thereof) and as of the Effective Time has neither effectively withdrawn nor lost its right to exercise such dissenters' rights ("DISSENTING SHARES"), will not be converted into or represent a right to receive the Merger Consideration pursuant to Section 2.6(a), but the holder

thereof will be entitled to only such rights as are granted by the MBCA.

(b) Notwithstanding the provisions of Section 2.7(a), if any Shareholder who demands dissenters' rights with respect to its Shares under the MBCA effectively withdraws or loses (through failure to perfect or otherwise) its dissenters' rights, then as of the Effective Time or the occurrence of such event, whichever later occurs, such holder's Shares will automatically be converted into and represent only the right to receive the Merger Consideration as provided in Section 2.6(a), without interest thereon, upon surrender of the certificate or certificates formerly representing such Shares.

(c) The Company will give Parent (i) prompt notice of any written intent to demand payment of the fair value of any Shares, withdrawals of such demands and any other instruments served pursuant to the MBCA received by the Company and (ii) the opportunity to direct all negotiations and proceedings with respect to dissenters' rights under the MBCA. The Company may not voluntarily make any payment with respect to any exercise of dissenters' rights and may not, except with the prior written consent of Parent, settle or offer to settle any such dissenters' rights.

2.8. SURRENDER OF SHARES; STOCK TRANSFER BOOKS. (a) Prior to the Effective Time, Purchaser will designate a bank or trust company selected by it to act as agent for the Shareholders

in connection with the Merger (the "EXCHANGE AGENT") to receive the funds necessary to make the payments contemplated by Section 2.6 which bank or trust company will be located in the United States and have capital surplus and undivided profits exceeding $500,000,000. When and as needed, Parent will make available to the Exchange Agent for the benefit of the Shareholders the aggregate consideration to which the Shareholders will be entitled at the Effective Time pursuant to Section 2.6(a).

(b) Each holder of a certificate or certificates representing any Shares canceled upon the Merger pursuant to Section 2.6(a) (the "CERTIFICATES") may thereafter surrender such Certificate or Certificates to the Exchange Agent, as agent for such holder, to effect the surrender of such Certificate or Certificates on such holder's behalf for a period ending one year after the Effective Time. Parent agrees that promptly after the Effective Time it will cause the distribution to the Shareholders as of the Effective Time of appropriate materials to facilitate such surrender. Upon the surrender of Certificates for cancellation, together with such materials, Parent will cause the Exchange Agent to promptly pay the holder of such Certificates in exchange therefor cash in an amount equal to the Merger Consideration multiplied by the number of Shares represented by such Certificate. Until so surrendered, each such Certificate (other than certificates representing Dissenting Shares and certificates representing Shares to be canceled pursuant to Section 2.6(b)) will represent solely the right to receive the aggregate Merger Consideration relating thereto.

(c) If payment of cash in respect of canceled Shares is to be made to a Person other than the Person in whose name a surrendered Certificate or instrument is registered, it will be a condition to such payment that the Certificate or instrument so surrendered shall be properly endorsed or shall be otherwise in proper form for transfer and that the Person requesting such payment shall have paid any transfer and other taxes required by reason of such payment in a name other than that of the registered holder of the Certificate or instrument surrendered or shall have established to the satisfaction of the Surviving Corporation or the Exchange Agent that such tax either has been paid or is not payable.

(d) At the Effective Time, the stock transfer books of the Company will be closed and there will not be any further registration of transfers of Shares outstanding prior to the Effective Time or otherwise issuable pursuant to Rights on the records of the Company. If, after the Effective Time, Certificates are presented to the Surviving Corporation, they will be canceled and exchanged for cash as provided in Section 2.6(a), except as provided in Sections 2.6(b) and 2.7. No interest will accrue or be paid on any cash payable upon the surrender of a Certificate or Certificates which represented Shares outstanding prior to the Effective Time or otherwise issuable pursuant to Rights.

(e) Promptly following the date which is one year after the Effective Time, the Exchange Agent will deliver to the Surviving Corporation all cash, certificates and other documents in its possession relating to the transactions contemplated hereby, and the Exchange Agent's duties will terminate. Thereafter, each holder of a Certificate (other than Certificates representing Dissenting Shares and Certificates representing Shares held by Parent, Purchaser or any other direct or indirect wholly owned subsidiary of Parent) may surrender such Certificate to the Surviving Corporation and (subject to applicable abandoned property, escheat and similar laws) receive in consideration thereof, and Parent will and will cause the Surviving Corporation to promptly pay, the aggregate Merger Consideration relating thereto without any interest or dividends thereon.

(f) The Merger Consideration will be net to the holder of Shares in cash, subject to reduction only for any applicable federal back-up withholding or, as set forth in Section 2.8(c), stock transfer taxes payable by such holder.

(g) In the event any Certificate has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration deliverable in respect thereof as determined in accordance with Section 2.6, provided that the Person to whom the Merger Consideration is paid shall, as a condition precedent to the payment thereof, give the Surviving Corporation a written indemnity agreement in form and substance reasonably satisfactory to the Surviving Corporation and, if reasonably deemed advisable by the Surviving Corporation, a bond in such sum as the Surviving Corporation may reasonably direct to indemnify the Surviving Corporation in a manner reasonably satisfactory to it against any claim that may be made against the Surviving Corporation with respect to the Certificate claimed to have been lost, stolen or destroyed.

2.9. STOCK PLANS. (a) Without limiting the generality or effect of Sections 2.6 or 2.8 and notwithstanding the provisions hereof applicable to the Rights, the Company will use its reasonable best efforts (which include satisfying the requirements of Rule 16b-3(e) promulgated under Section 16 of the Exchange Act, without incurring any liability in connection therewith) to provide that, at the Effective Time, each holder of a then-outstanding option to purchase Shares under the Company's stock option plans set forth or required to be set forth in Section 2.9 of the Company Disclosure Letter (collectively, the "STOCK OPTION PLANS") (true and correct copies of which have been delivered or made available by Company to Parent), whether or not then exercisable (the "OPTIONS"), will, in settlement thereof, receive from the Company for each Share subject to such Option an amount (subject to any applicable withholding tax) in cash equal to the difference between the Merger Consideration and the per Share exercise price of such Option to the extent such difference is a positive number (such amount being hereinafter referred to

as, the "OPTION CONSIDERATION"). Notwithstanding anything herein stated, no Option Consideration will be paid with respect to any Option unless, at or prior to the time of such payment, such Option is canceled and the holder of such Option has executed and delivered a release of any and all rights the holder had or may have had in respect of such Option.

(b) Without limiting the generality or effect of Sections 2.6 or 2.8 and notwithstanding the provisions hereof applicable to the Rights, prior to the Effective Time, Company will use its reasonable best efforts to obtain all necessary consents or releases from holders of Options under the Stock Option Plans and take all such other lawful action as may be necessary to give effect to the transactions contemplated by this Section 2.9. Except as otherwise agreed to by the parties, (i) the Stock Option Plans will terminate as of the Effective Time and the provisions in any other plan, program or arrangement providing for the issuance or grant of any other interest in respect of the capital stock of Company or any Subsidiary thereof, including the Directors' Retainer Stock Deferral Plan, will be canceled as of the Effective Time and (ii) the Company will use its reasonable best efforts to assure that following the Effective Time no participant in the Stock Option Plans or such other plans, programs or

arrangements will have any right thereunder to acquire any equity securities of the Company, the Surviving Corporation or any Subsidiary thereof and to terminate all such plans and any Options or other Rights thereunder. Notwithstanding the foregoing, as requested by Parent, the Company will use its reasonable best efforts to assure that following the date of this Agreement, no participant in the 1994 Employee Stock Purchase Plan will have any right to change any election or increase his contribution thereunder, and the Company will take all such actions as may be available to it to cause such plan to be suspended in respect of equity securities of the Company or the Surviving Corporation(other than as to Shares payment for which was deducted from employees' payroll at or prior to the date hereof).

III. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to each of Parent and Purchaser, except as set forth in the letter, dated the date hereof, from the Company to Parent initialed by those parties (the "COMPANY DISCLOSURE LETTER"), as follows:

3.1. EXISTENCE; GOOD STANDING; CORPORATE AUTHORITY. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of Minnesota. The Company is duly licensed or qualified to do business as a foreign corporation and is in good standing under the laws of any other state of the United States in which the character of the properties owned or leased by it or in which the transaction of its business makes such qualification necessary, except where the failure to be so qualified or to be in good standing could not

reasonably be expected to have a Company Material Adverse Effect. The Company has all requisite corporate power and authority to own, operate and lease its properties and carry on its business as now conducted. Each of the Company's Subsidiaries is a corporation, partnership or national bank duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has the corporate or partnership power and authority to own its properties and to carry on its business as it is now being conducted, and is duly qualified to do business and is in good standing in each jurisdiction in which the ownership of its property or the conduct of its business requires such qualification, except for jurisdictions in which such failure to be so qualified or to be in good standing could not reasonably be expected to have a Company Material Adverse Effect. The copies of the Company's articles of incorporation and bylaws previously made available to Parent are true and correct. As used in this Agreement, (a) the term "COMPANY MATERIAL ADVERSE EFFECT" means any change, effect, event or condition that has had or could reasonably be expected to (i) have a material adverse effect on the business, results of operations or financial condition of the Company and its Subsidiaries, taken as a whole (other than any change, effect, event or condition generally applicable to the industry in which the Company and its Subsidiaries operate or changes in general economic conditions, except to the extent such changes, effects, events or conditions disproportionately affect the Company and its Subsidiaries, taken as a whole), or (ii) prevent or materially delay the Company's ability to consummate the transactions contemplated hereby and (b) the term "SUBSIDIARY" when used with respect to any party means any corporation or other organization, whether incorporated or unincorporated, of which such party directly or indirectly owns or controls at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions.

3.2. AUTHORIZATION, VALIDITY AND EFFECT OF AGREEMENT. The Company has the requisite corporate power and authority to execute and deliver this Agreement and all agreements and documents contemplated hereby to be executed and delivered by it. Subject only to the approval of this Agreement, the Merger and the transactions contemplated hereby by the holders of a majority of the outstanding Shares, this Agreement, the Offer, the Merger and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all requisite corporate action. This Agreement constitutes, and all agreements and documents contemplated hereby to be executed and delivered by the Company (when executed and delivered pursuant hereto) will constitute, the valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms.

3.3. CAPITALIZATION. The authorized capital stock of the Company consists of 100,000,000 shares of common stock, par value $0.01 per share, and 5,000,000 shares of preferred stock, par

value $0.01 per share. As of the close of business on February 8, 1999 (the "MEASUREMENT DATE"),(a) 49,644,364 Shares were issued and outstanding, each of which was duly authorized, validly issued, fully paid and nonassessable, (b) no shares of preferred stock of the Company had been designated or issued, (c) no Shares were held in treasury of the Company, (d) 10,847,549 Shares were reserved for issuance under the Stock Option Plans, the Directors' Retainer Stock Deferral Plan and the 1994 Employee Stock Purchase Plan, (e) Options had been granted and remain outstanding under the Stock Option Plans to purchase 9,622,746 Shares in the aggregate as more particularly described in Section 3.3 of the Company Disclosure Letter at the exercise prices set forth therein, and (f) except for the Options and rights to the issuance of 7,391.85 Shares in the aggregate under the Directors' Retainer Stock Deferral Plan and the 1994 Employee Stock Purchase Plan, there are no outstanding Rights. Since the Measurement Date, no additional shares of capital stock of the Company have been issued, except pursuant to the exercise of options listed in Section 3.3 of the Company Disclosure Letter, the Directors' Retainer Stock Deferral Plan and the 1994 Employee Stock Purchase Plan, and no Rights have been granted. Except as described in the preceding sentence or as set forth in Section 3.3 of the Company Disclosure Letter, the Company has no outstanding bonds, debentures, notes or other securities or obligations the holders of which have the right to vote or which are convertible into or exercisable for securities having the right to vote on any matter on which any Shareholder of the Company has a right to vote. All issued and outstanding Shares are duly authorized, validly issued, fully paid, nonassessable and free of preemptive rights. There are not at the date of this Agreement any existing options, warrants, calls, subscriptions, convertible securities or other Rights which obligate the Company or any of its Subsidiaries to issue, exchange, transfer or sell any shares of capital stock of the Company or any of its Subsidiaries other than Shares issuable under the Stock Option Plans, the Directors' Retainer Stock Deferral Plan and the 1994 Employee Stock Purchase Plan, or awards granted pursuant thereto. As of the Measurement Date, there were no outstanding contractual obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of the Company or any of its Subsidiaries. As of the Measurement Date, there were no outstanding contractual obligations of the Company to vote or to dispose of any shares of the capital stock of any of its Subsidiaries.

3.4. SUBSIDIARIES. Section 3.4 of the Company Disclosure Letter lists all of the Subsidiaries of the Company. The Company owns, directly or indirectly, all of the outstanding shares of capital stock (or other ownership interests having by their terms ordinary voting power to elect a majority of directors or others performing similar functions with respect to such Subsidiary) of each of the Company's Subsidiaries free and clear of all liens, pledges, security interests, claims or other encumbrances (collectively, "LIENS"). Each of the outstanding shares of capital stock (or such other ownership interests) of each of the

Company's Subsidiaries is duly authorized, validly issued, fully paid and nonassessable. The following information for each Subsidiary of the Company has been previously made available to Parent, if applicable: (i) its jurisdiction of incorporation or organization; (ii) its authorized capital stock or share capital; and (iii) the number of issued and outstanding shares of capital stock, share capital or other equity interests.

3.5. OTHER INTERESTS. Except for interests in the Company's Subsidiaries and except as disclosed in Section 3.5 of the Company Disclosure Letter, neither the Company nor any of the Company's Subsidiaries owns, directly or indirectly, any interest or investment (whether equity or debt) in any corporation, partnership, joint venture, business, trust or entity (other than (a) non-controlling investments in the ordinary course of business and corporate partnering, development, cooperative marketing and similar undertakings and arrangements entered into in the ordinary course of business and (b) other

investments of less than $1.0 million in the aggregate).

3.6. NO CONFLICT; REQUIRED FILINGS AND CONSENTS. (a) The execution and delivery of this Agreement by the Company do not, and the consummation by the Company of the transactions contemplated hereby will not, (i) conflict with or violate the articles of incorporation or bylaws or equivalent organizational documents of the Company or any of its Subsidiaries, (ii) subject to making the filings and obtaining the approvals identified in Section 3.6(b), conflict with or violate any statute, rule, regulation or other legal requirement ("LAW") or temporary, preliminary or permanent order, judgment or decree ("ORDER") or any memorandum of understanding with any Governmental Entity ("MOU") applicable to the Company or any of its Subsidiaries or by which any property or asset of the Company or any of its Subsidiaries is bound or affected, or (iii) subject to making the filings, obtaining the approvals and effecting any other matters identified in Section 3.6 of the Company Disclosure Letter, result in any breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, result in the loss of a material benefit under, or give to others any right of purchase or sale, or any right of termination, amendment, acceleration, increased payments or cancellation of, or result in the creation of a Lien on any property or asset of the Company or any of its Subsidiaries pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries or any property or asset of the Company or any of its Subsidiaries is bound or affected, except, in the case of clauses (ii) and (iii) for any such conflicts, violations, breaches, defaults, events, losses, rights, payments, cancellations, encumbrances or other occurrences that could not either (i) result in a default or event of default or accelerate or require that the Company or any of its Subsidiaries pay prior to the scheduled maturity date or repurchase or offer to repurchase indebtedness owed to any Person

that is in excess of $5.0 million or indebtedness in excess of $20.0 million in the aggregate or (ii) with respect to any other obligation, document or instrument, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect.

(b) The execution and delivery of this Agreement by the Company does not, and the performance of this Agreement and the consummation by the Company of the transactions contemplated hereby will not, require any consent, approval, authorization or permit of, or filing with or notification to, any governmental or regulatory authority, domestic or foreign (each a "GOVERNMENTAL ENTITY"), except (i) for (A) applicable requirements, if any, of the Exchange Act, (B) the pre-merger notification requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder (the "HSR ACT"), (C) Chapter 80B of the Minnesota Statutes and similar Laws of other states, (D) the requirements of the Change in Bank Control Act, as amended, and the rules and regulations thereunder (the "CIBC ACT"), and (E) the filing of articles of merger pursuant to the MBCA or (ii) where the failure to obtain any such consents, approvals, authorizations or permits, or to make such filings or notifications, could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

3.7. COMPLIANCE WITH LAWS. Neither the Company nor any of its Subsidiaries is in conflict with, or in default or violation of, any Law, Order or MOU applicable to the Company or any of its Subsidiaries or by which any property or asset of the Company or any of its Subsidiaries is bound or affected except for such conflicts, defaults or violations that could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. The Company and its Subsidiaries have obtained all licenses, permits and other authorizations and have taken all actions required by applicable Law or government regulations in connection with their business as now conducted, except where the failure to obtain any such item or to take any such action could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

3.8. SEC DOCUMENTS. (a) The Company has filed all forms, reports and documents required to be filed by it with the SEC since January 1, 1996 (collectively, the "COMPANY REPORTS"). As of their respective dates, the Company Reports and any such reports, forms and other documents filed by the Company

with the SEC after the date of this Agreement (i) complied, or will comply, in all material respects with the applicable requirements of the Securities Act of 1933, as amended (the "SECURITIES ACT"), the Exchange Act and the rules and regulations thereunder and (ii) did not, or will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading. The representation in clause (ii) of the preceding

sentence does not apply to any misstatement or omission in any Company Report filed prior to the date of this Agreement which was superseded by a subsequent Company Report filed prior to the date of this Agreement. Except as disclosed in Section 3.8 of the Company Disclosure Letter, no Subsidiary of the Company is required to file any report, form or other document with the SEC.

(b) Each of the financial statements included in or incorporated by reference into the Company Reports (including the related notes and schedules) presents fairly, in all material respects, the consolidated financial position of the Company and its Subsidiaries as of its date or, if applicable, the consolidated results of operations, retained earnings or cash flows, as the case may be, of the Company and its Subsidiaries for the periods set forth therein, in each case in accordance with generally accepted accounting principles consistently applied during the periods involved, except as may be noted therein (subject, in the case of unaudited statements, to normal year-end audit adjustments, none of which is material in kind or amount except as noted therein and except to the extent that generally accepted accounting principles do not require footnote disclosure in unaudited financial statements).

(c) Neither the Company nor any of its Subsidiaries has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) that would be required to be reflected on, or reserved against in, a consolidated balance sheet of the Company or described or referred to in the notes thereto, prepared in accordance with generally accepted accounting principles consistently applied based upon facts known to the Company as at the date of this Agreement, except for (i) liabilities or obligations that were so reserved on, or reflected in (including the notes to), the consolidated balance sheet of the Company as of September 25, 1998 or any Company Filed Report or disclosed in Section 3.8 of the Company Disclosure Letter, (ii) liabilities or obligations arising in the ordinary course of business (including trade indebtedness) since September 25, 1998, and (iii) liabilities or obligations which could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(d) Set forth in Section 3.8 of the Company Disclosure Letter is a listing of all of the Company's indebtedness for borrowed money outstanding as of the Measurement Date setting forth in each case the principal amount thereof. No payment defaults have occurred and are continuing under the agreements and instruments governing the terms of such indebtedness.

3.9. LITIGATION. Except as described in Section 3.9 of the Company Disclosure Letter, there are no actions, suits or proceedings pending or, to the Knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries and there are no Orders of any Governmental Entity or arbitrator outstanding against the Company or any of its Subsidiaries, except actions, suits, proceedings or Orders that,

individually or in the aggregate, are not reasonably likely to have a Company Material Adverse Effect.

3.10. ABSENCE OF CERTAIN CHANGES. Except as described in the Company Reports or other reports filed by the Company with the SEC and publicly available prior to the date hereof (the "COMPANY FILED REPORTS") or disclosed in Section 3.10 of the Company Disclosure Letter, from January 1, 1998 to the date of this Agreement, there has not been (a) any Company Material Adverse Effect, (b) any declaration, setting aside or payment of any dividend or other distribution with respect to its capital stock other than customary quarterly cash dividends paid through August, 1998, (c) any stock dividend, subdivision,

reclassification, recapitalization, split, combination or exchange of any of the Company's capital stock or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for any shares of the Company's capital stock, (d) any granting of any increase in compensation by the Company or any of its Subsidiaries to any director, executive officer or any other key employee of the Company, other than in the ordinary course of business or in connection with a promotion, (e) any granting by the Company or any of its Subsidiaries to any such director, executive officer or key employee of any increase in severance or termination pay, except as was required under any employment, severance or termination agreements in effect as of the date of the most recent financial statements included in the Company Filed Reports or referred to in Section 3.10 of the Company Disclosure Letter, (f) any entry by the Company or any of its Subsidiaries into any employment, severance or termination agreement with any such director, executive officer or key employee, or (g) except insofar as may be required by a change in generally accepted accounting principles, any change in accounting methods, principles or practices by the Company. For purposes of this Agreement, "KEY EMPLOYEE" means any employee whose current salary and targeted bonus exceeds $200,000 per annum. Section 3.10 of the Company Disclosure Letter contains a true and complete list of all agreements or plans providing for termination or severance pay to any officer, director or key employee of the Company.

3.11. TAXES. (a) Except as could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (i) the Company has timely filed with the appropriate governmental authorities all Tax Returns required to be filed by or with respect to the Company, (ii) all Taxes shown to be due on such Tax Returns, all Taxes required to be paid on an estimated or installment basis, and all Taxes required to be withheld with respect to the Company have been timely paid or, if applicable, withheld and paid, to the appropriate taxing authority in the manner provided by Law, (iii) the reserve for Taxes set forth on the consolidated balance sheet of the Company and its Subsidiaries as of September 25, 1998 is adequate for the payment of all Taxes through the date thereof and no Taxes have been incurred after September 25, 1998 which were not incurred in the ordinary course of business, (iv) no Federal, state, local or

foreign audits, administrative proceedings or court proceedings are pending with regard to any Taxes or Tax Returns of the Company and there are no outstanding deficiencies or assessments asserted or proposed, and (v) there are no outstanding agreements, consents or waivers extending the statutory period of limitations applicable to the assessment of any Taxes or deficiencies against the Company except as disclosed in Section 3.11 of the Company Disclosure Letter, and the Company is not a party to any agreement providing for the allocation or sharing of Taxes.

(b) The Company has not filed a consent to the application of Section 341(f) of the Internal Revenue Code of 1986, as amended (the "CODE").

(c) The Company is not and has not been a United States real property holding company (as defined in Section 897(c)(2) of the Code) during the applicable period specified in Section 897(c)(1)(ii) of the Code.

(d) No indebtedness of the Company is "corporate acquisition indebtedness" within the meaning of Section 279(b) of the Code.

(e) Since January 1, 1993, the Company has not been a member of an affiliated group filing consolidated Tax Returns other than a federal income tax group the common parent of which is the Company.

(f) For purposes of this Agreement, "TAXES" means all taxes, charges, fees, levies or other assessments imposed by any United States Federal, state, or local taxing authority or by any non-U.S. taxing authority, including but not limited to, income, gross receipts, excise, property, sales, use, transfer, payroll, license, ad valorem, value added, withholding, social security, national insurance (or other similar contributions or payments), franchise, estimated, severance, stamp and other taxes (including any interest, fines, penalties or additions attributable to or imposed on or with respect to any such taxes, charges, fees, levies or other assessments).

(g) For purposes of this Agreement, "TAX RETURN" means any return,

report, information return or other document (including any related or supporting information and, where applicable, profit and loss accounts and balance sheets) with respect to Taxes.

(h) Purchaser and the Company will cooperate in the preparation, execution and filing of all returns, applications or other documents regarding any real property, transfer, stamp, recording, documentary (including any New York State Real Estate Transfer Tax) and any other similar fees and taxes which become payable in connection with the Offer or the Merger (collectively, "TRANSFER TAXES"). From and after the Effective Time, except as contemplated by Section 1.1, 2.8(c) and 2.8(f), the Surviving

Corporation will pay or cause to be paid, without deduction or withholding from any amounts payable to the holders of Shares, all Transfer Taxes.

(i) The Company received a private letter ruling (the "RULING") from the Internal Revenue Service ("IRS"), dated August 17, 1998 (Reference CC:DOM:CORP:2, PLR-119863-97), a copy of which has been provided to Parent, as to United States federal income tax consequences of the spinoff of Metris Companies Inc. ("METRIS") and the certain transactions related thereto (the "SPINOFF"), and the Ruling has not been modified, supplemented or revoked. To the Knowledge of the Company, there are no considerations on the part of the IRS to modify, supplement or revoke the Ruling. The representations of the Company in (j), (v) and (x) of the Ruling, were true, correct and complete from the date submitted through and including the date of the Spinoff.

3.12. PROPERTY. (a) Section 3.12(a) of the Company Disclosure Letter contains a true and complete list of all (i) patents and patent applications in the name of the Company or any of its Subsidiaries, (ii) trademark and service mark registrations and applications in the name of the Company or any of its Subsidiaries, and (iii) all material licenses related to the foregoing.

(b) Except as set forth in Section 3.12(b) of the Company Disclosure Letter, the Company or one of its Subsidiaries owns or has the valid right to use all intellectual property used by it in connection with its business, including without limitation (i) trademarks and service marks (registered or unregistered) and trade names, and all goodwill associated therewith, (ii) patents, patentable inventions, discoveries, improvements, ideas, know-how, processes and Computer Software, (iii) trade secrets and the right to limit the use or disclosure thereof, (iv) copyrights in all works, including software programs and mask works, and (v) domain names (collectively, "INTELLECTUAL PROPERTY"), except where the failure to own or have the valid right to use the Intellectual Property could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. For purposes of this Agreement, the term "COMPUTER SOFTWARE" means (A) any and all computer programs and applications consisting of sets of statements and instructions to be used directly or indirectly in computer software or firmware whether in source code or object code form, (B) databases and compilations, including without limitation any and all data and collections of data, whether machine readable or otherwise, (C) all versions of the foregoing including, without limitation, all screen displays and designs thereof, and all component modules of source code or object code or natural language code therefor, and whether recorded on papers, magnetic media or other electronic or non-electronic device, (D) all descriptions, flowcharts and other work product used to design, plan, organize and develop any of the foregoing, and (E) all documentation, including without limitation all technical and user manuals and training materials, relating to the foregoing. Except as could not, individually or

in the aggregate, be reasonably expected to have a Company Material Adverse Effect, (1) all grants, registrations and applications for Intellectual Property that are used in and are material to the conduct of the businesses of the Company as currently conducted (x) are valid, subsisting, in proper form and have been duly maintained, including the submission of all necessary filings and fees in accordance with the legal and administrative requirements of the appropriate jurisdictions and (y) have not lapsed, expired or been abandoned, (2) to the Knowledge of the Company, (x) there are no conflicts with or infringements of any Intellectual Property by any third party and (y) the

conduct of the businesses of the Company as currently conducted does not conflict with or infringe any proprietary right of any third party, (3) there is no claim, suit, action or proceeding pending or, to the Knowledge of the Company, threatened against the Company (x) alleging any such conflict or infringement with any third party's proprietary rights or (y) challenging the ownership, use, validity or enforceability of the Intellectual Property, (4) all consents, filings and authorizations by or with third parties necessary with respect to the consummation of the transactions contemplated hereby as they may affect the Intellectual Property have been obtained, (5) the Company is not, nor will it be as a result of the execution and delivery of this Agreement or the performance of its obligations under this Agreement, in breach of any license, sublicense or other agreement relating to the Intellectual Property, and (6) no former or present employees, officers or directors of the Company hold any right, title or interest directly or indirectly, in whole or in part, in or to any Intellectual Property.

(c) Section 3.12(c) of the Company Disclosure Letter sets forth all of the real property owned in fee by the Company or any of its Subsidiaries (the "OWNED REAL PROPERTY"). The Company or one of its Subsidiaries has good and valid title to each parcel of Owned Real Property (other than as disclosed in the Company Filed Reports) free and clear of all Liens except (i) those specified in Section 3.12(c) of the Company Disclosure Letter or reflected or reserved against in the latest balance sheet of the Company included in the Company Filed Reports, (ii) taxes and general and special assessments not in default and payable without penalty and interest, (iii) inchoate mechanics', materialmen's, warehouse and similar Liens securing obligations that are incurred in the ordinary course and are not delinquent, and (iv) other Liens that could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect (collectively, "PERMITTED LIENS").

(d) The Company has heretofore made available to Parent true, correct and complete copies of all leases, subleases and other agreements (the "REAL PROPERTY LEASES") under which the Company or any of its Subsidiaries uses or occupies or has the right to use or occupy, now or in the future, any real property or facility and base rent exceeds $1.0 million annually (the "LEASED REAL PROPERTY"), including without limitation all modifications, amendments and supplements thereto. Except in

each case where the failure could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (i) the Company or one of its Subsidiaries has a valid leasehold interest in each parcel of Leased Real Property free and clear of all Liens except Permitted Liens and each Real Property Lease is in full force and effect, (ii) all rent and other sums and charges due and payable by the Company or its Subsidiaries as tenants thereunder are current in all material respects, (iii) no termination event or condition or uncured default of a material nature on the part of the Company or any such Subsidiary or, to the Knowledge of the Company, the landlord, exists under any Real Property Lease, and (iv) the Company or one of its Subsidiaries is in actual possession of each Leased Real Property and is entitled to quiet enjoyment thereof in accordance with the terms of the applicable Real Property Lease.

3.13. MILLENNIUM COMPLIANCE. The Company has adopted and implemented a plan to investigate and correct "year 2000 problems" associated with the operation of the Company's and its Subsidiaries' businesses. The Company has provided to Parent a complete and correct copy of such plan, an accurate written explanation of the costs that the Company and its Subsidiaries have incurred to investigate and correct the "year 2000 problem," as well as a written report of its estimates of the costs to be incurred in the future to investigate and correct the "year 2000 problem." Neither the Company nor any of its Subsidiaries has received written notice from the OCC that any Subsidiary of the Company that is a national bank fails to comply with the guidelines of the OCC with respect to "year 2000 problems."

3.14. CONTRACTS. (a) There have been made available to Parent true, correct and complete copies of all of the following contracts to which Company or any of its Subsidiaries is a party or by which any of them is bound as of the date of this Agreement (collectively, the "MATERIAL CONTRACTS"): (i) contracts with any director of the Company, material contracts (other than those terminable at will without penalty) with any current officer of the Company or

any of its Subsidiaries and employment, severance or termination agreements with any executive officer of the Company or any of its Subsidiaries; (ii) contracts (A) for the sale (other than completed sales) of material assets of the Company or any of its Subsidiaries, other than contracts entered into in the ordinary course of business or (B) for the grant to any person of any preferential rights to purchase any of its assets; (iii) contracts which restrict the Company or any of its Subsidiaries from competing in any line of business or with any person in any geographical area, other than those the performance or breach of which could not, individually or in the aggregate, be reasonably likely to have a Company Material Adverse Effect; and (iv) indentures, credit agreements, security agreements, mortgages, guarantees, promissory notes and other contracts relating to the borrowing of money, other than (A) any of the foregoing with respect to indebtedness to any Person of less than $5.0 million, (B) intercompany loans or guarantees between the

Company and any of its Subsidiaries or between any such Subsidiaries or for the benefit of, or guaranteeing or securing obligations of, the Company or a Subsidiary of the Company and (C) security agreements covering personal property that are not individually or in the aggregate material to the Company and its Subsidiaries, taken as a whole.

(b) Except as specified in Section 3.14 of the Company Disclosure Letter, all of the Material Contracts are in full force and effect and are the legal, valid and binding obligations of the Company and/or its Subsidiaries, enforceable against them in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity), except where the failure of such Material Contracts to be in full force and effect or to be legal, valid, binding or enforceable against the Company and/or its Subsidiaries has not had and could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. Except as specified in Section 3.14 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries is in breach or default in any material respect under any Material Contract nor, to the Knowledge of the Company, is any other party to any Material Contract in breach or default thereunder in any material respect, except for such breaches or defaults that have not had and could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

3.15. ENVIRONMENTAL MATTERS. (a) Except as disclosed in the Company Filed Reports, as specified in Section 3.15 of the Company Disclosure Letter or as could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect: (i) neither the Company nor any of its Subsidiaries has violated or is in violation of any Environmental Law; (ii) none of the Owned Real Property or Leased Real Property (including without limitation soils and surface and ground waters) are contaminated with any Hazardous Substance in quantities which require investigation or remediation under Environmental Laws; (iii) neither the Company nor any of its Subsidiaries is liable for any off-site contamination; (iv) neither the Company nor any of its Subsidiaries has any liability or remediation obligation under any Environmental Law; (v) no assets of the Company or any of its Subsidiaries are subject to pending or, to the Knowledge of the Company, threatened Liens under any Environmental Law; (vi) the Company and its Subsidiaries have all Permits required under any Environmental Law ("ENVIRONMENTAL PERMITS"); and (vii) the Company and its Subsidiaries are in compliance with their respective Environmental Permits.

(b) For purposes of this Agreement, the term (i) "ENVIRONMENTAL LAWS" means any federal, state or local Law

relating to: (A) releases or threatened releases of Hazardous Substances or materials containing Hazardous Substances; (B) the manufacture, handling, transport, use, treatment, storage or disposal of Hazardous Substances or materials containing Hazardous Substances; or (C) otherwise relating to pollution of the environment or the protection of human health, and (ii)

"HAZARDOUS SUBSTANCES" means: (A) those materials, pollutants and/or substances defined in or regulated under the following federal statutes and their state counterparts, as each may be amended from time to time, and all regulations thereunder: the Hazardous Materials Transportation Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Clean Water Act, the Safe Drinking Water Act, the Atomic Energy Act, the Toxic Substance Control Act, the Federal Insecticide, Fungicide and Rodenticide Act and the Clean Air Act; (B) petroleum and petroleum products including crude oil and any fractions thereof; (C) natural gas, synthetic gas and any mixtures thereof; (D) radon; (E) any other contaminant; and (F) any materials, pollutants and/or substance with respect to which any Governmental Entity requires environmental investigation, monitoring, reporting or remediation.

3.16. EMPLOYEE BENEFIT PLANS. Except as described in the Company Filed Reports (and subsequent financial and actuarial statements and reports furnished to Parent or its agents prior to the date hereof), as described in Section 3.16 of the Company Disclosure Letter or as could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (a) all employee benefit plans or programs maintained for the benefit of the current or former employees or directors of the Company or any of its Subsidiaries that are sponsored, maintained or contributed to by the Company or any of its Subsidiaries, or with respect to which the Company or any of its Subsidiaries has any liability, including without limitation any such plan that is an "employee benefit plan" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974 ("ERISA")(the "COMPANY BENEFIT PLANS"), are in compliance with all applicable requirements of Law, including ERISA and the Code, (b) neither the Company nor any of its Subsidiaries has any liabilities or obligations with respect to any such employee benefit plans or programs, whether accrued, contingent or otherwise, other than the obligations arising in the ordinary course of the operation or administration of such plans or routine claims for benefits under such plans, nor to the Knowledge of the Company are any such liabilities or obligations expected to be incurred, and (c) neither the Company nor any of its Subsidiaries is a party to any contract or other arrangement under which, after giving effect to the Offer or the Merger, Parent or the Surviving Corporation would be obligated to make any "parachute" payment within the meaning of the Code. Except as described in Section 3.16 of the Company Disclosure Letter, the execution of, and performance of the transactions contemplated by, this Agreement will not (either alone or upon the occurrence of any additional or subsequent events) constitute

an event under any benefit plan, program, policy, arrangement or agreement or any trust, loan or funding arrangement that will or may result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any employee. The Company has made available to Parent true, complete and correct copies of the plan documents for the Company Benefit Plans.

3.17. STATE TAKEOVER STATUTES. The Company Board and the Special Committee have approved the Offer, the Merger, this Agreement and the transactions contemplated hereby and, assuming the accuracy of Parent's and Purchaser's representation in Section 4.8, such approval is sufficient to render inapplicable to the Offer, the Merger, this Agreement and the transactions contemplated hereby, the provisions of Sections 302A.671, 302A.673 and 302A.675 of the MBCA and the super-majority voting requirements of Article VII of the Company's articles of incorporation. No other "fair price," "merger moratorium," "control share acquisition" or other anti-takeover statute or similar statute or regulation (other than Chapter 80B of the Minnesota Statutes) applies or purports to apply to the Merger, this Agreement, the Offer or any of the transactions contemplated hereby or thereby.

3.18. VOTING REQUIREMENTS. The affirmative vote of the holders of a majority of the issued and outstanding Shares, voting as a single class at the Company Shareholders' Meeting to adopt this Agreement, is the only vote of the holders of any class or series of the Company's capital stock necessary to approve and adopt this Agreement and the transactions contemplated hereby.

3.19. NO BROKERS. The Company has not entered into any contract, arrangement or understanding with any Person or firm which may result in the

obligation of the Company or Parent to pay any investment banker's or finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby, except that the Company has retained SSB as its financial advisor and, in addition, has agreed to make a $500,000 payment, in each case pursuant to arrangements which have been disclosed to Parent prior to the date hereof. Other than the foregoing arrangements, to the Knowledge of the Company, there is no claim for payment by the Company of any investment banker's or finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby. The Company or, if the Effective Time occurs, the Surviving Corporation, will pay all amounts owed pursuant to the foregoing arrangements.

3.20. OPINION OF SSB. The Company Board has received the opinion of SSB to the effect that, as of the date of this Agreement, the cash consideration to be received by the

Shareholders (other than Parent and its Affiliates) in the Offer and the Merger is fair to such Shareholders from a financial point of view.

3.21. OFFER DOCUMENTS; PROXY STATEMENT. (a) The proxy statement to be sent to the Shareholders in connection with a meeting of the Shareholders to consider the Merger (the "COMPANY SHAREHOLDERS' MEETING") or the information statement to be sent to Shareholders, as appropriate (such proxy statement or information statement, as amended or supplemented, is herein referred to as the "PROXY STATEMENT"), at the date mailed to the Shareholders and at the time of the Company Shareholders' Meeting (i) will comply in all material respects with the applicable requirements of the Exchange Act and the rules and regulations thereunder and (ii) will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Neither the Schedule 14D-9 nor any of the information relating to the Company or its Affiliates provided by or on behalf of the Company specifically for inclusion in the Schedule 14D-1 or the other Offer Documents will, at the respective times the Schedule 14D-9, the Schedule 14D-1 and the other Offer Documents or any amendments or supplements thereto are filed with the SEC and are first published, sent or given to the Shareholders, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. No representation or warranty is made by the Company with respect to any information supplied by Parent or Purchaser or their counsel or other authorized representatives specifically for inclusion in the Proxy Statement or the Schedule 14D-9.

IV. REPRESENTATIONS AND WARRANTIES OF PARENT AND PURCHASER

Each of Parent and Purchaser represents and warrants to the Company, except as set forth in the letter, dated the date hereof, from Parent to the Company initialed by those parties (the "PARENT DISCLOSURE LETTER"), as follows:

4.1. EXISTENCE; GOOD STANDING; CORPORATE AUTHORITY. Each of Parent and Purchaser is a corporation duly incorporated, validly existing and in good standing under the laws of Delaware and Minnesota, respectively. Parent is duly licensed or qualified to do business as a foreign corporation and is in good standing under the laws of any other state of the United States in which the character of the properties owned or leased by it or in which the transaction of its business makes such qualification necessary, except where the failure to be so qualified or to be in good standing could not reasonably be expected to prevent or materially delay Parent's or Purchaser's ability to consummate the transactions contemplated hereby (a "PARENT MATERIAL ADVERSE EFFECT"). Parent has all requisite corporate power and authority

to own, operate and lease its properties and carry on its business as now conducted. The copies of the certificate of incorporation and bylaws of Parent

and the articles of incorporation and bylaws of Purchaser previously made available to the Company are true and correct.

4.2. AUTHORIZATION, VALIDITY AND EFFECT OF AGREEMENT. Each of Parent and Purchaser has the requisite corporate power and authority to execute and deliver this Agreement, and all agreements and documents contemplated hereby to be executed by it. This Agreement, the Offer, the Merger and the consummation by Parent and Purchaser of the transactions contemplated hereby have been duly and validly authorized by the respective Boards of Directors of Parent and Purchaser and by Parent as sole shareholder of Purchaser, and no other corporate action on the part of Parent and Purchaser is necessary to authorize this Agreement, the Offer and the Merger or to consummate the transactions contemplated hereby. This Agreement constitutes, and all agreements and documents contemplated hereby to be executed and delivered by Parent or Purchaser (when executed and delivered pursuant hereto) will constitute, the valid and binding obligations of Parent or Purchaser, as the case may be, enforceable respectively against them in accordance with their respective terms.

4.3. NO CONFLICT; REQUIRED FILINGS AND CONSENTS. (a) The execution and delivery of this Agreement by Parent and Purchaser do not, and the consummation by Parent and Purchaser of the transactions contemplated hereby will not, (i) conflict with or violate the certificate of incorporation, articles of incorporation or bylaws of Parent or Purchaser, (ii) subject to making the filings and obtaining the approvals identified in Section 4.3(b), conflict with or violate any Law, Order or MOU applicable to Parent or any of its Subsidiaries or by which any property or asset of Parent or any of its Subsidiaries is bound or affected, or (iii) subject to making the filings, obtaining the approvals and effecting any other matters identified in Section 4.3 of the Parent Disclosure Letter, result in any breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, result in the loss of a material benefit under, or give to others any right of termination, amendment, acceleration, increased payments or cancellation of, or result in the creation of a Lien on any property or asset of Parent or any of its Subsidiaries pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Parent or any of its Subsidiaries is a party or by which Parent or any of its Subsidiaries or any property or asset of Parent or any of its Subsidiaries is bound or affected, except, in the case of clauses (ii) and (iii), for any such conflicts, violations, breaches, defaults, events, losses, rights, payments, cancellations, encumbrances or other occurrences that could not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect.

(b) The execution and delivery of this Agreement by Parent and Purchaser do not, and the performance of this Agreement and the consummation of the transactions contemplated hereby by either of them will not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Entity, except (i) for (A) applicable requirements, if any, of the Exchange Act, (B) the pre-merger notification requirements of the HSR Act, (C) under Chapter 80B of the Minnesota Statutes and similar laws of other states, (D) the requirements of the CIBC Act, and (E) the filing of articles of merger pursuant to the MBCA, or (ii) where failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications could not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect.

4.4. NO BROKERS. Except for arrangements with Credit Suisse First Boston, neither Parent nor Purchaser has entered into any contract, arrangement or understanding with any Person or firm which may result in the obligation of the Company to pay any investment banker's or finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby. Parent will pay all amounts owed to Credit Suisse First Boston pursuant to the foregoing arrangements.

4.5. OFFER DOCUMENTS; PROXY STATEMENT. None of the information supplied by Parent, Purchaser or their respective officers, directors, representatives, agents or employees, for inclusion in the Proxy Statement, or in any amendments thereof or supplements thereto, will, on the date the Proxy Statement is first mailed to Shareholders or at the time of the Company Shareholders' Meeting,

contain any statement which, at such time and in light of the circumstances under which it will be made, will be false or misleading with respect to any material fact, or will omit to state any material fact necessary in order to make the statements therein not false or misleading or necessary to correct any statement in any earlier communication with respect to the solicitation of proxies for the Company Shareholders' Meeting which has become false or misleading. Neither the Offer Documents nor any amendments thereof or supplements thereto, nor any information supplied by Parent or Purchaser specifically for inclusion in the Schedule 14D-9 nor any amendments thereof or supplements thereto, will, at any time the Offer Documents or the Schedule 14D-9 or any such amendments or supplements are filed with the SEC or first published, sent or given to the Shareholders, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Notwithstanding the foregoing, Parent and Purchaser do not make any representation or warranty with respect to any Company SEC Information. The Offer Documents and any amendments or supplements thereto will comply as to form in all material

respects with the provisions of the Exchange Act and the rules and regulations thereunder.

4.6. FINANCING. Parent and Purchaser have, or will have, available all of the funds or have the borrowing capacity necessary for the acquisition of the outstanding Shares pursuant to the Offer and the Merger and to perform their respective obligations under this Agreement.

4.7. LITIGATION. There are no actions, suits or proceedings pending or, to the Knowledge of Parent, threatened against or affecting Parent or any of its Subsidiaries as of the date of this Agreement and there are no Orders of any Governmental Entity or arbitrator outstanding against Parent or any of its Subsidiaries, that could, individually or in the aggregate, reasonably be likely to have a Parent Material Adverse Effect.

4.8. OWNERSHIP OF SHARES. Except for Shares owned by employment benefit plans maintained or contributed to by Parent or any of its Subsidiaries (the "PARENT BENEFIT PLANS") or as set forth in the Parent Disclosure Letter, neither Parent nor, to its Knowledge, any of its Affiliates or Associates, each as defined in the Exchange Act (excluding for purposes hereof any outside director of Parent, provided that such directors do not hold in the aggregate more than 1% of the Shares), (i) beneficially owns (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly or (ii) is party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, in each case, shares of capital stock of the Company.

V. COVENANTS

5.1. CONDUCT OF BUSINESS.

(a) CONDUCT OF BUSINESS BY THE COMPANY. During the period from the date of this Agreement to the Effective Time, except as expressly provided by this Agreement or Section 5.1 of the Company Disclosure Letter, the Company will, and will cause its Subsidiaries to, carry on their respective businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and, to the extent consistent therewith, use their reasonable efforts to preserve intact their current business organizations, use their reasonable efforts to keep available the services of their current officers and other key employees and preserve their relationships with those Persons having business dealings with them to the end that their goodwill and ongoing businesses will be unimpaired at the Effective Time. Without limiting the generality or effect of the foregoing, except as expressly and specifically described in Section 5.1 of the Company Disclosure Letter or as expressly provided by this Agreement, during the period from the date of this Agreement to the Effective Time, the Company will not, and will not permit any

of its Subsidiaries to, without the consent of Parent or Purchaser:

(i) other than dividends and distributions (including liquidating distributions) by a direct or indirect wholly owned Subsidiary of the Company to its parent, or by a Subsidiary that is partially owned by the Company or any of its Subsidiaries, provided that the Company or any such Subsidiary receives or is to receive its proportionate share thereof, (A) declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock, (B) split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or (C) purchase, redeem or otherwise acquire any shares of capital stock of the Company or any of its Subsidiaries or any other securities thereof or any rights, warrants or options to acquire any such shares or other securities provided that nothing herein stated will limit the Company's right to cancel the Options in exchange for the Option Consideration;

(ii) issue, deliver, sell, pledge or otherwise encumber any shares of its capital stock, any other voting securities or any securities convertible into, or any rights, warrants or options to acquire, any such shares, voting securities or convertible securities except for the issuance of Shares pursuant to the exercise of Options that are outstanding on the Measurement Date, or pursuant to the Directors' Retainer Stock Deferral Plan or the 1994 Employee Stock Purchase Plan (to the extent Shares have been paid for with payroll deductions at or prior to the date of this Agreement), provided that nothing herein stated will limit the Company's right to cancel the Options in exchange for the Option Consideration;

(iii) amend its articles of incorporation, bylaws or other comparable organizational documents;

(iv) acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, limited liability company, partnership, joint venture, association or other business organization or division thereof;

(v) sell, lease, license, mortgage or otherwise encumber or subject to any Lien or otherwise dispose of any of its properties or assets, other than (x) in the ordinary course of business consistent with past practice and (y) sales of assets which do not individually or in the aggregate exceed $5.0 million;

(vi) (A) incur any indebtedness for borrowed money (other than indebtedness of the Company to any Subsidiary

of the Company or of any Subsidiary of the Company to the Company or to any other Subsidiary of the Company) or guarantee any such indebtedness of another Person other than the Company or a Subsidiary of the Company, issue or sell any debt securities or warrants or other rights to acquire any debt securities of the Company or any of its Subsidiaries, guarantee any debt securities of another Person other than the Company or a Subsidiary of the Company, enter into any "keep well" or other agreement to maintain any financial statement condition of another Person other than the Company or a Subsidiary of the Company or enter into any arrangement having the economic effect of any of the foregoing, except for short-term borrowings incurred in the ordinary course of business consistent with past practice, or (B) make any loans, advances or capital contributions to, or investments in, any other Person, other than to the Company or any Subsidiary of the Company or to officers and employees of the Company or any of its Subsidiaries for travel, business or relocation expenses in the ordinary course of business;

(vii) make or agree to make any capital expenditure or capital expenditures other than capital expenditures set forth in the operating budget of the Company previously furnished to Parent and additional capital expenditures not to exceed $5.0 million in the aggregate;

(viii) any change to its accounting methods, principles or practices, except as may be required by generally accepted accounting principles;

(ix) except as required by Law or contemplated hereby, enter into, adopt or amend in any material respect or terminate any Company Stock Plan or any other agreement, plan or policy involving the Company or any of its Subsidiaries and one or more of their directors, officers or employees, or materially change any actuarial or other assumption used to calculate funding obligations with respect to any Company pension plans, or change the manner in which contributions to any Company pension plans are made or the basis on which such contributions are determined;

(x) increase the compensation of any director, executive officer or, except in the ordinary course of business, any other key employee of the Company or pay any benefit or amount not required by a plan or arrangement as in effect on the date of this Agreement to any such Person;

(xi) enter into or amend in any material respect any Material Contract or enter into any contract or agreement, written or oral, with any Affiliate, associate or relative of the Company (other than the Company or any Subsidiary of the Company) or make any payment to or for the benefit of, directly or indirectly, any of the foregoing other than

payments to directors and officers in the ordinary course of business or pursuant to agreements or arrangements in effect prior to the date of this Agreement that are disclosed in Section 5.1 of the Company Disclosure Letter; or

(xii) authorize, or commit or agree to take, any of the foregoing actions.

(b) OTHER ACTIONS. Except as required by Law, neither the Company, on the one hand, nor Parent or Purchaser, on the other hand, will, and will not permit any of their respective Subsidiaries to, voluntarily take any action that would, or that could reasonably be expected to, result in (i) any of the conditions to the Merger set forth in Article VI not being satisfied or (ii) prior to the completion of the Offer, the condition set forth in subparagraph (iii) of Annex A not being satisfied.

(c) ADVICE OF CHANGES. Each of the Company and Parent will use reasonable efforts to promptly advise the other party orally and in writing if it obtains Knowledge and, to its Knowledge, the other party does not also have Knowledge of (i) any representation or warranty set forth in this Agreement becoming untrue or inaccurate in any respect that could reasonably be expected to have a Company Material Adverse Effect or a Parent Material Adverse Effect, as the case may be, or (ii) a failure by it to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it under this Agreement which failure to comply or satisfy could reasonably be expected to have a Company Material Adverse Effect or a Parent Material Adverse Effect, as the case may be.

(d) MEETING OF SHAREHOLDERS. (i) The Company will take all action necessary in accordance with applicable Law and its articles of incorporation and bylaws to convene a meeting of the Shareholders as promptly as practicable after the Offer Completion Date to consider and vote upon the approval of this Agreement. The Company Board will recommend such approval and the Company will take all lawful action to solicit such approval, including without limitation timely mailing any Proxy Statement, provided, however, that such recommendation or solicitation (but not such actions to convene the Company Shareholders' Meeting) is subject to any action, including any withdrawal or change of its recommendation, taken by, or upon authority of, the Company Board, as the case may be, in the exercise of its good faith judgment and in conformity with the advice of outside counsel (notice of which will be promptly given to Parent and Purchaser) that such action is required in order to satisfy the fiduciary duties of the members of the Company Board to Shareholders imposed by Law. Without limiting the generality or effect of any other provision hereof, the Company's obligations pursuant to the first sentence of this Section 5.1(d) will not be

affected by the commencement, public proposal, public disclosure or communication to the Company of any Company Takeover Proposal.

(ii) Notwithstanding Section 5.1(d)(i) hereof, in the event that Parent, Purchaser or any other Subsidiary of Parent acquires at least 90% of the outstanding Shares pursuant to the Offer or otherwise, the parties hereto will take all necessary and appropriate action to cause the Merger to become effective in accordance with Section 302A.621 of the MBCA without a meeting of the Shareholders as soon as practicable after the acceptance for payment and purchase of Shares by Purchaser pursuant to the Offer.

5.2. NO SOLICITATION. (a) The Company, its affiliates and their respective officers, directors, employees, representatives and agents will immediately cease any existing discussions or negotiations, if any, with any parties conducted heretofore with respect to any Company Takeover Proposal. The Company will not, nor will it permit any of its Subsidiaries to, nor will it authorize or permit any of its officers, directors or employees or any investment banker, financial advisor, attorney, accountant or other representative retained by it or any of its Subsidiaries to, directly or indirectly, (i) solicit or initiate (including without limitation by way of furnishing information), or take any other action (other than as required by Law) designed or reasonably likely to facilitate, any inquiries or the making of any proposal which constitutes or reasonably may give rise to any Company Takeover Proposal or (ii) participate in any discussions or negotiations regarding any Company Takeover Proposal, provided, however, that if, at any time prior to the date on which Purchaser purchases Shares in the Offer (the "OFFER COMPLETION DATE"), the Company Board determines in good faith and in conformity with the advice of outside counsel, that failure to do so would result in a breach of its fiduciary duties to the Shareholders under applicable Law, the Company may, in response to a Company Takeover Proposal which was not solicited by it and did not otherwise result from a breach of any provision of this Agreement, (A) furnish information with respect to the Company and each of its Subsidiaries and access to the Company and its Subsidiaries and their personnel to any Person pursuant to a customary confidentiality agreement not more favorable to the recipient of such information than the Confidentiality Agreement and (B) participate in discussions and negotiations regarding such Company Takeover Proposal. For purposes of this Agreement, "COMPANY TAKEOVER PROPOSAL" means any inquiry, proposal or offer from any Person relating to any direct or indirect acquisition or purchase of 20% or more of the assets of the Company and its Subsidiaries, taken as a whole, or 20% or more of any class of equity securities of the Company or any of its Subsidiaries, any tender offer or exchange offer for Shares of any class of equity securities of the Company or any of its Subsidiaries, or any merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving the Company or any of its Subsidiaries, other than the transactions contemplated by this Agreement, or any other transaction that is intended or could reasonably be expected to prevent the completion of the transactions contemplated hereby.

(b) Except as expressly permitted by this Section 5.2(b), neither the Company Board nor any committee thereof may (i) withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to Parent or Purchaser, the approval or recommendation by the Company Board or such committee of the Offer, the Merger or this Agreement, (ii) approve or recommend, or propose publicly to approve or recommend, any Company Takeover Proposal, or (iii) cause or authorize the Company to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement related to any Company Takeover Proposal (each, a "COMPANY ACQUISITION AGREEMENT"). Notwithstanding the foregoing, in the event that prior to the Offer Completion Date, the Company Board determines in good faith, after the Company has received a Superior Proposal and in conformity with the advice of outside counsel, that failure to do so would result in a breach of its fiduciary duties to the Shareholders under applicable Law, the Company Board may upon not less than three business days notice to Parent of its intention to do so withdraw or modify or propose publicly to withdraw or modify its approval or recommendation of the Offer, the Merger or this Agreement, or approve or recommend, or propose publicly to approve or recommend a Superior Proposal or, subject to Section 7.5, enter into

a Company Acquisition Agreement, provided, however, that in connection therewith, the Company simultaneously terminates this Agreement pursuant to Section 7.3(c). For purposes of this Agreement, "SUPERIOR PROPOSAL" means a Company Takeover Proposal that (x) involves the direct or indirect acquisition or purchase of 50% or more of the assets of the Company and its Subsidiaries or 50% or more of any class of equity securities of the Company or any of its Subsidiaries, (y) involves payment of consideration to the Shareholders and other terms and conditions that, taken as a whole, are superior to the Offer and the Merger, and (z) is made by a Person reasonably capable of completing such Company Takeover Proposal, taking into account the legal, financial, regulatory and other aspects of such Company Takeover Proposal and the Person making such Company Takeover Proposal.

(c) In addition to the obligations of the Company set forth in Section 5.2(a) and (b), the Company will (i) immediately advise Parent orally and in writing of any request for information or of any Company Takeover Proposal and the material terms and conditions of such request or Company Takeover Proposal and (ii) keep Parent reasonably informed of the status and details (including amendments or proposed amendments) of any such request or Company Takeover Proposal.

(d) Nothing contained in this Section 5.2 will prohibit the Company from taking and disclosing to the Shareholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or from making any disclosure to the Shareholders if the Company Board determines in good faith in conformity with the advice of outside counsel that failure to do so would result in a breach of its fiduciary duties to Shareholders under applicable Law, provided, however, that neither the Company nor the Company

Board nor any committee thereof may, except as expressly permitted by Section 5.2 or required by Rule 14e-2(a) promulgated under the Exchange Act, withdraw or modify, or propose publicly to withdraw or modify, its position with respect to the Offer, this Agreement or the Merger or approve or recommend, or propose publicly to approve or recommend, a Company Takeover Proposal.

5.3. FILINGS, REASONABLE EFFORTS. (a) Upon the terms and subject to the conditions set forth in this Agreement, each of the parties will use all reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things, necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the Merger and the other transactions contemplated by this Agreement, including all reasonable efforts to (i) obtain all necessary actions or nonactions, waivers, consents and approvals from Governmental Entities and make all necessary registrations and filings (including filings with Governmental Entities) and take all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any Governmental Entity, (ii) obtain all necessary material consents, approvals or waivers from third parties, (iii) defend any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated hereby, including seeking to have any adverse Order entered by any court or other Governmental Entity vacated or reversed, and (iv) execute and deliver any additional instruments necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, this Agreement. Nothing set forth in this Section 5.3 will limit or affect actions permitted to be taken pursuant to Section 5.2.

(b) In connection with, and without limiting the foregoing, the Company and Parent will, and Parent will cause Purchaser to, (i) take all action necessary to ensure that no state takeover statute or similar statute or regulation (other than Chapter 80B of the Minnesota Statutes) is or becomes applicable to the Offer, the Merger or any of the other transactions contemplated hereby and (ii) if any state takeover statute or similar statute or regulation becomes applicable thereto, take all action necessary to ensure that the Offer and the Merger and such other transactions may be consummated as promptly as practicable on the terms contemplated hereby and otherwise to minimize the effect of such statute or regulation thereon.

(c) Notwithstanding any other provision hereof, in no event will Parent be required to agree to any divestiture, hold- separate or other requirement in

connection with this Agreement or any of the transactions contemplated thereby.

5.4. INSPECTION OF RECORDS. (a) From the date hereof to the Effective Time, upon reasonable notice, the Company will (i) allow all designated officers, attorneys, accountants and other

representatives of Parent reasonable access at all reasonable times to the offices, records and files, correspondence, audits and properties, as well as to all information relating to commitments, contracts, titles and financial position, or otherwise pertaining to the business and affairs, of the parties and their respective Subsidiaries, as the case may be and (ii) furnish to Parent and its counsel, financial advisors, auditors and other authorized representatives such financial and operating data and other information as such Persons may reasonably request. Parent and Purchaser will make all reasonable efforts to minimize any disruption to the business of the Company and its Subsidiaries that may result from such access and from the requests for data and information hereunder.

(b) Subject to the requirements of applicable Law, and except for such actions as are necessary to disseminate the Offer Documents and any other documents necessary to consummate the Offer and the Merger, the parties will, and will instruct each of their respective Affiliates, associates, partners, employees, agents and advisors to, hold in confidence all such information as is confidential or proprietary, will use such information only in connection with the Offer and the Merger and, if this Agreement is terminated in accordance with its terms, will deliver promptly to the other all copies of such information (and any copies, compilations or extracts thereof or based thereon) then in their possession or under their control.

5.5. PUBLICITY. The initial press release relating to this Agreement will be a joint press release and thereafter the Company and Parent will, subject to their respective legal obligations (including requirements of stock exchanges and other similar regulatory bodies), consult with each other, and use reasonable efforts to agree upon the text of any press release, before issuing any such press release or otherwise making public statements with respect to the transactions contemplated hereby and in making any filings with any Governmental Entity or with any national securities exchange with respect thereto.

5.6. PROXY STATEMENT. If required by applicable Law, Parent and the Company will cooperate and promptly prepare, and Parent will file with the SEC as soon as practicable after the Offer Completion Date, the Proxy Statement, and as promptly as practicable thereafter as permitted by applicable Law, will mail the Proxy Statement to the Shareholders. The Proxy Statement will contain the recommendation of the Company Board that the Shareholders approve and adopt this Agreement and approve the Merger and the other transactions contemplated hereby. The Company agrees not to mail the Proxy Statement to the Shareholders until Parent confirms that the information provided by Parent and Purchaser continues to be accurate. If at any time prior to the Company Shareholders' Meeting any event or circumstance relating to the Company or any of its Subsidiaries or Affiliates, or its or their respective officers or directors, should be discovered by the Company that is required to be set forth in a supplement to any Proxy Statement, the Company will

promptly inform Parent and Purchaser to supplement such Proxy Statement and mail such supplement to the Shareholders.

5.7. FURTHER ACTIONS. (a) Each party hereto will, subject to the fulfillment at or before the Effective Time of each of the conditions of performance set forth herein or the waiver thereof, perform such further acts and execute such documents as may be reasonably required to effect the Merger.

(b) If, at any time after the Effective Time, the Surviving Corporation considers or is advised that any deeds, bills of sale, assignments, assurances or any other actions or things are necessary or desirable to vest, perfect or confirm of record or otherwise in the Surviving Corporation its right, title or interest in, to or under any of the rights, properties or assets of Purchaser or the Company or otherwise to carry out this Agreement, the officers and directors

of the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of Purchaser or the Company, all such deeds, bills of sale, assignments and assurances and to take and do, in the name and on behalf of Purchaser or the Company, all such other actions and things as may be necessary or desirable to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties or assets in the Surviving Corporation or otherwise to carry out this Agreement.

5.8. INSURANCE; INDEMNITY. (a) All rights to indemnification and exculpation from liabilities for acts or omissions occurring at or prior to the Effective Time existing in favor of the current or former directors or officers of the Company or each of its Subsidiaries as provided in their respective articles of incorporation or bylaws (or comparable organizational documents) will be assumed by Parent and Parent will be directly responsible for such indemnification, without further action, as of the Effective Time and will continue in full force and effect in accordance with their respective terms. In addition, from and after the Effective Time, directors and officers of the Company who become or remain directors or officers of Parent or the Surviving Corporation will be entitled to the same indemnity rights and protections (including those provided by directors' and officers' liability insurance) of Parent. Notwithstanding any other provision hereof, the provisions of this Section 5.8 (i) are intended to be for the benefit of, and will be enforceable by, each indemnified party, his or her heirs and his or her representatives and (ii) are in addition to, and not in substitution for, any other rights to indemnification or contribution that any such Person may have by contract or otherwise.

(b) Parent will, and will cause the Surviving Corporation to, maintain in effect for not less than six years after the Effective Time policies of directors' and officers' liability insurance equivalent in all material respects to those maintained by or on behalf of the Company and its Subsidiaries on the date hereof (and having at least the same coverage and containing

terms and conditions which are no less advantageous to the Persons currently covered by such policies as insured) with respect to matters existing or occurring at or prior to the Effective Time, provided, however, that if the aggregate annual premiums for such insurance at any time during such period exceed 200% of the per annum rate of premium currently paid by the Company and its Subsidiaries for such insurance on the date of this Agreement, then Parent will cause the Surviving Corporation to, and the Surviving Corporation will, provide the maximum coverage that is then available at an annual premium equal to 200% of such rate.

5.9. EMPLOYEE BENEFITS. Notwithstanding anything to the contrary contained herein, from and after the Effective Time, the Surviving Corporation will have sole discretion over the hiring, promotion, retention, firing and (except for employee benefit plans to the extent set forth below) other terms and conditions of the employment of employees of the Surviving Corporation. Subject to the immediately preceding sentence, Parent will provide, or will cause the Surviving Corporation or its Subsidiaries to provide, for the benefit of employees of the Surviving Corporation or its Subsidiaries, as the case may be, who were employees of the Company or its Subsidiaries immediately prior to the Effective Time, recognizing all prior service for eligibility and vesting purposes (including for purposes of determining entitlement to vacation, severance and other benefits) of the officers, directors or employees with the Company and any of its Subsidiaries as service thereunder, the existing qualified pension plans of the Company or its Subsidiaries listed in Section 5.9 of the Company Disclosure Letter until the expiration of two years after the Effective Time, and, in addition, will provide for such two-year period other "employee benefit plans," within the meaning of Section 3(3) of ERISA, that, together with such existing qualified pension plans, are in the aggregate at least substantially comparable to the "employee benefit plans," within the meaning of Section 3(3) of ERISA, provided to such individuals by the Company or its Subsidiaries on the date of this Agreement, provided, however, that notwithstanding the foregoing (i) nothing herein will be deemed to require Parent to modify the benefit formulas under any pension plan of the Company or any of its Subsidiaries in a manner that increases the aggregate expenses thereof as of the date hereof in order to comply with the requirements of ERISA, the Code or the Tax Reform Act of 1986, (ii) employee stock ownership, stock option and similar equity- based plans, programs and arrangements of the Company

or any of its Subsidiaries are not encompassed within the meaning of the term "employee benefit plans" hereunder, (iii) nothing herein will obligate Parent or the Surviving Corporation to continue any particular employee benefit plan, other than the existing qualified pension plans, for any period after the Effective Time, and (iv) without limiting the generality or effect of Section 8.3, no employee of the Company or any Subsidiary of the Company will have any claim or right by reason of this Section 5.9. Parent will cause the Surviving Corporation to

honor (subject to any withholdings under applicable Law) all employment, consulting and severance agreements or arrangements to which the Company or any of its Subsidiaries is presently a party, which are specifically disclosed in the Company Disclosure Letter except to the extent such agreement or arrangement is superseded or amended by any subsequent arrangements or agreements agreed to by the parties thereto in writing.

5.10. CONVEYANCE TAXES. The Company and Parent will cooperate in the preparation, execution and filing of all returns, questionnaires, applications or other documents regarding any real property transfer or gains, sales, use, transfer, value added, stock transfer and stamp taxes, any transfer, recording or registration and other fees and any similar taxes which become payable in connection with the transactions contemplated by this Agreement that are required or permitted to be filed on or before the Effective Time and each party will pay any such tax or fee which becomes payable by it on or before the Effective Time.

VI. CONDITIONS PRECEDENT

6.1. CONDITIONS TO EACH PARTY'S OBLIGATION TO EFFECT THE MERGER. The respective obligations of each party to effect the Merger will be subject to the fulfillment at or prior to the Closing Date of the following conditions:

(a) Purchaser shall have made, or caused to be made, the Offer and shall have purchased, or caused to be purchased, the Shares validly tendered and not withdrawn pursuant to the Offer, provided, that this condition shall be deemed to have been satisfied with respect to the obligation of Parent and Purchaser to effect the Merger if Purchaser fails to accept for payment or pay for Shares pursuant to the Offer in violation of the terms of the Offer or of this Agreement;

(b) If so required by Law, this Agreement and the transactions contemplated hereby shall have been approved in the manner required by applicable Law by the holders of the issued and outstanding shares of capital stock of the Company; and

(c) No Order or Law enacted, entered, promulgated, enforced or issued by any court of competent jurisdiction or other Governmental Entity or other legal restraint or prohibition (collectively, "RESTRAINTS") preventing the consummation of the Merger shall be in effect.

6.2. CONDITIONS TO OBLIGATION OF PARENT AND PURCHASER TO EFFECT THE MERGER. The obligation of Parent and Purchaser to effect the Merger will be subject to the fulfillment at or prior to the Closing Date (or such other date as may be specified below) of the additional condition that the Company shall have performed in all material respects its covenants contained in Section 1.4(a) of this Agreement required to be performed on or prior to the Closing Date.

VII. TERMINATION

7.1. TERMINATION BY MUTUAL CONSENT. This Agreement may be terminated and the Merger and other transactions contemplated by this Agreement may be abandoned at any time prior to the Effective Time, before or after the approval of this Agreement by the Shareholders, by mutual consent of Parent and the Company.

7.2. TERMINATION BY EITHER PARENT OR COMPANY. This Agreement may be

terminated and the Merger and other transactions contemplated by this Agreement may be abandoned, by action of the Board of Directors of either Parent or the Company, if (a) the Offer Completion Date shall not have occurred by June 30, 1999 (the "OUTSIDE DATE") or if the Offer Completion Date occurs but the Effective Time shall not have occurred by February 10, 2000 (the "DROP-DEAD DATE"), provided, that no party may terminate this Agreement pursuant to this Section 7.2(a) if such party's failure to fulfill any of its obligations under this Agreement shall have been the reason that the Offer Completion Date or the Effective Time, as the case may be, shall not have occurred on or before the applicable date, (b) any Governmental Entity shall have issued a Restraint or taken any other action permanently enjoining, restraining or otherwise prohibiting the consummation of the Offer, the Merger or any of the other transactions contemplated by this Agreement and such Restraint or other action shall have become final and nonappealable, or (c) the Offer expires or is terminated or withdrawn pursuant to its terms without any Shares being purchased thereunder by Purchaser as a result of the failure of any of the Offer Conditions to be satisfied or waived prior to the Expiration Date or any extension thereof.

7.3. TERMINATION BY COMPANY. This Agreement may be terminated and the Merger and other transactions contemplated by this Agreement may be abandoned at any time prior to the Offer Completion Date, by action of the Company Board, if (a) there has been a material breach by Parent or Purchaser of any representation or warranty contained in this Agreement which is not curable or, if curable, is not cured by the Outside Date and such breach had or could reasonably be likely to have a Parent Material Adverse Effect, (b) there has been a material breach of any of the covenants set forth in this Agreement on the part of Parent or Purchaser, which breach is not curable or, if curable, is not cured within 15 calendar days after written notice of such breach is given by the Company to Parent, or (c) in accordance with the proviso to the penultimate sentence of Section 5.2(b).

7.4. TERMINATION BY PARENT. This Agreement may be terminated and the Merger and other transactions contemplated by this Agreement may be abandoned at any time prior to the Offer Completion Date, by Parent, if (a) the Company Board shall have (i) withdrawn or modified in a manner adverse to Parent or Purchaser its approval or recommendation of this Agreement, the Offer or the Merger, (ii) approved or recommended, or proposed publicly to approve or recommend, a third-party Company Takeover

Proposal, (iii) caused or authorized the Company or any of its Subsidiaries to enter into a Company Acquisition Agreement, (iv) approved the breach of the Company's obligation under Section 5.2(b), or (v) resolved or publicly disclosed any intention to take any of the foregoing actions, (b) there has been a material breach by the Company of any representation or warranty contained in this Agreement which is not curable or, if curable, is not cured by the Outside Date and such breach had or could reasonably be likely to have a Company Material Adverse Effect, or (c) there has been a material breach of any of the covenants set forth in this Agreement on the part of the Company, which breach is not curable or, if curable, is not cured within 15 days after written notice of such breach is given by Parent to the Company.

7.5. EFFECT OF TERMINATION AND ABANDONMENT; TERMINATION FEE. (a) In the event of termination of this Agreement and the abandonment of the Merger and the other transactions contemplated by this Agreement pursuant to this Article VII, all obligations of the parties hereto will terminate, except the obligations of the parties pursuant to this Section 7.5, the last sentence of Section 1.3, and Sections 5.4(b), 8.4 and 8.14. Notwithstanding the foregoing or any other provision of this Agreement, in the event of termination of this Agreement pursuant to this Article VII, nothing herein will prejudice the ability of the non- breaching party to seek damages from any other party for any prior willful and material breach of this Agreement, including without limitation attorneys' fees and the right to pursue any remedy at law or in equity, and such termination will not affect the parties' rights and obligations under the Confidentiality Agreement, as amended.

(b) (i) The Company will pay to Purchaser an amount equal to $40.0 million (the "TERMINATION FEE") in any of the following circumstances:

(A) This Agreement is terminated at such time that this

Agreement is terminable pursuant to Sections 7.3(c) or 7.4(a);

(B) This Agreement is terminated by either Parent or the Company pursuant to Section 7.2(a), and

(1) at the time of such termination the Minimum Condition shall not have been satisfied,

(2) at the time of such termination the Company shall not have the right to terminate this Agreement pursuant to Sections 7.3(a) or 7.3(b),

(3) prior to such termination, a Company Takeover Proposal involving at least 50% of the assets of the Company and its Subsidiaries, taken as a whole, or 50% of any class of equity securities of the Company (any such Company Takeover Proposal, a "COMPETING PROPOSAL"), is (x) publicly disclosed or has been made directly to

Shareholders generally or (y) any Person (including without limitation the Company or any of its Subsidiaries) publicly announces an intention (whether or not conditional) to make such a Competing Proposal, and

(4) prior to the termination of this Agreement or within 12 months after the termination of this Agreement, the Company or a Subsidiary thereof enters into a Company Acquisition Agreement providing for a Competing Proposal (any such agreement, a "COMPETING PROPOSAL AGREEMENT");

(C) This Agreement is terminated by either Parent or the Company pursuant to Section 7.2(c), and

(1) at the time of such termination the Minimum Condition shall not have been satisfied,

(2) at the time of such termination the Company shall not have the right to terminate this Agreement pursuant to Sections 7.3(a) or 7.3(b),

(3) prior to such termination an event referred to in Section 7.5(b)(i)(B)(3)(a "TAKEOVER PROPOSAL EVENT") shall have occurred, and

(4) prior to the termination of this Agreement or within 12 months after the termination of this Agreement, the Company or a Subsidiary thereof enters into a Competing Proposal Agreement; or

(D) This Agreement is terminated by Parent pursuant to Sections 7.4(b) or 7.4(c), and

(1) prior to such termination a Takeover Proposal Event shall have occurred, and

(2) prior to the termination of this Agreement or within 12 months after the termination of this Agreement, the Company or a Subsidiary thereof enters into a Competing Proposal Agreement.

(ii) If this Agreement is terminated in circumstances where a Termination Fee is then payable, then in any such case the Company will promptly, but in no event later than two business days after submission of a request therefor, pay Parent up to $4.0 million of Parent's documented Expenses.

(iii) If a Termination Fee is payable pursuant to Section 7.5(b)(i)(B), 7.5(b)(i)(C) or 7.5(b)(i)(D), then the Company will pay the Termination Fee to Parent upon the signing of a Competing Proposal Agreement or, if no Competing Proposal Agreement is signed, then at the closing (and as a condition to the closing) of a Competing Proposal. Notwithstanding any other provision hereof,

(A) in no event may the Company enter into a Competing

Proposal Agreement unless, prior thereto, the Company has paid any amount due under Section 7.5(b) or which will become due under Section 7.5(b), (B) the Company may not terminate this Agreement under Sections 5.2(b) or 7.3(c) unless prior thereto it has paid all amounts due under Section 7.5(b) to Parent, (C) all amounts due in the event that this Agreement is terminated under Section 7.3(c) or 7.4(a) and in circumstances in which the Company has not entered into a Competing Proposal Agreement will be payable promptly, but in no event more than two business days after request therefor is made, and (D) all amounts due under this Section 7.5(b) will be paid on the date due in immediately available funds wire transferred to the account designated by the Person entitled to such payment.

(iv) This Section 7.5 will survive any termination of this Agreement. For purposes of this Agreement, the term "EXPENSES" means all actual out-of-pocket fees, costs and other expenses incurred or assumed by Parent or Purchaser or incurred on their behalf in connection with this Agreement or any of the transactions contemplated hereby, including but not limited to in connection with the negotiation, preparation, execution and performance of this Agreement, the structuring and financing of the Merger and the other transactions contemplated hereby, or any commitments or agreements relating to such financing, including without limitation fees and expenses payable to all banks, investment banking firms, other financial institutions and other Persons and their respective agents and counsel for arranging, committing to provide or providing any financing for the Merger and any other transactions contemplated hereby or structuring, negotiating or advising with respect to such transactions or financing, and all fees and expenses of counsel, accountants, experts and computer, environmental, actuarial, insurance and other consultants to Parent or Purchaser.

(v) The Company acknowledges that the agreements contained in this Section 7.5(b) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, Parent and Purchaser would not enter into this Agreement; accordingly, if the Company fails promptly to pay the amount due pursuant to this Section 7.5(b), and, in order to obtain such payment, Parent or Purchaser commences a suit which results in a judgment against the Company for a fee set forth in this Section 7.5(b), the Company will pay to Parent and Purchaser their documented Expenses (including attorneys' fees and expenses) in connection with such suit, together with interest on the amount of the fee at the prime rate of Citibank N.A. in effect on the date such payment was required to be made.

VIII. GENERAL PROVISIONS

8.1. NONSURVIVAL OF REPRESENTATIONS, WARRANTIES AND AGREEMENTS. All representations, warranties and agreements in this Agreement or in any instrument delivered pursuant to this Agreement will terminate at the Effective Time or the termination of this Agreement pursuant to Article VII, as the case may be,

except that the covenants set forth in Article II and Sections 5.3, 5.8, 5.9 and 5.10 will survive the Effective Time indefinitely or, if applicable, for the period therein specified and those set forth in the last sentence of Section 1.3 and in Sections 5.4(b), 7.5 and 8.14 will survive termination indefinitely or, if applicable, for the period therein specified.

8.2. NOTICES. Any notice or other communication required to be given hereunder will be sufficient if in writing, and sent by facsimile transmission and by courier service (with proof of service), hand delivery or certified or registered mail (return receipt requested and first-class postage prepaid), addressed as follows:

If to Parent or Purchaser:

Federated Department Stores, Inc.

7 West Seventh Street
Cincinnati, Ohio 45202
Attn: Dennis J. Broderick, Esq.
Fax No.: 513-579-7555

With copies to:

Jones, Day, Reavis & Pogue
599 Lexington Avenue
New York, New York 10022
Attn: Robert A. Profusek, Esq.
Fax No.: 212-755-7306

If to the Company:

Fingerhut Companies, Inc.
4400 Baker Road
Minnetonka, Minnesota 55343
Attn: Michael P. Sherman, Esq.
Fax No.: 612-936-5412

With copies to:

Faegre & Benson LLP
2200 Norwest Center
90 South Seventh Street
Minneapolis, Minnesota 55402
Attn: Philip S. Garon, Esq.
Fax No.: 612-336-3026

or to such other address as any party will specify by written notice so given, and such notice will be deemed to have been delivered as of the date so telecommunicated, personally delivered or mailed.

8.3. ASSIGNMENT; BINDING EFFECT. Neither this Agreement nor any of the rights, interests or obligations hereunder will be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement will be binding upon and will inure to the benefit of the parties hereto and their respective successors and assigns. Notwithstanding anything contained in this Agreement to the contrary, except for the provisions of Section 5.8, nothing in this Agreement, expressed or implied, is intended to confer on any Person other than the parties hereto or their respective heirs, successors, executors, administrators and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement.

8.4. ENTIRE AGREEMENT. This Agreement, Annex A, the Company Disclosure Letter and the Parent Disclosure Letter, together with the Confidentiality Agreement, dated November 11, 1998, among Parent, Purchaser and the Company (the "CONFIDENTIALITY AGREEMENT"), which will survive the execution and delivery of this Agreement, constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings among the parties with respect thereto. No addition to or modification of any provision of this Agreement will be binding upon any party hereto unless made in writing and signed by all parties hereto. Notwithstanding the foregoing, the eighth paragraph of the Confidentiality Agreement is hereby amended so as to permit Parent, Purchaser or any of the respective Affiliates or Representatives (as defined thereby) to (a) effect any transaction permitted hereby or (b) to take any action otherwise prohibited thereby involving a transaction pursuant to which Parent offers to acquire all of the Shares at not less than the Per Share Amount, in the event that (i) the Company terminates this Agreement pursuant to Section 7.3(c) or takes any action referred to in Section 5.2(b) that would have constituted a breach of Section 5.2(b) but for the exceptions therein in respect of fiduciary duties of the Company Board, (ii) except following a termination of this Agreement by the Company pursuant to Section 7.3(a) or 7.3(b), the Company enters into a Competing Proposal Agreement, or (iii) following any termination of this Agreement, if prior to or

after such termination (other than a termination of this Agreement by the Company pursuant to Section 7.3(a) or 7.3(b)) another Person publicly announces a Company Takeover Proposal or Takeover Proposal Event.

8.5. AMENDMENT. This Agreement may be amended by the parties hereto, by action taken by their respective Boards of Directors, at any time before or after approval of matters presented in connection with the Merger by Shareholders but after any such Shareholder approval, no amendment will be made which by Law requires the further approval of Shareholders without obtaining such further approval. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

8.6. GOVERNING LAW. Except to the extent that the laws of Minnesota are mandatorily applicable to the Merger, this Agreement will be governed by and construed in accordance with the laws of the State of Delaware without regard to its conflict of laws principles.

8.7. COUNTERPARTS. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered will be an original, but all such counterparts will together constitute one and the same instrument. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all of the parties hereto.

8.8. HEADINGS. Headings of the Articles and Sections of this Agreement are for the convenience of the parties only, and will be given no substantive or interpretive effect whatsoever.

8.9. CERTAIN DEFINITIONS/INTERPRETATIONS. (a) For purposes of this Agreement:

(i) An "AFFILIATE" of any Person means another Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first Person;

(ii) "PERSON" means an individual, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization or other entity; and

(iii) "KNOWLEDGE" of any Person which is not an individual means the actual knowledge of any of such Person's executive officers.

(b) When a reference is made in this Agreement to an Article, Section or Annex, such reference will be to an Article or Section of, or Annex to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they will be deemed to be followed by the words "without limitation." The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement will refer to this Agreement as a whole and not to any particular provision of this Agreement. All terms used herein with initial capital letters have the meanings ascribed to them herein and all terms defined in this Agreement will have such defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument or statute

defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. References to a Person are also to its permitted successors and assigns. Matters reflected in the Company Disclosure Letter are not necessarily limited to matters required by this Agreement to be reflected in the Company Disclosure Letter. Such additional matters are set

forth for informational purposes and do not necessarily include other matters of a similar nature. Except for Sections 2.9, 5.1 and 5.9 of the Company Disclosure Letter, which relate only to the corresponding Sections of this Agreement, matters disclosed by the Company pursuant to any Section of this Agreement or the Company Disclosure Letter will be deemed to be disclosed with respect to all Sections of this Agreement and the Company Disclosure Letter to the extent this Agreement requires such disclosure provided that the relevance of such matters to other Sections in the Company Disclosure Letter is reasonably apparent on the face thereof.

8.10. WAIVERS. Except as provided in this Agreement, no action taken pursuant to this Agreement, including without limitation any investigation by or on behalf of any party, will be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained in this Agreement. The waiver by any party hereto of a breach of any provision hereunder will not operate or be construed as a waiver of any prior or subsequent breach of the same or any other provision hereunder.

8.11. INCORPORATION OF ANNEX A. Annex A attached hereto is hereby incorporated herein and made a part hereof for all purposes as if fully set forth herein.

8.12. SEVERABILITY. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction will, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision will be interpreted to be only so broad as is enforceable.

8.13. ENFORCEMENT OF AGREEMENT. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement was not performed in accordance with its specific terms or was otherwise breached. It is accordingly agreed that the parties will be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof, this being in

addition to any other remedy to which they are entitled at law or in equity.

8.14. EXPENSES. Except as set forth in Section 7.5, all fees and expenses (including SEC filing fees) incurred in connection with the Offer, the Merger, this Agreement and the transactions contemplated thereby will be paid by the party incurring such fees or expenses, whether or not the Merger is consummated, except that each of Parent and the Company will bear and pay one-half of the costs and expenses incurred in connection with the printing and mailing of the Offer Documents, the Schedule 14D-9 and Proxy Statement.

IN WITNESS WHEREOF, the parties have executed this Agreement and caused the same to be duly delivered on their behalf on the day and year first written above.

FINGERHUT COMPANIES, INC.

By:

Theodore Deikel
Chief Executive Officer

FEDERATED DEPARTMENT STORES, INC.

By:

Ronald W. Tysoe
Vice Chairman, Finance and
Real Estate

BENGAL SUBSIDIARY CORP.

By:

Dennis J. Broderick
President

ANNEX A

CONDITIONS TO COMPLETION OF THE OFFER

Notwithstanding any other provision of the Offer, Purchaser will not be required to accept for payment or, subject to any applicable rules and regulations of the SEC, including Rule 14e-1(c) under the Exchange Act (relating to Purchaser's obligation to pay for or return tendered Shares promptly after expiration or termination of the Offer), to pay for any Shares, and (subject to any such rules or regulations) may postpone the acceptance for payment or payment for any Shares tendered, and may amend or terminate (if, when and as permitted by this Agreement) the Offer (whether or not any Shares have theretofore been purchased or paid for pursuant to the Offer), (a) unless the following conditions have been satisfied: (1) there have been validly tendered and not withdrawn prior to the Expiration Date a number of Shares which represents at least a majority of the total voting power of the outstanding securities of the Company entitled to vote in the election of directors or in a merger ("VOTING SECURITIES"), calculated on a fully diluted basis, on the date of purchase (the "MINIMUM CONDITION") ("on a fully diluted basis" having the following meaning, as of any date: the number of Shares outstanding, together with the number of Shares the Company is then required to issue pursuant to obligations outstanding at that date under employee stock option or other benefit plans or otherwise), (2) any applicable waiting periods under the HSR Act shall have expired or been terminated prior to the expiration of the Offer, and (3) the OCC shall have consented in writing to, or stated in writing that it would not disapprove of, the Offer and the Merger or all applicable filing, approval or waiting periods or extensions thereof under the CIBC Act shall have expired without the OCC providing notice of objection to the Offer or the Merger (the "OCC CONDITION") or (b) if at any time on or after the date of this Agreement and before the Expiration Date (whether or not any Shares have theretofore been accepted for payment or paid for pursuant to the Offer), any of the following shall have occurred:

(i) any governmental entity or authority or any court shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, temporary or preliminary injunction that shall not have been lifted prior to the Expiration Date or permanent injunction or other order which is in effect and which (a) restricts, prevents or prohibits consummation of the transactions contemplated by this Agreement, including the Offer or the Merger, (b) prohibits, limits or otherwise adversely affects the ownership or operation by Parent or any of its Subsidiaries of all or any material portion of the business or assets of the Company and its Subsidiaries or compels the Company, Parent or any of their Subsidiaries to dispose of or hold separate all or any portion of the business or assets of the Company and its Subsidiaries as a result of the completion of the Offer or the Merger, or (c) imposes limitations on the ability of Parent, Purchaser or any other subsidiary of Parent to exercise effectively full rights of ownership of any Shares, including without limitation the right

to vote any Shares acquired by Purchaser pursuant to the Offer or otherwise on all matters properly presented to the Shareholders, including without limitation the approval and adoption of this Agreement and the transactions contemplated thereby;

(ii) there shall be instituted or pending any action or proceeding before any United States or foreign court or governmental entity or authority by any United States or foreign governmental entity or authority seeking any order, decree or injunction having any effect set forth in paragraph (i) above;

(iii) the representations and warranties of the Company contained in this Agreement (without giving effect to the materiality, material adverse effect or knowledge limitations contained therein) shall not be true and correct as of the Expiration Date (as the same may be extended from time to time) as though made anew on and as of such date (except for representations and warranties made as of a specified date, unless they shall not be true and correct as of the specified date), except for any breach or breaches of any representations or warranties in Section 3.1 (except the first sentence) and Sections 3.4 through 3.20 of this Agreement which, individually or in the aggregate, could not be reasonably expected to have a Company Material Adverse Effect;

(iv) the Company shall not have performed or complied in all material respects with its covenants under this Agreement to which it is a party and such failure continues until the later of (a) 15 calendar days after actual receipt by it of written notice from Parent setting forth in reasonable detail the nature of such failure or (b) the Expiration Date;

(v) there shall have occurred any material adverse change, or any development that is reasonably likely to result in a material adverse change, in the business, financial condition or results of operations of the Company and its Subsidiaries, taken as a whole;

(vi) this Agreement shall have been terminated in accordance with its terms;

(vii) the Company Board shall have (a) withdrawn or materially modified or changed (including by amendment of the Schedule 14D-9) its recommendation of the Offer, the Merger or this Agreement in a manner adverse to Purchaser or Parent, (b) taken a position inconsistent with its recommendation of the Offer, the Merger of this Agreement in a manner adverse to Purchaser or Parent, (c) approved or recommended any Company Takeover Proposal, (d) taken any action referred to in Section 5.2(b) of this Agreement that is prohibited thereby or would be so prohibited but for the exceptions thereto, or (e) resolved or publicly disclosed any intention to do any of the foregoing; or

(viii) the U.S. Federal Reserve Board or any other federal governmental authority shall have declared a general banking moratorium or general suspension or material limitation on the extension of credit or in respect of payments in respect of credit by banks or other lending institutions in the United States.

The foregoing conditions are for the sole benefit of Purchaser and its affiliates and may be asserted by Purchaser, or Parent on behalf of Purchaser, regardless of the circumstances (including without limitation any action or inaction by Purchaser or any of its affiliates other than a material breach by Purchaser or Parent of the Agreement) giving rise to any such condition or may be waived by Purchaser, in whole or in part, from time to time in its sole discretion, except as otherwise provided in the Agreement. The failure by Purchaser at any time to exercise any of the foregoing rights will not be deemed a waiver of any such right and each such right will be deemed an ongoing right and may be asserted at any time and from time to time.

TABLE OF DEFINED TERMS

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November 11, 1998

Mr. Ronald W. Tysoe
Vice Chairman
Federated Department Stores, Inc.
7 West Seventh Street
Cincinnati, OH 45202

Attention: Mr. Ronald W. Tysoe

Ladies and Gentlemen:

In connection with your consideration of a possible transaction with Fingerhut Companies, Inc. (the "Company") regarding your possible purchase of the Company by way of merger, a sale of assets or stock, or otherwise, you have requested information concerning the Company.

As a condition to your being furnished with such information, you agree to treat any information concerning the Company which is furnished to you by or on behalf of the Company, whether furnished before or after the date of this letter and regardless of the manner in which it is furnished, together with analyses, compilations, studies or other documents or records prepared by you or any of your directors, officers, employees, agents or advisors (including, without limitation, attorneys, accountants, consultants, bankers, financial advisors and any representatives of your advisors) (collectively, "Representatives") to the extent that such analyses, compilations, studies, documents or records contain or otherwise reflect or are generated from such information (hereinafter collectively referred to as the "Evaluation Material"), in accordance with the provisions of this agreement. The term "Evaluation Material" does not include information which (i) was or becomes generally available to the public other than as a result of a disclosure by you or your Representatives, (ii) was or becomes available to you on a non-confidential basis from a source other than the Company or its advisors provided that such source is not known to you to be bound by a confidentiality agreement with the Company, or otherwise prohibited from transmitting the information to you by a contractual, legal or fiduciary obligation or (iii) was within your possession prior to its being furnished to you by or on behalf of the Company, provided that the source of such information was not bound by a confidentiality agreement with the Company or otherwise prohibited from transmitting the information to you by a contractual, legal or fiduciary obligation.

You hereby agree that the Evaluation Material will be used solely for the purpose of evaluating a possible transaction between the Company and you, and that such information will be kept confidential by you and your Representatives; provided, however, that (a) any of such information may be disclosed to your Representatives who need to know such information for the purpose of evaluating any such possible transaction between the Company and you (it being

understood that such Representatives shall have been advised of this agreement and shall have agreed to be bound by the provisions hereof), and (b) any disclosure of such information may be made to which the Company consents in writing. In any event, you shall be responsible for any breach of this agreement by any of your Representatives and you agree, at your sole expense, to take all reasonable measures (including but not limited to court proceedings) to restrain your Representatives from prohibited or unauthorized disclosure or use of the Evaluation Material. You further agree that the Evaluation Material which is in written form shall not be copied or reproduced at any time without the prior written consent of the Company.

In addition, without the prior written consent of the Company, you will not, and will direct your Representatives not to, disclose to any person (i) that the Evaluation Material has been made available to you or your Representatives, (ii) that discussions or negotiations are taking place concerning a possible transaction between the Company and you or (iii) any terms, conditions or other facts with respect to any such possible transaction, including the status thereof.

In the event that you are requested or required (by oral questions, interrogatories, request for information or documents, subpoena, civil investigative demand or other process) to disclose any Evaluation Material, it is agreed that you will provide the Company with prompt notice of any such request or requirement (written if practical) so that the Company may seek an appropriate protective order or waive your compliance with the provisions of this agreement. If, failing the entry of a protective order or the receipt of a waiver hereunder, you are, in the opinion of your counsel, compelled to disclose Evaluation Material, you may disclose that portion of the Evaluation Material, which the Company's counsel advises that you are compelled to disclose and will exercise reasonable efforts to obtain assurance that confidential treatment will be accorded to that portion of the Evaluation Material which is being disclosed. In any event, you will not oppose action by the Company to obtain an appropriate protective order or other reliable assurance that confidential treatment will be accorded the Evaluation Material.

Until the earliest of (i) the execution by you of a definitive agreement regarding the acquisition of the Company; (ii) an acquisition of the Company by a third party; or (iii) one year from the date of this agreement, you agree not to initiate or maintain contact (except for those contacts made in the ordinary course of business) with any officer, director or employee of the Company regarding the Company's business, operation, prospects or finances, except with the express permission of the Company. Additionally, you agree not to solicit for employment any of the current employees of the Company at the general merchandise manager or equivalent level and above so long as they are employed by the Company or solicit any customers, clients, or accounts, of the Company during the period in which there are discussions conducted pursuant hereto and for a period of one year thereafter, without the prior written consent of the Company, provided that foregoing prohibition shall not apply to any such employee who voluntarily and independently solicits an offer of employment from you. It is understood that Salomon Smith Barney Inc. ("Salomon Smith Barney"), in its capacity as investment advisor to the Company, will arrange for appropriate contacts for due diligence purposes. All (i) communications regarding this transaction, (ii) request for additional information, (iii) requests for facility tours or management

meetings, and (iv) discussions or questions regarding procedures, will be submitted or directed to Salomon Smith Barney.

You understand and acknowledge that any and all information contained in the Evaluation Material is being provided without any representation or warranty, express or implied, as to the accuracy or completeness of the Evaluation Material, on the part of the Company or Salomon Smith Barney. You agree that none of the Company, Salomon Smith Barney or any of their respective affiliates or representatives shall have any liability to you or any of your Representatives. It is understood that the scope of any representations and warranties to be given by the Company will be negotiated along with other terms and conditions in arriving at a mutually acceptable form of definitive agreement should discussions between you and the Company progress to such a point.

In consideration of the Evaluation Material being furnished to you, you hereby further agree that, without the prior written consent of the Board of Directors of the Company, for a period of one year from the date hereof, neither you nor any of your affiliates (as such term is defined in Rule 12b-2 of the Securities and Exchange Act of 1934, as amended), acting alone or as part of a group, will acquire or offer or agree to acquire, directly or indirectly, by purchase or otherwise, any voting securities or securities convertible into voting securities of the Company, or otherwise seek to influence or control, in any manner whatsoever (including proxy solicitation or otherwise), the management or policies of the Company.

All Evaluation Material disclosed by the Company shall be and shall remain the property of the Company. In the event that the parties do not proceed with the transaction which is the subject of this letter within a reasonable time or within five days after being so requested by the Company, you shall return or destroy all documents thereof furnished to you by the Company. Except to the extent a party is advised in writing by counsel such

destruction is prohibited by law, you will also destroy all written material, memoranda, notes, copies, excerpts and other writings or recordings whatsoever prepared by you or your Representatives based upon, containing or otherwise reflecting any Evaluation Material. Any destruction of materials shall be verified by you in writing and signed by one of your officers. Any Evaluation Material that is not returned or destroyed, including without limitation, any oral Evaluation Material, shall remain subject to the confidentiality obligations set forth in this agreement.

You agree that unless and until a definitive agreement regarding a transaction between the Company and you has been executed, neither the Company nor you will be under any legal obligation of any kind whatsoever with respect to such a transaction by virtue of this agreement except for the matters specifically agreed to herein. You further acknowledge and agree that the Company reserves the right, in its sole discretion, to reject any and all proposals made by you or any of your Representatives with regard to a transaction between the Company and you, and to terminate discussions and negotiations with you at any time.

It is understood and agreed that money damages would not be a sufficient remedy for any breach of this agreement and that the Company shall be entitled to specific performance

and injunctive or other equitable relief as a remedy for any such breach and you further agree to waive any requirement for the security or posting of any bond in connection with such remedy. Such remedy shall not be deemed to be the exclusive remedy for breach of this agreement but shall be in addition to all other remedies available at law or equity to the Company.

In the event of litigation relating to this agreement, if a court of competent jurisdiction determines in a final, non-appealable order that a party has breached this agreement, then such party shall be liable and pay to the non-breaching party the reasonable legal fees such non-breaking party has inccurred in connection with such litigation, including any appeal therefrom.

This agreement is for the benefit of the Company and Salomon Smith Barney and shall be governed and construed in accordance with the laws of the State of New York, regardless of the laws that might otherwise govern under applicable principles of conflicts of law thereof. Your obligations under this agreement shall expire there years from the date hereof, except as otherwise explicitly stated as above.

This agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement, Please confirm that the foregoing is in accordance with your understanding of out agreement by signing and returning to us a copy of this letter.

Very truly yours,

SALOMON SMITH BARNEY INC. on behalf of
Fingerhut Companies, Inc.

By: Robert B. Womsley

Robert B. Womsley
Director

Confirmed and Agreed:

Federated Department Stores, Inc.

By: Ronald W. Tysoe

Ronald W. Tysoe
Vice Chairman