

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

**FINGERHUT COMPANIES INC**

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SIC: **5961** Catalog & mail-order houses

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended 1-8668  
December 26, 1997 Commission file number

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FINGERHUT COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Minnesota 41-1396490  
(State of Incorporation) (I.R.S. Employer Identification  
No.)

4400 Baker Road, Minnetonka, Minnesota 55343  
(Address of principal executive offices)

(612) 932-3100  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 Par Value	New York Stock Exchange, Inc.

Securities registered pursuant to section 12(g) of the Act: None

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

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

As of February 27, 1998, 46,442,360 shares of the Registrant's

Common Stock were outstanding and the aggregate market value of Common Stock held by non-affiliates of the Registrant on that date was approximately \$1,117,010,894 based upon the New York Stock Exchange closing price on February 27, 1998.

#### DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Annual Report to Shareholders for the fiscal year ended December 26, 1997, are incorporated by reference in Parts II and IV.

Certain portions of the Proxy Statement for the Annual Meeting of Shareholders of Fingerhut Companies, Inc. to be held on May 6, 1998, which will be filed with the Securities and Exchange Commission within 120 days after December 26, 1997, are incorporated by reference in Part III.

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PART I

Item 1. Business

General

Fingerhut Companies, Inc. (the "Company") is a database marketing company that sells a broad range of products and services directly to consumers via catalogs, telemarketing, television and other media. The Company had 1997 revenues of \$1.8 billion. Its principal subsidiaries are Fingerhut Corporation ("Fingerhut"), Metris Companies Inc. ("Metris"), Figi's Inc. ("Figi's") and Fingerhut National Bank ("FNB"). The Company's Retail segment is conducted by Fingerhut, Figi's and FNB. Fingerhut has been in the direct mail marketing business for 50 years and sells general merchandise using catalogs and other direct marketing solicitations. Fingerhut's 1997 net sales were \$1.420 billion. Figi's markets specialty foods and other gifts, primarily through catalogs, and had net sales of approximately \$97.8 million in 1997. FNB provides credit for customers' purchases from Fingerhut, in the form of closed-end and revolving credit card loans.

The Company's Financial Services segment business is conducted through Metris (an 83% owned subsidiary), an information-based direct marketer of consumer credit products, fee-based services and extended service plans to moderate income consumers. Metris' subsidiaries include Direct Merchants Credit

Card Bank, National Association ("Direct Merchants Bank") and Metris Direct, Inc. (formerly Fingerhut Financial Services Corporation). 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. The Company announced in October 1997 that its Board of Directors had approved the filing of an application with the Internal Revenue Service (the "IRS") for a ruling on a tax-free distribution to shareholders of the Company of all of the Company's ownership in Metris (the "Spin Off"). The Company filed the ruling request with the IRS on October 23, 1997. The proposed Spin Off, anticipated in 1998, is subject to the approval of the Company's Board of Directors and the receipt of a ruling from the IRS, and is subject to market conditions. There can be no assurance that the Spin Off will be consummated.

The Company is the successor to the business of several related companies, the first of which was a partnership formed in 1948. Fingerhut became a publicly-held corporation in 1970 and was acquired by a predecessor of Travelers Group Inc. ("Travelers") in 1979. The Company was incorporated in 1978 in connection with Travelers' acquisition of Fingerhut and became a publicly-held company in May 1990.

Unless the context otherwise indicates, references to the Company refer to Fingerhut Companies, Inc. and its subsidiaries.

## Retail Segment

The Company's Retail segment businesses are conducted by Fingerhut, Figi's and FNB. The business discussion includes five-year summaries of key operating statistics and a two-year segment Statement of Operations to assist in understanding this segment's results.

Fingerhut Corporation

## Introduction

Fingerhut, one of the largest catalog marketers in the United States, sells general merchandise and financial service products to moderate income consumers. It is the only large general merchandise retailer that serves this market exclusively through catalog direct marketing. The median age of Fingerhut's customers is slightly higher than the national average and families are a significant portion of its customer base. FNB offers extended payment terms on all purchases under either closed-end installment credit card loans or revolving credit card loans. Substantially all of Fingerhut's sales are made using credit card loans made by FNB. Fingerhut's core competency is

the development and use of a proprietary database to provide credit, target offers and build relationships with its customers. Fingerhut has used its extensive database, credit programs and proprietary database segmentation software to establish a dominant position in this market, with a large base of loyal, repeat customers. Fingerhut's active list of existing customers accounts for approximately 84% of its net sales.

## Marketing

Marketing activities are divided into three primary programs: new customer acquisition, a transitional program and existing customer programs. During 1997, Fingerhut mailed approximately 472 million catalogs and other promotions to existing and prospective customers.

Fingerhut's new customer acquisition program is designed to identify and attract new customers on a cost-effective basis. The primary sources of new customers are rented lists, catalog requests, customer referrals and other direct marketing solicitations. Fingerhut mails catalogs and other multi-product offerings to prospective customers and adds them to its database as responses are received. These programs are intended to identify and target new customers who will become long-term Fingerhut customers. New customers account for approximately 16% of Fingerhut's net sales.

The decisions on which prospective customers to solicit, which products to offer and which media to use are based upon the projected long-term profitability and internal rates of return of the program. Maintaining acceptable financial rates of return on new customers depends on balancing the cost of acquisition of new customers with their long-term profitability to Fingerhut. To determine whether the cost to obtain new customers is acceptable, Fingerhut maintains a system that monitors profitability by source of new customers, by product type and by promotional media type. Fingerhut continuously tests various media, products, offerings and incentives and analyzes the results in order to maximize the effectiveness of its customer acquisition efforts.

	Dec. 26, 1997	Dec. 27, 199	Dec. 29, 1995	Dec. 30, 1994	Dec. 31, 1993
For the Fiscal Year Ended:					
Cost per new customer	\$11.29	\$13.92	\$15.36	\$8.52	\$11.50
New customer mailings (in 000's)	129,199	162,493	193,646	155,050	149,737

After first-time buyers commence payments on their initial purchases, they are placed in a transitional program. The time a person remains in a transitional program and the number and type of products he or she is offered depends on the buyer's purchasing and payment practices. A customer is placed on

Fingerhut's promotable customer list after demonstrating his or her creditworthiness.

Fingerhut reaches its existing customers through extensive promotional mailing efforts, primarily catalogs, and through telemarketing. In 1997, Fingerhut mailed 139 different catalogs and other promotions to its established customers. These mailings included general merchandise catalogs, specialty catalogs, small and large multi-product mailers and single product promotions. Fingerhut also conducted a test catalog mailing of approximately 90,000 catalogs and multi-product mailers in the United Kingdom in 1997. In addition, Fingerhut has a home page on the Internet ([www.fingerhut.com](http://www.fingerhut.com)) through which customers can contact Fingerhut customer service, request catalogs or order merchandise.

	Dec. 26, 1997	Dec. 27, 1996	Dec. 29, 1995	Dec. 30, 1994	Dec.31, 1993
For the Fiscal Year Ended:					
Sales per mailing - existing customer list	\$3.19	\$3.43	\$3.02	\$2.91	\$3.41
Existing customer mailings (in 000's)	342,643	339,377	404,894	402,476	32,473
Active customer list (in 000's)*	4,299	4,706	5,174	5,104	4,756
Contribution margin per existing customer	\$ 98	\$ 90	\$ 77	\$ 78	\$ 75

\*Includes existing customers who have made a purchase from Fingerhut in the last 12 months.

Fingerhut believes the key factors in maximizing the profitability of its existing customer list are developing long-term repeat buyers and balancing customer response with appropriate credit losses and merchandise return rates for each segment of its customer list. Fingerhut promotes customer satisfaction and loyalty by providing credit through FNB, by using a number of marketing devices (including targeted promotions, deferred payments, 30-day home trials, a satisfaction pledge, free gifts, merchandise giveaways, sweepstakes, and personalized mailings), and by offering attractive brand name and private label merchandise.

#### Fingerhut Database

Fingerhut is a leader in the development and use of information-based marketing concepts and its extensive database and proprietary database segmentation software afford it a competitive advantage within its market niche. The database contains information on more than 30 million consumers, including approximately 8 million customers who have made a purchase from Fingerhut within the past 24 months. Included within the

database are up to 3,500 potential data items in a customer record, including names, addresses, behavioral characteristics, general demographic information and information provided by the customer. FNB uses this information, along with sophisticated proprietary credit scoring models, to produce proprietary credit scores for Fingerhut customers. The Fingerhut database also includes a "suppress" file, which contains information on more than 8 million individuals about whom Fingerhut has information relating to fraud and similar indicators of unacceptably high risk. The database is continually updated as new information is obtained. Fingerhut also uses the database for marketing decisions and FNB uses it for extending credit. Fingerhut does not report its credit information to the credit bureaus, which means this information is not publicly available.

## Credit Management

In late 1996, the Company received approval from the Office of the Comptroller of the Currency to charter a limited-purpose national bank. FNB is a special purpose credit card bank. Commencing in January 1997, FNB began extending private label credit card loans for Fingerhut purchases. Although closed-end installment loans presently are the predominant form of credit extended to Fingerhut customers, FNB is increasing its use of revolving credit for both existing Fingerhut customers and prospective customers. In addition, FNB offers certain Fingerhut customers the opportunity to refinance existing closed-end installment sales contacts originated by Fingerhut and closed-end credit card loans originated by FNB with new revolving credit card loans. Revolving credit has been introduced to approximately 230,000 customers as of March 1998.

FNB generally does not require its customers to provide traditional credit information in order to approve Fingerhut purchases on credit. Instead of using traditional credit applications, FNB uses sophisticated and highly automated proprietary techniques for evaluating the creditworthiness of new and existing customers and for selecting those customers who will receive various categories of mailings. Management believes Fingerhut's 50 years of experience in the mail order business, its database containing purchase and payment histories and its significant investment in computer technology and proprietary analytical models give FNB a unique ability to analyze the creditworthiness of customers in its market. The goal of the analysis is not to achieve the lowest possible credit losses but to balance credit losses and return rates with customer response, thereby optimizing overall profitability. Consequently, FNB's planned credit losses typically are higher than the private label credit programs of other direct mail and retail companies.

Under the installment plan, once a consumer places an order,



FNB employs proprietary techniques designed to identify consumers whose orders can be automatically shipped, consumers from whom additional information, including credit applications, must be obtained and reviewed and consumers to whom credit is declined. After purchases are shipped, customer payments are continuously monitored to identify credit problems as early as possible. FNB has a flexible policy of working with certain delinquent customers, including adjusting their payment schedules, which the Company believes reduces default rates and maintains customer loyalty.

Substantially all of Fingerhut's sales are made using FNB's proprietary credit program, which uses either closed-end installment credit card loans or revolving credit card loans. Under the installment plan, monthly payments are made by customers and processed through the use of coupons contained in payment books delivered with each order shipment. Payment terms to existing customers generally range from 4 to 36 monthly payments. Many customers pay their accounts in full before the end of the scheduled payment term. Payment terms vary based upon customer activity. In addition, a majority of sales are to customers who receive a deferred payment option, which extends the due date of the first payment by approximately four to five months. Under the revolving credit plan, monthly statements are sent to customers with payments based on their total outstanding balance.

#### Merchandising

Fingerhut offers a broad mix of brand name and private label consumer products, including electronics, housewares, home textiles, apparel, furniture, home accessories, jewelry, sporting goods and toys, tools, automotive, lawn and garden, and financial service products. In 1997, Fingerhut offered approximately 17,000 different products. Fingerhut's sales mix by product category for 1997 is shown in the following table:

Fingerhut Corporation 1997 Product Mix

	Percent of Gross Retail Sales
Electronics	22%
Home Textiles	19
Housewares	17
Furniture/Home Accessories	10
Jewelry	8
Leisure	8
Apparel	7
Tools/Automotive/Lawn & Garden	6
Other	3

Fingerhut selects merchandise to be offered to its customers by evaluating historical product and category demand and by analyzing emerging merchandise trends in conjunction with proprietary marketing information. Fingerhut is constantly developing unique brand name and private label product groupings, such as coordinated kitchen ensembles, coordinated bed and bath ensembles and tool sets, targeted to appeal to its customers and to add value and/or style to its merchandise. Historically, Fingerhut has offered its customers financial service products, including credit and property insurance and extended service agreements. Fingerhut and FNB expect to offer additional products and services, such as credit card registration, membership clubs and fee-based services, to Fingerhut customers with revolving credit card accounts.

Fingerhut's general merchandise catalogs feature a wide array of products; they are updated and published throughout the year, including a holiday big book of approximately 500 pages. Specialty catalogs mailed to targeted portions of Fingerhut's customer list include outdoor living, jewelry, electronics, domestics/housewares, gifts, juvenile, home fitness, home improvement and Spanish-language catalogs.

#### Vendor Relations

The Company purchases merchandise from approximately 2,300 different suppliers and maintains strong relations with its vendors. In 1997, the top ten vendors accounted for approximately 19% of the Company's total merchandise purchases. No single vendor accounted for more than 5% of the Company's total merchandise purchases.

The Company maintains close relations with overseas representatives in Hong Kong, Taiwan, Korea, China, the Philippines, Thailand and Europe. In 1997, approximately 18% of the Company's merchandise was imported directly from foreign vendors and an additional 28% was purchased through importers.

#### Management Information Systems

Fingerhut was a pioneer in the use of information-based marketing concepts in the mail order industry, using computer technology and related software developed by the Company. The Company continues to be highly dependent on information systems and its computer operations are among the largest and most sophisticated in the direct marketing industry.

Fingerhut's management information systems provide data processing capabilities to Fingerhut, FNB, Metris and Figi's and

support all areas of the Company, including marketing, credit, order, customer service, inventory control and finance. Fingerhut's management information systems currently operate on mainframe computers connected to on-line terminals and client-server systems used in all aspects of the Company's business.

#### Year 2000 Compliance

The Company is heavily dependent upon complex computer systems for all phases of its operations. Since many of the Company's currently installed computer systems and software products use only the last two digits to identify a year in the date field (e.g., "97" for "1997"), some software may fail to operate properly in the year 2000 if the computer systems or software are not reprogrammed or replaced to comply with such "Year 2000" requirements. Problems may also arise earlier than January 1, 2000 as dates in the next millennium are entered into non-Year 2000 compliant programs.

In early 1996, Fingerhut started an aggressive conversion effort to identify and correct the Year 2000 programming issues in a timely manner. By mid-1996, the most critical mainframe processing system was converted to be Year 2000 compliant and the Company initiated a large project to address all remaining systems. This project consists of many sub-projects that will span the remainder of 1998 and the first quarter of 1999. This project will use a combination of internal and external resources. In late 1997, the Company created a Year 2000 Project Office to oversee the project, address all related business issues and facilitate communication with significant suppliers and service providers. As of December 26, 1997, the Company had spent approximately \$5 million on the project with an estimated expense ranging from \$11 to \$13 million remaining on the project. The Company believes that it will be able to fund the effort through operating cash flows.

The Company believes that many of its suppliers and customers also have Year 2000 programming issues which could affect the Company. The Company is working with its significant suppliers and service providers to assure that failures in those organizations will have minimal impact on the Company. There can be no assurance that the Company's suppliers or service providers have, or will have, management information systems that are Year 2000 compliant. Therefore, the Company is developing contingency plans with respect to its significant suppliers and service providers.

The Company believes that it has allocated adequate resources to achieve Year 2000 compliance in a timely manner, however, there can be no assurance to that effect. The Company presently believes that the cost of its conversion effort will

not have a material effect on the Company's current financial position or liquidity .

#### Preparation and Mailing of Promotional Materials

Fingerhut performs a large portion of the production process for its promotional materials in-house. The Creative Department uses desktop publishing for the design and production of all Fingerhut's mailings. A substantial portion of the color photographs used in Fingerhut's catalogs and other marketing materials are taken at the in-house photo studio and Fingerhut prepares color separations for approximately 57% of its promotional materials. In addition, Fingerhut's eight-color web printing presses print more than half of its catalog "wraps," the personalized outside cover used on Fingerhut catalogs. Substantially all of Fingerhut's promotional materials, except the wraps, are printed at outside vendors.

Fingerhut's mailing operations are designed to provide the flexibility and rapid response time required to keep pace with its changing marketing and merchandising needs. Fingerhut has two mailing facilities in Minnesota that cut, fold, insert, sort and deliver to the post office its single and multiple product promotions. For catalog mailings, Fingerhut personalizes the catalog wraps and delivers them to its outside printers pre-sorted for mailing.

#### Order Processing and Fulfillment

Although most of Fingerhut's customer orders are received by mail, telephone ordering has become a more important part of Fingerhut's business. In 1997, Fingerhut processed approximately 17 million Fingerhut orders and approximately 50 million Fingerhut customer payments.

In 1997, Fingerhut shipped approximately 21 million packages from its warehouse and distribution facilities in Minnesota and Tennessee. In order to minimize shipping costs, packages are trucked to drop points throughout the country where they enter the United States Postal Service or the United Parcel Service ("UPS") systems for delivery to the customer. In addition, Fingerhut offers optional express delivery in selected promotions.

In August 1997, UPS employees went on strike. Because the Company uses the United States Postal Service to ship approximately 75% of its customer orders, the strike did not have a significant impact on the Company's ability to deliver merchandise.

Figi's Inc.

Figi's is a mail order retailer of specialty food gifts (such as quality cheeses, smoked meats, candies and baked goods) and other gifts headquartered in Marshfield, Wisconsin. The Company acquired Figi's in 1981. Figi's is one of the largest direct mail food gifts marketers in the United States, with 1997 net sales of approximately \$98 million, which was up 5% over 1996 net sales of \$93 million.

New customers are acquired from sources similar to those used by Fingerhut, although Figi's customers include both moderate income consumers attracted by Figi's in-house credit terms and more affluent customers who use credit cards. Sales using Figi's interest-free, three payment credit terms constituted approximately 90% of its net sales in 1997.

Figi's offerings are made predominantly in catalogs mailed prior to holidays and other gift-giving occasions such as Christmas, Easter, Valentine's Day and Mother's Day. Figi's business is highly seasonal, with approximately 82% of its net sales in the fourth quarter. Figi's seeks to develop repeat business from customers by offering a satisfaction pledge.

Figi's uses marketing techniques similar to those developed by Fingerhut, such as sweepstakes and in-house credit terms, to improve customer response and expand its customer base. Figi's also uses mailing list evaluation and segmentation techniques similar to those used by Fingerhut. In addition, Figi's offers its customers the opportunity to place orders by telephone and accepts payment by major credit card.

#### Costs of Mailing

In 1997, the Company spent an aggregate of \$246 million on postage for the Retail segment businesses (including the cost of parcel shipments that were passed on to customers) of which 49% was attributable to the mailing of promotional materials, 44% was attributable to parcel shipments and 7% was attributable to various correspondence with customers. However, as is customary in the direct mail industry, the Company passes on the cost of parcel shipments directly to the customer as part of the shipping and handling charge. The costs of mailing promotional material and certain other correspondence (including postage) are not directly passed on to customers, but are considered in the Company's overall product pricing and mailing strategies. The Company anticipates that the Postal Rate Commission will rule on the rate increase requested by the United States Postal Service and the United States Postal Service Board of Governor will approve an increase in postal rates in 1998, however, the amount

of any such increase and the implementation date is currently unknown.

The Company substantially reduces mailing costs by effectively using discounts offered by the United States Postal Service from basic postal rates. For example, Fingerhut sorts mailings by zip code to the carrier route level and also prints the "zip plus four" bar-code to obtain optimum postal discounts, resulting in savings not always available to smaller direct mail companies. The Company intends to adopt new innovations in mail processing techniques, as appropriate, and believes the increasing requirement for dynamic systems to manage the complexity of the postal rate structure will strengthen the long-term competitive position of larger, more sophisticated mail order firms such as the Company.

#### Other Business Activities

The Retail Segment also includes several other business activities. Andy's Garage Sale, Inc. is a wholly-owned subsidiary that allows the Company to market excess inventory on the Internet. Andy's Garage Saler ([www.andysgarage.com](http://www.andysgarage.com)) mixes product offerings with stories of a fictional cast of Minnesota characters. The Company also derives additional revenues from wholesaling excess merchandise and list rental and package inserts. Infochoice USA, Inc., a wholly-owned subsidiary, has entered into an agreement with Guthy-Renker Corporation, under which Guthy-Renker manages infomercial production, media placement and market distribution and Infochoice provides product development and sourcing, customer service and fulfillment. Infochoice and Guthy-Renker conduct the business under the agreement through USA Direct/Guthy-Renker, Inc., a corporation in which Infochoice and Guthy Renker Corporation each have a 50% interest. The Company accounts for USA Direct/Guthy-Renker, Inc. using the equity method of accounting; accordingly, 50% of USA Direct/Guthy-Renker, Inc.'s profits or losses are recorded in administrative expenses included in "Administrative and selling expenses" in the Company's Consolidated Statements of Earnings. Wiman Corporation manufactures plastic products. Taken together, such activities accounted for less than 3% of the Company's 1997 net sales.

In 1997, the Company began providing various fulfillment and distribution services to third parties out of its warehouse and distribution facilities in Utah and Minnesota. The Company also partnered with WorldCom to develop a co-branded long distance calling program that generates revenues via account fees and a percentage of each customer's bill. The Company intends to pursue additional third-party service and co-branding ventures, by utilizing the Company's order servicing, telemarketing, direct

marketing, warehousing, distribution and customer service capabilities.

Retail Segment  
Statements of Operations

	For the Fiscal Year Ended	
(In thousands of dollars, except per share data)	Dec. 26, 1997	Dec. 27, 1996
Revenues:		
Net sales	\$1,530,228	\$1,638,363
Finance income and other securitization income, net	(10,877)	(23,361)
	1,519,351	1,615,002
Costs and expenses:		
Product cost	738,740	827,086
Administrative and selling expenses	596,084	618,082
Provision for uncollectible accounts	97,593	112,084
Interest expense, net	27,946	25,305
	1,460,363	1,582,557
Earnings before income taxes	58,988	32,445
Provision for income taxes	21,267	11,322
Net earnings	\$37,721	\$ 21,123
Earnings per share - Basic	\$ .82	\$ .46
Earnings per share - Diluted	\$ .76	\$ .44

Note: In 1997, "discount on sale of accounts receivable," the "provision for uncollectible accounts" and certain administrative (collection) costs associated with the receivables sold, were reclassified to "finance income and other securitization income, net." All prior-period financial information has been restated to conform with the current period's presentation, and the reclassifications had no effect on net earnings.

	Dec. 26, 1997	Dec. 27, 1996	Dec. 29, 1995	Dec. 30, 1994	Dec.31, 1993
For the Fiscal Year Ended:					
Capital expenditures (in 000's)	\$20,622	\$47,742	\$93,089	\$69,339	\$51,722
Depreciation (in 000's)	\$43,622	\$45,069	\$41,031	\$33,543	\$25,969
Net earnings (in millions)					
Catalog operations	\$ 36.7	\$ 19.5	\$ 37.4	\$ 69.9	\$ 68.1
Television	1.0	1.6	8.9	(26.2)	6.0
Total segment earnings	\$ 37.7	\$ 21.1	\$ 46.3	\$ 43.7	\$ 7.41

Statements of Operations (Managed Basis\*)

	For the Fiscal Year Ended	
(In thousands of dollars, except per share data)	Dec. 26, 1997	Dec. 27, 1996
Revenues:		
Net sales	\$1,530,228	\$1,638,363
Finance income and other revenues	232,181	241,130
	1,762,409	1,879,493
Costs and expenses:		
Product cost	738,740	827,086
Administrative and selling expenses	610,022	633,448
Provision for uncollectible accounts	259,981	283,762
Discount on sale of accounts receivable	66,732	77,447
Interest expense, net	27,946	25,305
	1,703,421	1,847,048
Earnings before income taxes	58,988	32,445
Provision for income taxes	21,267	11,322
Net earnings	\$ 37,721	\$ 21,123
Earnings per share - Basic	\$.82	\$.46
Earnings per share - Diluted	\$.76	\$.44

\*Presented in a format consistent with prior periods.

#### Financial Services Segment (Metris)

The Company's Financial Services segment businesses are conducted by Metris and its subsidiaries. Two-year segment Statements of Operations and key operating statistics are included at the end of the business description to assist in understanding this segment's results.

Metris is an information-based direct marketer of consumer credit products, extended service plans and fee-based products and services to moderate income consumers. Metris' consumer credit products currently are unsecured and secured credit cards issued by Direct Merchants Bank. Metris' customers and prospects include existing customers of Fingerhut ("Fingerhut Customers") and individuals who are not Fingerhut Customers but for whom credit bureau information is available ("External Prospects"). Metris Direct, Inc., a subsidiary, also provides extended service plans on certain categories of products sold by Fingerhut that extend service coverage beyond the manufacturer's warranty. Metris markets its fee-based products and services, including debt waiver programs, card registration, third party insurance, and membership clubs to its credit card customers, Fingerhut Customers and customers of third party partners.

Metris Companies Inc. is a Delaware corporation incorporated on August 20, 1996, and is an 83% owned indirect subsidiary of



Fingerhut Companies, Inc. Metris became a publicly-held company in October 1996 after completing an initial public offering. Subject to the approval of the Company's Board of Directors, the receipt of a ruling from the IRS, and market conditions, the Company anticipates that the Spin Off of all of the Company's ownership in Metris will occur in 1998. Following the Spin Off, no individual will hold titles of officer or director at both the Company and Metris, except for Theodore Deikel, who will be Chairman of the Board of Metris, and will continue to be Chairman of the Board, Chief Executive Officer and President of the Company.

Metris currently operates two businesses: (i) consumer credit products and (ii) fee-based services and extended service plans. Metris' principal subsidiaries are Direct Merchants Bank, Metris Direct, Inc., Metris Funding Co. and Metris Receivables, Inc.

### Consumer Credit Products

Products. Consumer credit products currently are unsecured and secured credit cards, including the Fingerhut co-branded MasterCard, the Bally Total Fitness co-branded MasterCard and the Direct Merchants Bank MasterCard and Visar. In addition, Metris has affinity programs with two other parties. In the future, Metris may offer other co-branded credit cards and may also offer other consumer credit products either directly or through alliances with other companies. At December 31, 1997, Direct Merchants Bank had approximately 2.3 million credit card accounts with over \$3.5 billion in managed credit card loans. Fingerhut customers represented approximately 39% of the accounts and approximately 39% of the managed loans. At December 31, 1997, according to the Nilson Report, Direct Merchants Bank was the 14th largest MasterCard issuer in the United States based on the number of cards issued and the 22nd largest credit card issuer in the United States based on managed credit card loan balances. In September 1997, Metris acquired a \$317 million credit card portfolio from Key Bank USA, National Association, and in October 1997, Metris acquired a \$405 million credit card portfolio from Mercantile Bank National Association.

Solicitation. Prospects for solicitation include both Fingerhut Customers and External Prospects. They are contacted on a nationwide basis through pre-screened direct mail and telephone solicitations.

Pricing. Metris' strategy to maximize customer profitability relies on risk-based pricing. The specific pricing for each credit card offer is determined primarily based on the prospect's risk profile prior to solicitation. Each prospect is evaluated to determine credit needs, credit risk, and existing credit availability. A customized offer is developed that includes the

most appropriate product, brand, pricing, and credit line. Metris currently offers over 100 different pricing structures on its credit card products, with annual fees ranging from \$0 to \$48 (\$60 for some secured cards) and annual percentage rates ranging from 14.9% to 26.5%, excluding certain portfolio acquisitions made in the current year. After credit card accounts are opened, Direct Merchants Bank actively monitors customers' internal and external credit performance and periodically recalculates behavior and risk scores. As customers evolve through the credit lifecycle and are regularly rescored, the lending relationship can evolve to include more competitive (or more restrictive) pricing and product configurations.

Key Statistics:	For the Year Ended Dec. 31,	
	1997	1996
Managed net charge-off ratio	8.3%	6.2%
Period-end managed loans (in 000's)	\$3,546,936	\$1,615,940
Total accounts (in 000's)	2,293	1,418
Managed loan loss reserves (in 000's)	\$244,084	95,669
Managed delinquency ratio	6.6%	5.5%

#### Fee-based Services and Extended Service Plans

In 1997, Metris consolidated its fee-based services and extended service plan businesses into one business line. Metris currently sells a variety of fee-based products and services to its credit card customers, Fingerhut Customers and credit card customers of third party partners, including (i) debt waiver protection for unemployment, disability, and death, (ii) programs such as card registration and club membership, and (iii) third-party insurance. In addition, Metris develops customized targeted mailing lists, using both Metris' database and the Fingerhut database, for external companies to use in their own noncompeting financial services product solicitation efforts.

Extended service plans provide warranty service coverage beyond the manufacturer's warranty. In general, Metris' extended service plans provide customers with the right to have their covered purchases repaired, cleaned, replaced or in certain circumstances, the purchase price of the product refunded, within certain parameters determined by Metris. Metris currently provides extended service plans for consumer electronics, furniture, and jewelry ("Warrantable Products") purchased from Fingerhut. Fingerhut has an extended service plan agreement with Metris, during the term of which Fingerhut agrees only to offer Metris' extended service plans to its customers.

ServiceEdge<sup>SM</sup> is Metris' extended service plan for consumer electronics and all other electro-mechanical items that gives customers the right to have their purchases repaired or replaced in the event of electrical or mechanical failure or defects in

materials and workmanship for defects after the manufacturer's warranty expires. Quality Jewelry Carer is Metris' extended service plan for jewelry. The services provided to Quality Jewelry Care customers include repair, soldering, ring sizing, and cleaning, for which Metris has third party jewelers perform such services. Metris' extended service plan program for furniture is called Quality Furniture CareSM and the services include stain cleaning, structural defect or damage repair, or replacement if the merchandise cannot be repaired. Repairs and stain cleaning are performed by independent service providers.

Sales and Marketing. When Fingerhut Customers purchase Warrantable Products, they have the option to buy an extended service plan. For electro-mechanical products, approximately 31% of Metris' extended service plans are originated through the on-page print advertisement located within Fingerhut's catalogs and other direct marketing materials; the remainder are originated through telemarketing. Substantially all of the Quality Furniture Care and Quality Jewelry Care plans are originated through telemarketing and other direct marketing programs. In order to maximize the efficiency of these programs, Metris has developed proprietary targeting models to predict which customers will be most responsive to its extended service plan direct marketing efforts.

Operations. Through the end of 1996, claims risk and claims processing for electro-mechanical items were the responsibility of a third party. Metris is responsible for claims risk and claims processing for furniture and jewelry. In 1997, Metris internalized the claims processing operations related to extended service plans for electro-mechanical items and incurred the resulting claims risk for all extended service plans sold on or after January 1, 1997.

Metris Companies Inc.  
Statements of Operations

	For the Year Ended Dec. 31,	
	1997	1996
(In thousands of dollars, except per share data)		
Revenues:		
Net sales	\$ 9,537	\$ 22,077
Finance income and other revenues	274,527	133,357
	284,064	155,434
Costs and expenses:		
Product cost	90	6,463
Administrative and selling expenses	168,401	94,840
Provision for uncollectible accounts	43,989	18,477
Interest expense, net	9,701	3,108
	222,181	122,888
Earnings before income taxes and minority interest	61,883	32,546

Provision for income taxes	23,825	12,530
Net earnings before minority interest	38,058	20,016
Minority Interest	(6,450)	(980)
Net Earnings	\$31,608	\$9,036
Earnings per share - Basic	\$ .68	\$ .41
Earnings per share - Diluted	\$ .64	\$ .39

#### Other Information

##### Competition

The direct marketing industry includes a wide variety of specialty and general merchandise retailers and is both highly fragmented and highly competitive. The Company sells its products to customers in all states of the United States and competes in the purchase and sale of merchandise with all retailers. Fingerhut's traditional principal competitor in the business of direct marketing general merchandise to moderate income customers is J.C. Penney Company, Inc., which operates a large number of retail stores in addition to its mail order businesses and generates substantial catalog sales at its retail premises in addition to direct mail marketing. In the direct marketing retail industry, Fingerhut also competes with television shopping marketers, such as QVC Network, Inc. and Home Shopping Network, Inc. Fingerhut also competes with retail department stores, discount department stores and variety stores, many of which are national chains, for the general merchandise spending of its customers.

The principal methods of competition within the direct marketing industry and in the Company's market segments include purchasing convenience, extension of credit, customer service, free trial and merchandise value. The Company believes that it is able to compete on the strength of its marketing strategy despite strong competitive pressures. Although barriers to entering the direct marketing business are minimal and many new companies have entered and may continue to enter the industry in competition with the Company, a substantial capital investment would be required to develop customer databases and software capabilities comparable to those of the Company. The Company believes that these assets are necessary to compete effectively in the Company's market niche, where the predictability of response rates and combined credit and return losses is critical.

As a marketer of consumer credit products, Metris faces increasing competition from numerous providers of financial services, many of which have greater resources than Metris. In particular, Metris competes with national, regional and local bank card issuers as well as other general purpose credit card

issuers, such as American Express and Discover Card. In general, customers are attracted to credit card issuers largely on the basis of price, credit limit and other product features; as a result, customer loyalty is often limited. However, Metris believes that its strategy of focusing on an underserved market and its access to information from the Fingerhut database will allow it to more effectively compete in the market for moderate income cardholders. During the term of the extended service plan agreement, Fingerhut will only offer its customers extended service plans provided by Metris. As Metris attempts to expand its business to market extended service plans to the customers of third-party retailers, it will compete with manufacturers, financial institutions, insurance companies and a number of independent administrators, many of which have greater operating experience and financial resources than Metris.

### Seasonality

The Company's business is seasonal. In 1997, approximately 38% of the Company's net sales and approximately 63% of its net earnings occurred in the fourth quarter. In addition to seasonal variations, the Company experiences variances in quarterly results from year to year that result from changes in the timing of its promotions and the types of customers and products promoted and, to some extent, variations in dates of holidays and the timing of quarter ends resulting from a 52/53 week year. Accordingly, the results of interim periods are not necessarily indicative of the results for the year.

### Employees

As of December 26, 1997, the Company had approximately 9,500 employees, of whom approximately 2,000 were represented by the Midwest Regional Joint Board or the Tennessee/Kentucky District Southern Regional Joint Board of the Union of Needle Trades, Industrial and Textile Employees. The Company's principal collective bargaining agreements expire on February 6, 1999 and February 6, 2000. The Company believes its relations with its employees and the union are good.

### Trademarks and Tradenames

The Company and its subsidiaries have registered and continue to register, when appropriate, various trademarks, tradenames and service marks used in connection with its business and for private label marketing of certain of its products. The Company considers these trademarks and service marks to be readily identifiable with, and valuable to, its business.

### Governmental Regulation

The Company's Retail segment is subject to regulation by a variety of state and federal laws and regulations related to, among other things, advertising, offering and extending of credit, charging and collecting state sales/use taxes and product safety. The Company's practices in certain of these areas are subject to periodic inquiries and proceedings by various regulatory agencies. None of these laws and regulations has had a material adverse effect upon the Company.

From time to time the Company has received notices and inquiries from states with respect to collection of use taxes for sales to residents of these states. To the extent that any states are successful in such claims, the Company's cost of doing business could be increased, although it does not believe any increase would be material.

Substantially all of the extensions of credit for Fingerhut purchases prior to early January 1997 were by Fingerhut. Fingerhut relies on the Minnesota "time-price" doctrine in extending credit on products sold in many states. Under this doctrine, the difference between the time price and the cash price for the same goods is not treated as interest subject to regulation under laws governing the extension of credit. In other states, Fingerhut is subject to regulations that limit maximum finance charges and require refunding of finance charges to customers under certain circumstances. Fingerhut believes that its time payment pricing and credit practices were and are in compliance with applicable state requirements. Certain individuals who purchased goods from Fingerhut filed suit challenging the application of the time-price doctrine. See "Legal Proceedings" below.

In late 1996, FNB began offering credit card loans to finance purchase of products and services from Fingerhut. Commencing in January 1997, FNB began extending substantially all credit for Fingerhut purchases.

Direct Merchants Bank and FNB are limited purpose credit card banks chartered as national banking associations and members of the Federal Reserve System, the deposits of which are insured by the Bank Insurance Fund which is administered by the Federal Deposit Insurance Corporation (the "FDIC"). Direct Merchants Bank and FNB are subject to comprehensive regulation and periodic examination by the Office of the Comptroller of the Currency, the Federal Reserve Board and the FDIC. Neither Direct Merchants Bank nor FNB is a "bank" as defined under the Bank Holding Company Act of 1956, as amended (the "BHCA") because each (i) engages only in credit card operations, (ii) does not accept demand deposits or deposits that the depositor may withdraw by check or similar means for payment to third parties or others, (iii) does not accept any savings or time deposit of less than

\$100,000, (iv) maintains only one office that accepts deposits and (v) does not engage in the business of making commercial loans. As a result, the Company is not a bank holding company under the BHCA. If Direct Merchants Bank or FNB failed to meet the credit card bank criteria described above, the Company would become subject to the provisions of the BHCA. The Company believes that becoming a bank holding company would limit the Company's ability to conduct its business.

Under current judicial interpretations of Federal law, national banks such as Direct Merchants Bank and FNB may charge interest at the rate allowed by the laws of the state where the bank is located, and may "export" interest rates by charging the interest rate allowed by the laws of the state where the bank is located on loans to borrowers in all states, without regard to the laws of such other states. Direct Merchants Bank is currently located in Utah and FNB is currently located in South Dakota.

In 1996, the Supreme Court of the United States held that national banks may also impose late-payment fees allowed by the laws of the state where the national bank is located on borrowers in other states, without regard to the laws of such other states. The Supreme Court based its opinion largely on its deference to a regulation adopted by the Comptroller of the Currency that includes certain fees, including late fees, overlimit fees, annual fees, cash advance fees and membership fees, within the term "interest" under the provision of the National Bank Act that has been interpreted to permit national banks to export interest rates. As a result, national banks such as Direct Merchants Bank and FNB may impose such fees to the extent that they are permitted by the laws of the states in which they are located.

Direct Merchants Bank's and FNB's activities as credit card lenders are also subject to regulation under various federal laws including the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Community Reinvestment Act and the Soldiers' and Sailors' Civil Relief Act. Regulators are authorized to impose penalties for violations of these statutes and, in certain cases, to order national banks to pay restitution to injured cardmembers. Individuals may also bring actions for certain alleged violations of such regulations. Federal and state bankruptcy and debtor relief laws also affect Direct Merchants Bank's and FNB's ability to collect outstanding balances owed by cardholders who seek relief under these statutes.

Several states have passed legislation which attempts to tax the income from interstate financial activities, including credit cards, derived from accounts held by local state residents. Based on current interpretations of the enforceability of such

legislation, coupled with the volume of its business in these states, the Company believes that this will not materially affect Direct Merchants Bank or FNB.

From time to time, legislation has been proposed in Congress to limit interest rates that could be charged on credit card accounts; however, the Company does not anticipate any serious effort by Congress to enact such a limitation in the current session of Congress.

The Fair Credit Reporting Act (the "FCRA") regulates "consumer reporting agencies." Under the FCRA, an entity risks becoming a consumer reporting agency if it furnishes "consumer reports" to third parties or, in some circumstances, to its affiliates. A "consumer report" is a communication of information which bears on a consumer's creditworthiness, credit capacity, credit standing or certain other characteristics and which is collected or used or expected to be used to determine the consumer's eligibility for credit, insurance, employment or certain other purposes. The FCRA explicitly excludes from the definition of "consumer report" a report containing information solely as to transactions or experiences between the consumer and the entity making the report.

It is the Company's objective to conduct its operations in a manner which would fall outside the definition of "consumer reporting agency" under the FCRA. If the Company were to become a consumer reporting agency, however, it would be subject to a number of complex and burdensome regulatory requirements and restrictions, including restrictions limiting the Company from using information from the Fingerhut database and furnishing information to third parties. Such restrictions could have a significant adverse economic impact on the Company's results of operations and future prospects.

#### Executive Officers of the Registrant

Name	Age	Present Office
Theodore Deikel	62	Chairman of the Board, Chief Executive Officer and President
Alan F. Bignall	46	Senior Vice President, Development and Architecture Services
Thomas J. Bozliniski	50	Senior Vice President, Operations and Network Services
John D. Buck	47	Senior Vice President, Operations, Information Services and Human Resources



Andrew V Johnson	42	Senior Vice President, Market Development
Gerald T. Knight	50	Senior Vice President, Chief Financial Officer
Peter G. Michielutti	41	Executive Vice President Chief Operating Officer of Fingerhut Corporation
Michael P. Sherman	45	Senior Vice President, Business Development, General Counsel and Secretary
Richard L. Tate	52	Senior Vice President, Merchandising
Thomas C. Vogt	51	Corporate Controller
James M. Wehmann	32	Treasurer
Ronald N. Zebeck	43	Executive Vice President President and Chief Executive Officer of Metris Companies Inc.

Theodore Deikel has served as Chairman of the Board, Chief Executive Officer and President since 1989. From 1985 until rejoining the Company, Mr. Deikel served as Chairman and CEO of CVN Companies, Inc., a direct marketing company using television and direct mail. From 1979 to 1983, Mr. Deikel was Executive Vice President of American Can Company (a predecessor to Travelers Group Inc.) and Chairman of American Can Company's specialty retailing division, which included the Company. In addition, Mr. Deikel was Chief Executive Officer of Fingerhut from 1975 to 1983.

Alan F. Bignall joined the Company as Senior Vice President, Development and Architecture Services of the Company in February 1998. Prior to that, he held several positions with American Express Financial Advisors. From November 1995 to December 1997, he was Vice President, Technology and from November 1990 to October 1995, he was Vice President, Financial Planning.

Thomas J. Bozliniski became Senior Vice President, Operations and Network Services in March 1998. He was Senior Vice President, Information Systems from January 1996 to February 1998. He was Vice President, Information Systems of the Company from June 1993 to January 1996. Prior to that he was Managing Director, Systems & Operations of Northwest Airlines Corp.

John D. Buck has been Senior Vice President, Operations, Information Services and Human Resources since February 1997. He was Senior Vice President, Human Resources from March, 1996 to January 1997. For more than five years prior to that, he was Vice President, Administration of Alliant Techsystems, Inc., a supplier of defense products and services to the United States government and its allies.

Andrew V Johnson has been Senior Vice President, Market Development of the Company since January 1998. From January 1993 to December, 1997, he was Senior Vice President, Marketing of the Company.

Gerald T. Knight joined the Company as Senior Vice President, Chief Financial Officer in June 1997. He was Vice President and Chief Financial Officer of The Toro Company for more than the previous five years.

Peter G. Michielutti has been Executive Vice President of the Company since May 1997 after serving as Chief Financial Officer of the Company from July 1995 to May 1997 and Senior Vice President, Business Development of Metris from August 1996 to May 1997. He is also Chief Operating Officer of Fingerhut Corporation. Prior to that, he held various positions with divisions/subsidiaries of Household International Inc. (consumer finance services). He was Chief Financial Officer of Household Credit Services from May 1992 to July 1995, Vice President-Financial Administration-Canada of Household Financial Corporation Limited from March 1991 to May 1992, and Vice President-Financial Administration of Household Bank FSB from August 1990 to March 1991.

Michael P. Sherman joined the Company as Senior Vice President, Business Development, General Counsel and Secretary in May 1996. He was Executive Vice President, Corporate Affairs, General Counsel and Secretary of Hanover Direct, Inc., a catalog retailer, for more than the previous five years.

Richard L. Tate has been Senior Vice President, Merchandising of the Company since October 1993. From December 1989 to October 1993, he was Vice President, Merchandising of the Company.

Thomas C. Vogt has been Corporate Controller since November 1994. Prior to that time, he was Assistant Controller, Operations of the Company from August 1991 to October 1994 and was Vice President and Controller of Hanover Direct, Inc. from April 1989 to July 1991.

James M. Wehmann became Treasurer of the Company in March 1997. He was Assistant Treasurer from June 1996 to March 1997 and held other finance and treasury positions at Fingerhut since

March 1993. From 1991 until joining Fingerhut, he was a financial analyst, international finance for Honeywell, Inc.

Ronald N. Zebeck was hired as President of Metris Direct, Inc. (now a wholly-owned subsidiary of Metris) in March 1994, and became President and Chief Executive Officer of Metris when it was formed in August 1996. He is also an Executive Vice President of the Company. He was Managing Director, GM Card Operations of General Motors Corporation from 1991 to 1993.

Officers of the Company are elected by, and hold office at the will of, the Board of Directors and do not serve a "term of office" as such.

## Item 2. Properties

The Company's executive and administrative offices and warehouse and distribution facilities are located in a number of facilities in Minnesota, Tennessee, Wisconsin, Utah, Florida, Oklahoma, Maryland and South Dakota. The total facilities presently used by the Company's operations have an aggregate of approximately 5.5 million square feet, of which approximately 5.3 million square feet, located in Minnesota, Tennessee, Wisconsin, Utah, Florida and South Dakota, are used for the Retail segment and 147,000 square feet, located in Minnesota, Utah, Oklahoma and Maryland, are used for the Financial Services segment. Of these, Fingerhut owns a 188,000 square foot office building in Minnetonka, Minnesota, a 186,000 square foot data and technology center in Plymouth, Minnesota, buildings in St. Cloud, Minnesota with an aggregate of approximately 1.9 million square feet, buildings in Alexandria, Minnesota with an aggregate of approximately 53,000 square feet and buildings in Mora, Minnesota with approximately 160,000 square feet. Figi's owns buildings in Marshfield, Wisconsin with an aggregate of approximately 317,000 square feet. Tennessee Distribution, Inc., a subsidiary of the Company, has beneficial ownership of a one million square foot warehouse and distribution facility near Bristol, Tennessee. Western Distribution, Inc., a subsidiary of the Company, owns a one million square foot warehouse and distribution facility near Spanish Fork, Utah.

The Company leases the remainder of the facilities it uses, which consist of office, photo studio, operations and warehouse space. The Company believes its facilities are suitable to its businesses and that it will be able to lease or purchase additional facilities as needed.

## Item 3. Legal Proceedings

The Company is a party to various claims, legal actions, disputes and other complaints arising in the ordinary course of

business. In the opinion of management, any losses that may occur are adequately covered by insurance, are provided for in the financial statements, or are without merit and the ultimate outcome of these matters will not have a material effect on the financial position or operations of the Company.

In October 1995, the Company was served with a legal action commenced in federal district court in Arizona by two shareholders against the Company, a current officer and a former officer alleging violations of Sections 10(b) and 20 of the Securities Exchange Act of 1934, as amended and Rule 10b-5 thereunder. The complaint (i) alleges that the Company made false and misleading statements or omissions with respect to its plans regarding a proposed television shopping network, (ii) requests certification as a class action on behalf of shareholders of the Company who purchased Common Stock during a specified period and (iii) alleges unspecified damages. The Company considers the plaintiffs' claims to be without merit and intends to vigorously defend the matter. Venue has been transferred to federal district court in Minnesota. On May 29, 1997, the court granted the Company's motion to dismiss with leave for plaintiffs to file an amended complaint. On July 17, 1997, plaintiffs served their amended complaint. In lieu of an answer, the Company filed a motion to dismiss on September 15, 1997. The Company's reply brief was filed on January 19, 1998.

On August 14, 1997, Fingerhut Corporation was served with a summons and class action complaint commenced in Minnesota District Court, Fourth Judicial District, on behalf of named plaintiffs in ten states. The alleged class consists of "Fingerhut customers whose contracts are declared by Fingerhut to be governed by Minnesota law." The complaint alleges violations of the usury law, deceptive trade practices and consumer fraud based on Fingerhut's use of the "time price" doctrine in its credit sales. The plaintiffs' claims are substantially identical to the claims asserted in an earlier case brought against Fingerhut in the same court. The court granted summary judgment in favor of Fingerhut in that case in March 1997. The plaintiffs in that case did not appeal the summary judgment, and their counsel has refiled their claims on behalf of new members of the purported plaintiff class. Fingerhut responded to the complaint by filing a motion for judicial reassignment. The court denied this motion. Fingerhut has filed a motion for summary judgment on the plaintiffs' claims.

#### Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of the Company's fiscal year ended December 26, 1997.

## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The information required by this item is set forth in "Quarterly Financial and Stock Data" on page 47 of the Company's Annual Report to Shareholders for the fiscal year ended December 26, 1997 (the "1997 Annual Report") and is incorporated herein by reference.

### Item 6. Selected Financial Data

The information required by this item is set forth under the caption "Five Year Summary of Selected Consolidated Financial Data" on page 15 of the 1997 Annual Report and is incorporated herein by reference.

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

The information required by this item is set forth under the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Forward Looking Statements" on pages 16 to 24 of the 1997 Annual Report and is incorporated herein by reference.

### Item 7a. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is set forth under the caption "Qualitative and Quantitative Disclosures About Market Risk" on pages 22 to 23 of the 1997 Annual Report and is incorporated herein by reference.

### Item 8. Financial Statements and Supplementary Data

The audited Consolidated Financial Statements of the Registrant and independent auditors' report thereon and the unaudited Quarterly Financial and Stock Data set forth on pages 25 to 47 of the 1997 Annual Report are incorporated herein by reference.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

## PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this item with respect to directors is set forth under "Proposal 1: Election of Directors" in the Company's proxy statement for the annual meeting of shareholders to be held on May 6, 1998, which will be filed within 120 days of December 26, 1997 (the "Proxy Statement") and is incorporated herein by reference. The information required by this item with respect to executive officers is, pursuant to instruction 3 of Item 401(b) of Regulation S-K, set forth in Part I of this Form 10-K under "Business--Executive Officers of the Registrant." The information required by this item with respect to reports required to be filed under Section 16(a) of the Securities Exchange Act of 1934 is set forth under "Security Ownership of Certain Beneficial Owners and Management\_Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item is set forth under "Executive Compensation" in the Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is set forth under "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information required by this item is set forth under "Arrangements and Transactions with Related Parties" in the Proxy Statement and is incorporated herein by reference.

With the exception of the information incorporated by reference in Items 10-13 above, the Proxy Statement is not to be deemed filed as part of this Form 10-K.

PART IV

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

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

1. Consolidated Financial Statements.

The following consolidated financial statements, the related notes and the report of the Company's independent auditors are incorporated herein by reference from the 1997 Annual Report as part of this report at Item 8 hereof:

Independent Auditors' Report dated January 21, 1998.

Consolidated Statements of Earnings for each of the three fiscal years ended December 26, 1997.

Consolidated Statements of Financial Position at December 26, 1997 and December 27, 1996.

Consolidated Statements of Changes in Stockholders' Equity for each of the three fiscal years ended December 26, 1997.

Consolidated Statements of Cash Flows for each of the three fiscal years ended December 26, 1997.

Notes to Consolidated Financial Statements.

With the exception of the foregoing information and the information incorporated by reference in Items 5-8 of this Part II, the 1997 Annual Report is not to be deemed filed as part of this Form 10-K.

2. Financial Statement Schedule: The following schedule for each of the three years ended December 26, 1997 is included in this Form 10-K:

Independent Auditors' Report on consolidated financial statement schedule dated January 21, 1998.

Schedule II - Valuation and Qualifying Accounts.

Certain schedules have been omitted because they are not required under the related instructions or are inapplicable, or because the required information is included elsewhere in the financial statements or related notes.

(b) Reports on Form 8-K: None

(c) Exhibits: See Exhibit Index on page 25 of this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 24th day of March, 1998.

FINGERHUT COMPANIES, INC.  
(Registrant)

By /s/Theodore Deikel  
Theodore Deikel  
Chairman of the Board,  
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Fingerhut Companies, Inc., the Registrant, and in the capacities and on the dates indicated.

Signature	Title	Date
Principal executive officer and director:	Chairman of the Board, Chief Executive Officer and President	March 24, 1998

/s/ Theodore Deikel  
Theodore Deikel

Principal financial officer:	Senior Vice President, Chief Financial Officer	March 24, 1998
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/s/Gerald T. Knight  
Gerald T. Knight

Principal accounting officer:	Corporate Controller	March 24, 1998
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/s/Thomas C. Vogt  
Thomas C. Vogt

Directors:



/s/Wendell R. Anderson Wendell R. Anderson	Director	March 13, 1998
/s/Edwin C. Gage Edwin C. Gage	Director	March 24, 1998
/s/Stanley S. Hubbard Stanley S. Hubbard	Director	March 14, 1998
/s/Kenneth A. Macke Kenneth A. Macke	Director	March 18, 1998
/s/Dudley C. Mecum Dudley C. Mecum	Director	March 24, 1998
/s/John M. Morrison John M. Morrison	Director	March 23, 1998
/s/Christina L. Shea Christina L. Shea	Director	March 20, 1998

EXHIBIT INDEX

Exhibit

Number	Description of Exhibit
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Articles of Incorporation and Bylaws

3.a	Amended and Restated Articles of Incorporation of the Registrant (restated in electronic format as amended to July 29, 1993) (Incorporated by reference to Exhibit 3.a to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 31, 1993).
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3.b	Bylaws of the Registrant (restated in electronic format as amended to July 29, 1993) (Incorporated by reference to Exhibit 3.b to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 31, 1993).
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Material Contracts

- 10.a Amended and Restated Pooling and Servicing Agreement dated as of January 12, 1997 among Fingerhut Receivables, Inc., as Transferor, Fingerhut National Bank, as Servicer, and The Bank of New York (Delaware), as Trustee.
- (i) Series 1994-2 Supplement dated as of November 15, 1994 (Incorporated by reference to Exhibit 10.b(ii) to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 31, 1994).
- (ii) Amended and Restated Series 1997-1 Supplement dated as of April 21, 1997 (Incorporated by reference to Exhibit 10.a(iii) to Registrant's Quarterly Report on Form 10-Q (File No. 1-8668) for the second quarter ended June 27, 1997).
- 10.b Purchase Agreement dated as of January 12, 1997 between Fingerhut Companies, Inc., as Buyer, and Fingerhut National Bank, as Seller (Incorporated by reference to Exhibit 4(g) to Fingerhut Receivables, Inc. Registration Statement on Form S-1 (File No. 333-4559)).
- 10.c Pooling and Servicing Agreement dated as of May 26, 1995 among Metris Receivables, Inc. (formerly Fingerhut Financial Services Receivables, Inc.), as Transferor, Direct Merchants Credit Card Bank, National Association, as Servicer, and The Bank of New York (Delaware), as Trustee (Incorporated by reference to Exhibit 10.u to Registrant's Quarterly Report on Form 10-Q (File No. 1-8668) for the fiscal quarter ended June 30, 1995).
- (i) Amendment No. 1 to the Pooling

and Servicing Agreement dated as of June 10, 1996 (Incorporated by reference to Exhibit 10.a(iii) to Metris Companies Inc.'s Registration Statement on Form S-1 (No. 333-10831)).

- (ii) Amendment No. 2 to the Pooling and Servicing Agreement dated as of September 16, 1996 (Incorporated by reference to Exhibit 10.a(iv) to Metris Companies Inc.'s Registration Statement on Form S-1 (No. 333-10831)).
- (iii) Amended and Restated Series 1995-1 Supplement dated as of September 16, 1996 (Incorporated by reference to Exhibit 10.a(i) to Metris Companies Inc.'s Registration Statement on Form S-1 (No. 333-10831)).
- (iv) Series 1996-1 Supplement dated as of April 23, 1996 (Incorporated by reference to Exhibit 10.a(ii) to Metris Companies Inc.'s Registration Statement on Form S-1 (No. 333-10831)).
- (v) Series 1997-1 Supplement dated as of May 8, 1997 (Incorporated by reference to Exhibit 10.a(v) to Metris Companies Inc. Quarterly Report on Form 10-Q (File No. 001-12351) for the fiscal quarter ended June 30, 1997.
- (vi) Amendment No. 3 to the Pooling and Servicing Agreement dated as of September 30, 1997 (Incorporated by reference to Exhibit 4(d) to Metris Receivables, Inc. and Metris Master Trust Registration Statement on Form S-3 (No. 333-36503)).
- (vii) Series 1997-2 Supplement dated as of November 20, 1997 (Incorporated by reference to Metris Companies Inc. Annual Report on Form 10-K

(File No. 001-12351) for the fiscal year ended December 31, 1997).

- 10.d\* Fingerhut Corporation Profit Sharing and 401(k) Savings Plan, as amended and restated.
- 10.e\* Intentionally left blank.
- 10.f\* Fingerhut Corporation Pension Plan 1990 Revision (Incorporated by reference to Exhibit 10(f) to Registrant's Registration Statement on Form S-1 (No. 33-33923)).
- 10.g\* Fingerhut Companies, Inc. Stock Option Plan (Incorporated by reference to Exhibit 10(h) to Registrant's Registration Statement on Form S-1 (No. 33-33923)).
- (i)\* Amendment dated as of February 4, 1997 (Incorporated by reference to Exhibit 10.g(i) to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 27, 19
- 10.h\* Executive Tax Planning/Preparation and Financial Planning Policy (Incorporated by reference to Exhibit 10.h to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 31, 1994).
- 10.i\* Fingerhut Companies, Inc. 1995 Long-Term Incentive and Stock Option Plan (Incorporated by reference to Exhibit 10.i to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 29, 1995).
- (i)\* Amendment dated as of February 4, 1997 (Incorporated by reference to Exhibit 10.i(i) to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 27, 1996).

- (ii)\* Form of option agreement (Incorporated by reference to Exhibit 10.i(i) to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 29, 1995).
- (iii)\* Form of restricted stock agreement (Incorporated by reference to Exhibit 10.i(iii) to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 27, 1996).
- 10.j\* Fingerhut Companies, Inc. 1992 Long-Term Incentive and Stock Option Plan (Incorporated by reference to Exhibit 10(j) to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 25, 1992).
- (i)\* Amendment dated as of February 4, 1997 (Incorporated by reference to Exhibit 10.j(i) to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 27, 1996).
- 10.k\* Fingerhut Companies, Inc. and Subsidiaries 1997 Key Management Incentive Bonus Plan dated as of January 1997.
- 10.l\* Stock Option and Valuation Rights Agreement dated as of March 21, 1994, between Fingerhut Companies, Inc. and Ronald N. Zebeck, as amended (Incorporated by reference to Exhibit 10.l to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 29, 1995).
- (i)\* Amendment dated as of October 24, 1996 (Incorporated by reference to Exhibit 10.d(i) to Metris Companies Inc.'s Annual Report on Form 10-K (File No. 001-12351) for the fiscal year ended

December 31, 1996.)

- 10.m\* Fingerhut Companies, Inc. Directors' Retainer Stock Deferral Plan (Incorporated by reference to Exhibit 10.m to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 31, 1993).
- 10.n Amended and Restated Revolving Credit and Letter of Credit Facility dated as of September 16, 1996, among Fingerhut Companies, Inc., the Guarantors party thereto, the Lenders party thereto, the Issuing Banks party thereto, The Chase Manhattan Bank, as Administrative Agent and NationsBank, N.A., as Co-Agent (Incorporated by reference to Exhibit 10.n to Registrant's Quarterly Report on Form 10-Q (File No. 1-8668) for the fiscal quarter ended September 27, 1996).
- 10.o\* Fingerhut Corporation Deferred Compensation Plan.
- 10.p Revolving Credit and Letter of Credit Facility Agreement dated as of September 16, 1996 among Metris Companies Inc., the Lenders party thereto, the Issuing Banks party thereto, and The Chase Manhattan Bank, as Administrative Agent (Incorporated by reference to Exhibit 10.s to Metris Companies Inc.'s Registration Statement on Form S-1 (No. 333-10831)).
- 10.q\* Metris Companies Inc. Long-Term Incentive and Stock Option Plan (Incorporated by reference to Exhibit 10.h to Metris Companies Inc. Annual Report on Form 10-K (File No. 001-12351) for the fiscal year ended December 31, 1996).
- (i)\* Form of option agreement (Incorporated by reference to Exhibit 10.h(i) to Metris

Companies Inc. Annual Report on Form 10-K (File No. 001-12351) for the fiscal year ended December 31, 1996).

- 10.r Indenture dated as of September 15, 1996 between Fingerhut Companies, Inc. and First Bank, National Association, as trustee (Incorporated by reference to Ex. 4.1 to Registrant's Registration Statement on Form S-4 (No. 333-15491)).
- 10.s Purchase Agreement dated as of June 15, 1992, relating to \$60,500,000 of 8.92% Senior Unsecured Notes, Series A, due June 15, 2002 and \$14,500,000 of 8.92% Senior Unsecured Notes, Series B, due June 15, 2004 (Incorporated by reference to Exhibit 10(s) to Registrant's Quarterly Report on form 10-Q (File No. 1-8668) for the fiscal quarter ended June 26, 1992).
- (i) First Amendment Agreement dated as of June 17, 1994. This document is being omitted from filing pursuant to Instruction 2 to Item 601 of Regulation S-K.
  - (ii) Second Amendment dated as of October 30, 1995. This document is being omitted from filing pursuant to Instruction 2 to Item 601 of Regulation S-K.
  - (iii) Fourth Amendment dated as of August 14, 1996 (Incorporated by reference to Exhibit 10.s(iii) to Registrant's Quarterly Report on Form 10-Q (File No 1-8668) for the fiscal quarter ended September 27, 1996).
- 10.t Purchase Agreement dated as of August 1, 1993, relating to the sale of \$45,000,000 of 6.83% Senior Unsecured Notes, Series C, due August 1, 2000 (Incorporated by

reference to Exhibit 10.t to Registrant's Quarterly Report on Form 10-Q (File No. 1-8668) for the fiscal quarter ending September 24, 1993).

- (i) First Amendment Agreement dated as of June 17, 1994. This document is being omitted from filing pursuant to Instruction 2 to Item 601 of Regulation S-K.
- (ii) Second Amendment Agreement dated as of October 30, 1995. This document is being omitted from filing pursuant to Instruction 2 to Item 601 of Regulation S-K.
- (iii) Fourth Amendment Agreement dated as of August 14, 1996. This document is being omitted from filing pursuant to Instruction 2 to Item 601 of Regulation S-K.

10.u\* Fingerhut Corporation Pension Excess Plan-1996 Revision (Incorporated by reference to Exhibit 10.u to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 27, 1996).

10.v\* Fingerhut Corporation Profit Sharing Excess Plan-1996 Revision (Incorporated by reference to Exhibit 10.v to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 27, 1996).

10.w\* Fingerhut Companies, Inc. Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.w to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 29, 1995).

- (i)\* First Amendment to the Fingerhut Companies, Inc. Supplemental Executive Retirement Plan.



- 10.x\* Fingerhut Companies, Inc. Nonemployee Director Stock Option Plan (Incorporated by reference to Exhibit 10.x to Registrant's Annual Report on Form 10-K (File No. 1-8668) for the fiscal year ended December 29, 1995).
- 10.y Co-Brand Credit Card Agreement dated as of October 31, 1996 between the Registrant and Fingerhut Corporation (Incorporated by reference to Exhibit 10.k to Metris Companies Inc.'s Annual Report on Form 10-K (File No. 001-2351) for the fiscal year ended December 31, 1996).
- 10.z Extended Service Plan Agreement dated as of October 31, 1996 between the Registrant and Fingerhut Corporation (Incorporated by reference to Exhibit 10.1 to Metris Companies Inc.'s Annual Report on Form 10-K (File No. 001-2351) for the fiscal year ended December 31, 1996).
- 10.aa Database Access Agreement dated as of October 31, 1996 between the Registrant and Fingerhut Corporation (Incorporated by reference to Exhibit 10.m to Metris Companies Inc.'s Annual Report on Form 10-K (File No. 001-2351) for the fiscal year ended December 31, 1996).
- 10.bb Administrative Services Agreement dated as of October 31, 1996 between the Registrant and Fingerhut Companies, Inc. (Incorporated by reference to Exhibit 10.n to Metris Companies Inc.'s Annual Report on Form 10-K (File No. 001-2351) for the fiscal year ended December 31, 1996).

10.cc Tax Sharing Agreement dated as of October 31, 1996 between the Registrant and Fingerhut Companies, Inc. (Incorporated by reference to Exhibit 10.o to Metris Companies Inc.'s Annual Report on Form 10-K (File No. 001-2351) for the fiscal year ended December 31, 1996).

10.dd Registration Rights Agreement dated as of October 31, 1996 between the Registrant and Fingerhut Companies, Inc. (Incorporated by reference to Exhibit 10.p to Metris Companies Inc.'s Annual Report on Form 10-K (File No. 001-2351) for the fiscal year ended December 31, 1996).

10.ee Data Sharing Agreement dated as of October 31, 1996 between Fingerhut Corporation and Direct Merchants Credit Card Bank, National Association (Incorporated by reference to Exhibit 10.q to Metris Companies Inc.'s Annual Report on Form 10-K (File No. 001-2351) for the fiscal year ended December 31, 1996).

10.ff Purchase Agreement dated as of January 12, 1997 between Fingerhut Receivables, Inc., as Buyer, and Fingerhut Companies, Inc., as Seller (Incorporated by reference to Exhibit 4(f) to Fingerhut Receivables, Inc. Registration Statement on Form S-1 (File No. 333-4559)).

#### Other Exhibits

11 Computation of Earnings per Share

13 Pages 15 to 47 of the 1997 Annual Report to Shareholders. The 1997 Annual Report shall not be deemed

to be filed with the Commission except to the extent that information is specifically incorporated herein by reference. Exhibit 13 also includes a financial statement schedule, and independent auditors' report thereon, that was not part of the 1997 Annual Report.

21 Subsidiaries of the Registrant

23 Consent of KPMG Peat Marwick LLP

27 Financial Data Schedules for fiscal year ended December 26, 1997; restated for fiscal years ended December 29, 1995 and December 27, 1996 and the fiscal quarters ended March 29, 1996, June 28, 1996 and September 27, 1996; and restated for fiscal quarters ended March 28, 1997, June 27, 1997 and September 27, 1997.

99 Cautionary Statement Regarding Forward Looking Statements

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\*Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

FINGERHUT CORPORATION  
PROFIT SHARING AND 401(K) SAVINGS PLAN

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FINGERHUT CORPORATION  
PROFIT SHARING AND 401(K) SAVINGS PLAN

ARTICLE

1.

DESCRIPTION AND PURPOSE

1.1. Plan Name.

The name of the Plan is the "Fingerhut Corporation Profit Sharing and 401(k) Savings Plan."

1.2. Plan Description.

The Plan is a profit sharing plan providing for Pre-Tax Contributions pursuant to a qualified cash or deferred arrangement, with Matching Contributions and discretionary Profit Sharing Contributions by Participating Employers. The Plan is intended to qualify under Code section 401(a) and to satisfy the requirements of Code sections 401(k) and 401(m). Notwithstanding the designation of the Plan as a profit sharing plan, a Participating Employer may make contributions to the Plan even though it has no current or accumulated earnings and profits.

1.3. Plan Background.

(A) The Plan was originally established, effective January 15, 1960, by Wiman Manufacturing Co. and, effective as of March 28, 1969, sponsorship of the Plan was assumed by the Company. Effective July 3, 1976, the Plan was amended and restated to comply with the requirements of the Employee Retirement Income Security Act of 1974.

(B) For purposes of incorporating Plan amendments adopted after 1976, to conform the Plan document with the requirements of the Tax Equity and Fiscal Responsibility Act of 1982, the Deficit Reduction Act of 1984 and the Retirement Equity Act of 1984 and to make certain other administrative changes to the Plan, the Plan was amended and restated to read as set forth in the 1985 Revision.

(C) In order to conform with the requirements of the Tax Reform Act of 1986, the Technical and Miscellaneous Revenue Act of 1988 and rulings and regulations issued subsequent to the adoption of the 1985 Revision of the Plan and to incorporate into a single Plan document amendments to the 1985 Revision of the Plan, the Plan was amended and restated to read as set forth in the 1989 Revision.

(D) Effective generally as of July 1, 1997, the Plan was amended and restated to add a qualified cash or deferred arrangement under Code section 401(k), to change the name of the Plan to the "Fingerhut Corporation Profit Sharing and 401(k) Savings Plan,"

to add a Matching Contribution in the form of Fingerhut Stock, to eliminate Voluntary Contributions, to comply with changes in applicable law, to make certain other miscellaneous changes and to incorporate into a single Plan document amendments to the 1989 Revision of the Plan.

#### 1.4. Plan Purposes.

The purposes of the Plan are to promote effort and cooperation on the part of Active Participants; to provide a measure of economic security to Active Participants by accumulating contributions for distribution upon retirement, as a supplement to other resources then available; and to permit Active Participants to share in the profits and growth of their Participating Employer.

### ARTICLE

#### 2.

### ELIGIBILITY

#### 2.1. Eligibility Requirements.

(A) Each Employee who was eligible to participate in the Plan on June 30, 1997 will continue to be eligible to participate in the Plan on July 1, 1997 if he or she continues to be a Qualified Employee.

(B) An Employee is eligible to participate in the Plan:

(1) for the purpose of having a rollover or transfer made on his or her behalf pursuant to Section 3.4, on the date on which he or she first completes an Hour of Service of the type specified at Section 10.4(A)(1) as a Qualified Employee, and

(2) for the purposes of having Pre-Tax and Matching Contributions made on his or her behalf pursuant to Sections 3.1 and 3.2 and being eligible to share in the allocation of Profit Sharing Contributions pursuant to Section 3.3, on the later of (a) the day on which he or she attains age 21 and (b) the last day of the first Eligibility Service Computation Period during which he or she completes one year of Eligibility Service, if he or she is a Qualified Employee on the date on which he or she would otherwise be eligible to participate; provided, however, that any Employee hired prior to July 1, 1997 is not subject to the requirement that he or she attain age 21 to be eligible to participate in the Plan.

(C) If an Employee or former Employee has satisfied the age and service requirements set forth in Subsection (B)(2) but is not a Qualified Employee on the day on which he or she would otherwise be eligible to participate in the Plan, he or she will become



eligible to participate as of the first following day on which he or she performs an Hour of Service of the type specified at Section 10.4(A)(1) as a Qualified Employee.

(D) Notwithstanding Subsection (B)(2), in conjunction with an acquisition, the Company's Board may specify a special entry date for those Qualified Employees with respect to whom pre-acquisition service is taken into account pursuant to Section 10.7.

## 2.2. Transfer Among Participating Employers.

A Participant who transfers from one Participating Employer to another Participating Employer as a Qualified Employee will participate in the Plan for the Plan Year during which the transfer occurs on the basis of his or her separate Eligible Earnings for the Plan Year from each such Participating Employer.

## 2.3. Multiple Employment.

A Participant who is simultaneously employed as a Qualified Employee with more than one Participating Employer will participate in the Plan as a Qualified Employee of all such Participating Employers on the basis of his or her separate Eligible Earnings from each such Participating Employer.

## 2.4. Reentry.

An Active Participant who ceases to be a Qualified Employee will be eligible to resume active participation in the Plan as of the first following day on which he or she completes an Hour of Service of the type specified at Section 10.4(A)(1) as a Qualified Employee.

## 2.5. Condition of Participation.

Each eligible Qualified Employee, as a condition of participation, is bound by all the terms and conditions of the Plan and must furnish to the Administrator such pertinent information and execute such instruments as the Administrator may require.

## 2.6. Termination of Participation.

A Participant will cease to be such as of the later of the date on which

- (a) he or she ceases to be a Qualified Employee, or
- (b) all benefits, if any, to which he or she is entitled under the Plan have been distributed.

ARTICLE  
3.  
CONTRIBUTIONS

3.1. Pre-Tax Contributions.

(A) Subject to the limitations of Article IX, for each Plan Year the Participating Employer of each Active Participant will make Pre-Tax Contributions to the Trust on behalf of the Participant in the amount by which the Participant's Eligible Earnings have been reduced in accordance with the succeeding provisions of this section. Pre-Tax Contributions will be paid to the Trustee as soon as administratively practicable after the date on which the Participant would have received the Eligible Earnings but for the Participant's election pursuant to this section, but in no event later than the fifteenth business day of the month following the month in which the Participant would have received the Eligible Earnings but for his or her election pursuant to this section.

(B) Except as provided in Subsection (C), an Active Participant's Eligible Earnings will be reduced in accordance with the following rules:

(1) An Active Participant may elect to reduce his or her Eligible Earnings by any one percent increment from one percent to a maximum of eight percent, and the percentage so elected will automatically apply to his or her Eligible Earnings as adjusted from time to time. Plan Rules may, however, specify a lower maximum percentage for Active Participants who are Highly Compensated Employees.

(2) In conjunction with an Active Participant's entering or reentering the Plan pursuant to Article II, reduction of his or her Eligible Earnings will begin as soon as administratively practicable after the Administrator or the Administrator's designate receives the Active Participant's complete and accurate election. The election must be made in accordance with and is subject to Plan Rules.

(3) An Active Participant may elect to change the percentage rate at which his or her Eligible Earnings will be reduced. The election must be made in accordance with and is subject to Plan Rules. The election will become effective as soon as administratively practicable after the date on which the Administrator or the Administrator's designate receives a complete and accurate election.

(4) An Active Participant may elect to suspend Eligible Earnings reductions. The election must be made in accordance with and is subject to Plan Rules. The election will become

effective as soon as administratively practicable after the date on which the Administrator or the Administrator's designate receives a complete and accurate election. Eligible Earnings reductions for any Active Participant who makes a hardship withdrawal pursuant to Section 6.1 will be automatically suspended for the 12-month period beginning on the date of the withdrawal distribution.

(5) An Active Participant whose Eligible Earnings reductions have ceased by reason of automatic or voluntary suspension may, after the end of the suspension period, resume Eligible Earnings reductions in accordance with clause (3).

(C) Eligible Earnings reductions will be made in accordance with Plan Rules. If any election or notice made by an Active Participant in such manner as provided by the Administrator is not processed on a timely basis or if, for any reason, an Active Participant's Eligible Earnings are not reduced in accordance with his or her election, no retroactive adjustments will be made to take into account the effect of any such delay or failure. Plan Rules may, however, permit an Active Participant to elect to reduce his or her Eligible Earnings payable during any remaining portion of the Plan Year in which the delay or failure occurred at more than the otherwise applicable percentage to adjust for the effect of such delay or failure so long as the total reductions for the Plan Year do not exceed the applicable maximum percentage or limitations of Article IX. No Pre-Tax Contributions will be made on behalf of a Participant with respect to a period during which he or she is not an Active Participant.

### 3.2. Matching Contributions.

(A)

(1) Subject to Subsection (D) and the limitations of Article IX, for each Plan Year the Participating Employer of each Active Participant will make a Matching Contribution on behalf of the Participant in an amount equal to the lesser of (a) 50 percent of the Pre-Tax Contributions made by the Participating Employer on the Participant's behalf for the Plan Year and (b) one and one-half percent of the Participant's Eligible Earnings from the Participating Employer for the Plan Year.

(B) A Participating Employer's Matching Contributions for a Plan Year will be paid to the Trustee on such date or dates during or following such Plan Year as the Participating Employer may elect but in no case more than 12 months after the end of the Plan Year.

(C) Matching Contributions will be made in the form of cash.

(D) No Matching Contributions will be made with respect to any portion of an Active Participant's Pre-Tax Contributions that is distributed to the Participant pursuant to Article IX; provided that for this purpose unmatched Pre-Tax Contributions will be deemed to be returned to the Participant first. If the Administrator determines that any Matching Contributions that have been added to a Participant's Matching Account should not have been added by reason of this subsection, the contributions will be subtracted from such Account as soon as administratively practicable after the determination and will be applied to satisfy the Matching Contribution obligations of the Participating Employer that made the excess Matching Contributions for the Plan Year in which such excess contributions were made. If, because of the passage of time, the excess cannot be applied to satisfy the Participating Employer's Matching Contribution obligations for the Plan Year in which the excess contribution was made, the excess will, subject to the limitations of Article IX, be allocated, in the discretion of the Administrator

(1) among the Matching Accounts of all Active Participants who made Pre-Tax Contributions for the Plan Year as Qualified Employees of the Participating Employer as if it were an additional Matching Contribution by the Participating Employer for such Plan Year, or

(2) as a corrective contribution pursuant to Section 3.6.

### 3.3. Voluntary Contributions.

Effective July 1, 1997, Voluntary Contributions are no longer permitted under this Plan.

### 3.4. Profit Sharing Contributions.

(A) Each Participating Employer may, but is not required to, make a Profit Sharing Contribution for any Plan Year in an amount, if any, determined by the Participating Employer's Board.

(B) To be eligible to share in a Participating Employer's Profit Sharing Contribution for a particular Plan Year, a Participant must have entered the Plan as a Participant for the purpose of being eligible to share in the allocation of the Profit Sharing Contribution for the Plan Year, received Eligible Earnings for the Plan Year from the Participating Employer with respect to a period during which he or she was an Active Participant employed by the Participating Employer and either -

(1) completed at least 500 Hours of Service during the Plan

Year and been employed with an Affiliated Organization on the last day of the Plan Year, or

- (2) terminated employment during the Plan Year
  - (a) at or after his or her Normal Retirement Date,
  - (b) on account of his or her death, or
  - (c) on account of his or her becoming Disabled; provided, that this condition will be applied only once with respect to a Participant, such sole application being made for the Plan Year during which this clause first applies and the conditions under clause (1) are not satisfied.

(C) Subject to the limitations of Article IX, each eligible Participant will receive an allocation of his or her Participating Employer's Profit Sharing Contribution in the same proportion as his or her Eligible Earnings for the Plan Year bears to the total Eligible Earnings for the Plan Year of all Participants eligible to receive an allocation of the Participating Employer's Profit Sharing Contribution for the Plan Year.

(D) A Participating Employer's Profit Sharing Contribution for a Plan Year, if any, will be paid to the Trustee on such date or dates during or following the Plan Year as the Participating Employer may elect but in no case later than 12 months after the end of the Plan Year.

### 3.5. Rollovers and Transfers.

(A) An Active Participant may, with the prior consent of the Administrator, contribute to the Trust, in a direct rollover pursuant to Code section 401(a)(31) or within 60 days of receipt,

- (1) the balance of an individual retirement account to which the only contributions have been one or more "eligible rollover distributions," within the meaning of Code section 402(c)(4), from a plan qualified under Code section 401(a), or

- (2) an eligible rollover distribution from such a qualified plan.

(B) With the prior consent of the Administrator, the accounts under another plan qualified under Code section 401(a) of an Active Participant may be transferred directly to the Trust. Other than in connection with an acquisition, such a transfer will not be permitted if, as a result of the transfer, the Plan would be required to provide any option with respect to the form

or time of distribution or any other right, benefit or feature not available under the Plan prior to the transfer.

(C) Other than in connection with an acquisition, any contribution or transfer to the Trust pursuant to Subsection (A) or (B) must be made in cash and will be credited to the Active Participant's Rollover Account.

### 3.6. Corrective Contributions.

For any Plan Year a Participating Employer may contribute to the Matching Contribution Accounts or Profit Sharing Accounts of Active Participants who are not Highly Compensated Employees, or any group of such Active Participants, such amounts as it deems advisable to assist the Plan in satisfying the requirements of Sections 9.2, 9.3 and 9.4, or any other requirement under the Code or Treasury Regulations, for such Plan Year. Subject to the limitations of Article IX, such contributions will be allocated among the Matching Contribution Accounts of such Active Participants in proportion to the Pre-Tax Contributions made on their behalf for the Plan Year and to their Profit Sharing Accounts in proportion to their Eligible Earnings for the Plan Year. Each such contribution will be treated, for all purposes of the Plan, in the same manner as other contributions allocated to the same Account.

## ARTICLE

### 4.

#### ACCOUNTS AND VALUATION

##### 4.1. Establishment of Accounts.

The following Accounts will be established and maintained for each Participant:

- (a) A Pre-Tax Account, to which there will be credited any Pre-Tax Contributions made on the Participant's behalf;
- (b) A Matching Account, to which there will be credited any Matching Contributions made on the Participant's behalf;
- (c) A Profit Sharing Account, to which there will be credited any Profit Sharing Contributions made on the Participant's behalf;
- (d) A Voluntary Account to which there will be credited any Voluntary Contributions made by the Participant; and

- (e) A Rollover Account, to which there will be credited any rollover or trust-to-trust transfers made by or on behalf of the Participant.

One or more additional accounts may be established for any Participant or group of similarly situated Participants in connection with the merger of another plan into the Plan, in which case provisions of the Plan applicable solely to such Accounts will be set forth on an exhibit to the Plan in accordance with Section 14.5.

#### 4.2. Valuation and Account Adjustment.

(A) Subject to Subsection (B), Participants' Accounts will be separately adjusted on a daily basis in a uniform and equitable manner to reflect income, expense, gains and losses of the Fund as well as contributions, withdrawals and distributions.

(B) Participants' Matching Accounts will be accounted for in a uniform and equitable manner on the basis of the number of full and fractional shares of Fingerhut Stock credited to the Accounts. Accordingly, except as otherwise provided in Article 8 with respect to distributions of Matching Account balances in the form of cash, Participants' Matching Accounts will not be adjusted for the appreciation or depreciation in the value of Fingerhut Stock, such appreciation or depreciation being automatically reflected by the fair market value of shares of Fingerhut Stock credited to the Accounts.

#### 4.3. Allocations Do Not Create Rights.

The fact that amounts are added to the Accounts of a Participant does not vest in the Participant any right, title or interest in or to any portion of the Fund except at the time or times and upon the terms and conditions expressly set forth in the Plan. Notwithstanding any addition to an Account, the issuance of any statement or the distribution of all or any portion of an Account balance, the Administrator may cause the Account to be adjusted to the extent necessary to correct any error in such Account, whether caused by a misapplication of any provision of the Plan or otherwise, and may recover from any distributee the amount of any excess distribution. Any such adjustment will be made within a reasonable time after the error is discovered.

### ARTICLE

#### 5.

#### PARTICIPANT INVESTMENT DIRECTION

#### 5.1. Establishment of Investment Funds.

(A) In order to allow each Participant to determine the manner in which his or her Accounts will be invested, the Trustee will maintain, within the Trust, three or more separate investment funds of such nature and possessing such characteristics as the Administrator may specify from time to time. Each Participant's Accounts will be invested in the investment funds in the proportions directed by the Participant in accordance with the procedures set forth in Sections 5.2 and 5.3. The Administrator may, from time to time, establish additional investment funds or eliminate any existing investment fund.

(B) Notwithstanding any other provision of the Plan to the contrary, the Administrator may suspend Participant investment activity (including such activity in connection with the withdrawals and distributions) in any or all investment funds, or impose special rules or restrictions of uniform application, for a period determined by the Administrator to be necessary in connection with

- (1) the establishment or termination of any investment fund,
- (2) the receipt by the Trustee from, or transfer by the Trustee to, another trust of account balances in connection with an acquisition or divestiture or otherwise,
- (3) a change of Trustee or investment manager, or
- (4) such other circumstances determined by the Administrator as making such suspension or special rules or restrictions necessary or appropriate.

## 5.2. Contribution Investment Directions.

(A) In conjunction with his or her enrollment in the Plan, a Participant must direct the manner in which contributions to his or her Accounts, other than his or her Matching Account, will be invested among the investment funds maintained pursuant to Section 5.1. The direction must be made in accordance with and is subject to Plan Rules. To the extent a Participant fails to direct the investment of contributions to his or her Accounts, the contributions will be invested in accordance with Plan Rules.

(B) A Participant may direct a change in the manner in which future contributions to his or her Accounts, other than his or her Matching Account, will be invested among the investment funds maintained pursuant to Section 5.1. The direction must be made in accordance with and is subject to Plan Rules and will be effective as soon as administratively practicable after the date on which the Administrator or the Administrator's designate receives the direction from the Participant.



(C) Plan Rules will include procedures pursuant to which Participants are provided with the opportunity to obtain written confirmation of investment directions made pursuant to this Section.

### 5.3. Transfer Among Investment Funds.

(A) A Participant may direct the transfer of his or her Accounts other than his or her Matching Account among the investment funds maintained pursuant to Section 5.1. The direction must be made in accordance with and is subject to Plan Rules and will be effective on or as soon as administratively practicable after the date on which the Administrator or the Administrator's designate receives the direction from the Participant.

(B) Plan Rules will include procedures pursuant to which Participants are provided with the opportunity to obtain written confirmation of investment directions made pursuant to this section.

(C) Plan Rules may impose uniform limitations and restrictions applicable to transfers into and out of specific investment funds.

### 5.4. Investment of Matching Account in Fingerhut Stock.

(A) A Participant's Matching Account will be invested in Fingerhut Stock.

(B) Cash dividends paid on Fingerhut Stock credited to a Participant's Matching Account will be used to acquire additional shares of Fingerhut Stock which will be credited to the Account.

(C) Each Participant will be provided with the opportunity to direct the manner in which shares of Fingerhut Stock credited to his or her Matching Account as of the record date of any stockholder action will be voted in connection with such action. In the event of a public tender or exchange offer for shares of Fingerhut Stock, each Participant will be entitled to direct whether or not the shares of Fingerhut Stock credited to the Participant's Matching Account will be tendered or exchanged. The voting decisions relating to Fingerhut stock for which Participants have failed to provide direction shall be directed by the Employee Benefits Advisory Committee or its successor. Voting, tender or exchange decisions will be effected in accordance with applicable provisions of the Trust and Plan Rules that are consistent with the provisions of the Trust.

### 5.5. Investment Direction Responsibility Resides With Participants.

Neither any Affiliated Organization, the Administrator nor the Trustee has any authority, discretion, responsibility or liability with respect to a Participant's selection of the investment funds or other directed investments in which his or her Accounts will be invested, the entire authority, discretion and responsibility for, and any results attributable to, the selection being that of the Participant.

#### 5.6. Beneficiaries and Alternate Payees.

Solely for purposes of this article, the term "Participant" includes the Beneficiary of a deceased Participant and an alternate payee under a qualified domestic relations order within the meaning of Code section 414(p) unless otherwise provided in such order, but only after

(1) the Administrator has determined the identity of the Beneficiary and the amount of the Account balance to which he or she is entitled in the case of a Beneficiary of a deceased Participant, or

(2) the Administrator has, in accordance with Plan Rules, made a final determination that the order is a qualified domestic relations order and all rights to contest such determination in a court of competent jurisdiction within the time prescribed by Plan Rules have expired or been exhausted in the case of an alternate payee.

### ARTICLE

#### 6.

#### WITHDRAWALS DURING EMPLOYMENT AND LOANS

##### 6.1. Hardship Withdrawals.

(A) Subject to the provisions of Section 6.4, a Participant who is an Employee may withdraw from his or her Pre-Tax Account an amount not in excess of the portion of his or her Pre-Tax Account balance consisting of Pre-Tax Contributions. In addition, a Participant who is an Employee may withdraw an amount not in excess of the vested portion of his or her Matching Account or Profit Sharing Account. Such withdrawal(s) will be made only if the Administrator or its designate determines that the distribution is made on account of an immediate and heavy financial need of the Participant and is necessary to satisfy such financial need.

(B) A distribution will be deemed to be made on account of an immediate and heavy financial need only if it is determined by the Administrator or its designate to be on account of:

(1) expenses for medical care, described in Code section

213(d), incurred or to be incurred by the Participant, the Participant's spouse or the Participant's dependent (as described in Code section 152);

(2) costs directly related to the purchase (excluding mortgage payments) of a principal residence of the Participant;

(3) payment of tuition, related educational expenses and room and board expenses for the next 12 months of post-secondary education for the Participant or his or her spouse, child or other dependent;

(4) payments necessary to prevent the eviction of the Participant from his or her principal residence or foreclosure of the mortgage on the Participant's principal residence; or

(5) other hardships identified in Treasury Regulations.

(C) A distribution will be deemed to be necessary to satisfy the immediate and heavy financial need only if the Administrator or its designate determines that each of the following requirements is satisfied.

(1) The distribution is not in excess of the sum of the amount of the immediate and heavy financial need of the Participant plus, if elected by the Participant, the amount necessary to pay any federal, state or local taxes or penalties that the Participant will incur in connection with the distribution, as estimated by the Administrator in accordance with Plan Rules.

(2) The Participant has received all withdrawals and has taken all nontaxable loans available under the Plan and all other qualified plans maintained by any Affiliated Organization.

(3) All Pre-Tax Contributions under this Plan and all elective deferrals and after-tax employee contributions by or on behalf of the Participant under any other qualified or nonqualified plan of deferred compensation maintained by any Affiliated Organization are suspended for a period of 12 months following the date of the distribution.

(4) For the Participant's taxable year following the taxable year during which he or she receives the distribution, the amount of elective deferrals under any qualified plan maintained by any Affiliated Organization (including Pre-Tax Contributions pursuant to the Plan) that may be made on the Participant's behalf under Code section 402(g) is or will be reduced by the sum of such elective deferrals made on the Participant's behalf for the taxable year during which he or she receives the distribution.

(D) The Administrator's determination of the existence of a Participant's financial hardship and the amount that may be withdrawn to satisfy the need created by such hardship will be made in accordance with Treasury Regulations, and is final and binding on the Participant. The Administrator may require the Participant to make representations and certifications concerning his or her entitlement to a withdrawal pursuant to this section and is entitled to rely on such representations and certifications unless the Administrator has actual knowledge to the contrary. The Administrator is not obligated to supervise or otherwise verify that amounts withdrawn are applied in the manner specified in the Participant's withdrawal application.

## 6.2. Withdrawals After Attaining Age 59-1/2.

(A) Subject to the provisions of Section 6.4, a Participant who is an Employee and has attained age 59 may withdraw all or any portion of the vested balance of his or her Accounts.

(B) Withdrawals pursuant to this section will be charged first to the Participant's Voluntary Account, then to the Rollover Account, then to the Pre-Tax Account, then to the vested portion of the Participant's Matching Account and then to the vested portion of the Participant's Profit Sharing Account.

## 6.3. Other Withdrawals from Voluntary Account, Rollover Account and Profit Sharing Account.

Subject to the provisions of Section 6.4, a Participant who is an Employee may withdraw a portion of his or her Voluntary Account, Rollover Account and Profit Sharing Account, subject to the following:

(a) The Participant's Voluntary Account balance, if any, will be charged with the total amount requested, to the extent such amount does not exceed the amount then credited to the Participant's Voluntary Account.

(b) If the requested withdrawal exceeds the amount that can be charged against the Participant's Voluntary Account, and the Participant has a balance in his or her Rollover Account, the Participant's Rollover Account will be charged with the amount by which the requested withdrawal exceeds the Participant's Voluntary Account balance, to the extent such excess does not exceed the amount then credited to the Participant's Rollover Account.

(c) If the requested withdrawal exceeds the amount that can be charged against his or her Voluntary Account and his or her Rollover Account, then the Participant's Profit

Sharing Account will be charged with the amount by which the requested withdrawal exceeds his or her Voluntary Account and Rollover Account balances. The amount that may be withdrawn from the Participant's Profit Sharing Account may not exceed the lesser of:

(i) the amount by which the lesser of the amount set forth at (A) or (B), below, exceeds the aggregate gross amount of all previous withdrawals made by the Participant from his or her Profit Sharing Account:

(A) fifty percent (50%) of the vested percentage of his or her Profit Sharing Account;

(B) twenty-five percent (25%) of the Participant's Profit Sharing Account plus the aggregate gross amount of all previous withdrawals made from the Participant's Profit Sharing Account.

(ii) If the Participant has been participating under the Plan for less than five years, an amount such that, after the withdrawal, the remaining balance in the Participant's Profit Sharing Account is not less than the aggregate amount of contributions credited to his or her Profit Sharing Account during the two-year period ending on the date on which the withdrawal payment is made.

#### 6.4. Rules for Withdrawals.

(A) An application for withdrawal must be made in accordance with and is subject to Plan Rules.

(B) A withdrawal from a particular Account will be made on a pro rata basis among all investment funds in which the Account is invested.

(C) With respect to withdrawals under Section 6.3, only one withdrawal may be made during any Plan Year.

(D) The minimum amount of any withdrawal is \$200.

(E) Withdrawal distributions will be made by check drawn on the Trust as soon as administratively practicable after the Administrator's determination that a Participant is entitled to receive the withdrawal distribution and will be based on the

balance of the Participant's Accounts as of the close of business on the day before the day on which the distribution is made, provided that on and after the date on which the Administrator has announced to Participants that Fingerhut stock may be distributed "in kind" and at the election of the Participant, a withdrawal distribution from the Participant's Matching Account will be made in full shares of Fingerhut Stock, with cash in lieu of any fractional share.

(F) The provisions of Section 8.7(A) apply to any withdrawal distribution that constitutes an eligible rollover distribution within the meaning of Code section 402(c)(4).

(G) All Voluntary Contributions and all Fund earnings or losses with respect thereto will be treated as a separate contract under the Plan for purposes of Code section 72(d) and such contributions and earnings or losses will be separately accounted for in accordance with applicable Treasury Regulations. Insofar as the Plan permitted Participants to effect in-service withdrawals from their Voluntary Accounts on May 5, 1986, notwithstanding Subsection (A) all withdrawals from such Accounts pursuant to this Section 6.3 will be deemed to be made first from the Participant's investment in the contract as of December 31, 1986, and second, from the above-referenced separate section 72(d) contract.

#### 6.5. No Plan Loans.

Loans to Participants are not permitted under the Plan.

### ARTICLE

#### 7.

### VESTING AND FORFEITURES

#### 7.1. Vesting.

(A) Each Participant, at all times, has a fully vested nonforfeitable interest in his or her Pre-Tax Account, Voluntary Account and Rollover Account.

(B) A Participant will acquire a fully vested nonforfeitable interest in his or her Matching Account and Profit Sharing Account upon attaining his or her Normal Retirement Date while he or she is an Employee.

(C) A Participant will acquire a fully vested nonforfeitable interest in his or her Matching Account and Profit Sharing Account if he or she dies or becomes Disabled while he or she is an Employee.

(D) A Participant whose employment terminates prior to his or

her Normal Retirement Date other than by reason of his or her death or becoming Disabled will acquire a vested nonforfeitable interest in his or her Matching Account and Profit Sharing Account to the extent provided in the following schedule:

Years of Vesting Service	Vested Interest
Less Than One Year	0%
One Year	25%
Two Years	50%
Three Years	75%
Four or More Years	100%

## 7.2. Forfeiture Upon Distribution.

(A) If the entire vested balance of a Participant's Accounts is distributed not later than the last day of the second Plan Year following the Plan Year during which his or her employment terminates, and if the amount of such distribution was not more than \$3500 or the distribution was made with the Participant's consent, the nonvested portion of the Participant's Matching Account and Profit Sharing Account will, at the time of such distribution, be forfeited. A Participant who has no vested interest in his or her Profit Sharing Account at termination of employment will be deemed to have received a distribution of the entire vested balance in such Account upon such termination.

(B) If a Participant described in Subsection (A) (1) received a distribution of less than the entire balance of his or her Accounts, (2) resumes employment with a Participating Employer as a Qualified Employee, and (3) repays to the Trustee the full amount distributed (excluding the portion of the distribution, if any, attributable to his or her Voluntary Account) before the earlier of (a) five years following the date of reemployment as a Qualified Employee or (b) the date on which he or she incurs five consecutive One-Year Breaks in Service following the distribution, the amount of any forfeitures pursuant to Subsection (A) will be restored to the Participant's Matching Account and Profit Sharing Account, unadjusted for any changes in Fund value occurring after the distribution. The restoration will be made from forfeitures that arise for the Plan Year for which the restoration is to be made. To the extent such forfeitures are insufficient for such purpose, the Participating Employer with whom the Participant was last employed as a Qualified Employee prior to resumption of employment will contribute the amount required to restore the Account. A Participant described in the last sentence of Subsection (A) who is reemployed prior to incurring five consecutive One Year Breaks in Service following the distribution will be deemed to have

repaid his or her deemed distribution upon his or her reemployment as a Qualified Employee.

### 7.3. Other Forfeitures.

(A) Except as provided in Section 7.2, the nonvested portion of a Participant's Matching Account and Profit Sharing Account will continue to be held in a subaccount until the Participant incurs five consecutive One-Year Breaks in Service, at which time the subaccount balance will be forfeited. If the Participant resumes employment with an Affiliated Organization prior to incurring five consecutive One-Year Breaks in Service, the subaccount will be disregarded and its balance will be included in the Participant's Matching Account and Profit Sharing Account balances.

(B) A Participant's vested interest in his or her Profit Sharing Account and Matching Account balances following a resumption of employment in accordance with the last sentence of Subsection (A) at any given time will not be less than the amount "X" determined by the formula:  $X = P(AB + (R \times D)) - (R \times D)$ , where P is the Participant's vested percentage at the time of determination; AB is the Account balance at the time of determination; D is the amount of the distribution; and R is the ratio of the Account balance at the time of determination, to the balance immediately following the distribution.

### 7.4. Reallocation of Forfeitures.

All forfeitures occurring under this article in a Plan Year will be allocated as of the last day of the Plan Year as follows:

- (a) The forfeitures will first be applied to restore the Matching Account and Profit Sharing Accounts of Participants as provided in Section 7.2(B);
- (b) Subject to Section 13.2 any remaining forfeitures will be used by the Trustee to pay those Plan expenses designated by the Administrator; and
- (c) Any remaining forfeitures (including forfeitures of Participants' Matching Accounts) will be allocated to the Profit Sharing Accounts of those Participants (i) employed with the Participating Employer with whom the Participant whose Profit Sharing Account was forfeited was last employed and (ii) eligible to share in the Participating Employer's Profit Sharing Contribution for the Plan Year. The allocations will be made in the same manner as the Participating Employer's Profit Sharing Contribution for the Plan Year is allocated or would have been allocated had it been made.



ARTICLE

8.

DISTRIBUTIONS AFTER TERMINATION

8.1. Time and Form of Distribution.

(A) Following a Participant's termination of employment, the Trustee will distribute to the Participant or, if the Participant has died, to his or her Beneficiary, the aggregate vested balance of the Participant's Accounts. The amount of any such distribution made in the form of a lump sum payment will be equal to the net proceeds from the liquidation of the vested balance of the Accounts in connection with the distribution. Subject to the remaining subsections of this section and Section 8.7, distribution will be made in accordance with the following provisions-

(1) If the aggregate vested balance of the Participant's Accounts at the time of the distribution is not more than \$3500, distribution to the Participant, or the Participant's Beneficiary in the case of his or her death, will be made in the form of a lump sum payment as soon as administratively practicable following the Participant's termination of employment. This clause will not apply, however, if the aggregate vested balance of the Participant's Accounts exceeded \$3500 at the time of any previous distribution to the Participant.

(2) If clause (1) does not apply, distribution to the Participant will be made in the form of a lump sum payment, non-periodic payments or installment payments as elected by the Participant in accordance with the provisions of this Section 8.1 and Plan Rules. The distribution will be made or commence, according to the Participant's election (made in accordance with Plan Rules), on or as soon as administratively practicable after such date as the Participant specifies, but not later than the date specified under Subsection (C) unless the Participant elects to defer the distribution in the manner described in Subsection (B).

(3) Subject to clause (1) above, any distribution to the Participant's Beneficiary will be made at such time or times and in such manner as the Beneficiary elects in accordance with Subsection (E).

(4) All distributions will be made by delivery of a check drawn on the Trust; provided that at the election of the Participant or Beneficiary, as the case may be, the number of full shares of Fingerhut Stock credited to a Participant's Matching Account immediately before the

distribution will be distributed in kind, with cash in lieu of any fractional share

(B) Subject to the provisions of the other subsections of this section, a Participant described in Subsection (A)(2) may elect to defer commencement of his or her distribution under the Plan by providing the Administrator a written, signed statement indicating in which of the available forms the benefit will be paid and specifying the date on which the payment is to be made or commence, provided, such date may not be later than April 1 of the calendar year following the calendar year in which the Participant attains age 70. Such deferral election must be provided not later than the thirtieth day (or such later date as Plan Rules may allow) after the close of the Plan Year during which there occurs the later of the Participant's termination of employment or sixty-second birthday. Plan Rules may permit a Participant to modify any such election in any manner determined by the Administrator to be consistent with Code section 401(a)(14) and Treasury Regulations thereunder and the other provisions of this section.

(C) Except in the case of a Participant who has elected to defer his or her distribution pursuant to Subsection (B), distribution to the Participant will be made, or commence, not later than the sixtieth day following the close of the Plan Year during which there occurs the later of -

- (1) the date of his or her termination of employment, or
- (2) his or her sixty-second birthday.

(D) If a Participant described in Subsection (A)(2) elects to receive his or her distribution in the form of installment payments, such installments will be substantially equal in amount and will be made on a monthly, quarterly, semi-annual or annual basis, for a period not extending beyond either the Participant's life expectancy or the life expectancy of the Participant and his or her Beneficiary; and, if the Participant's Beneficiary is not his or her spouse, the period over which such payments are to be made will be determined by reference to the applicable table of joint life expectancies set forth in Treasury Regulation section 1.401(a)(9)-2. Notwithstanding the foregoing, a Participant who is receiving installment payments may elect, in accordance with Plan Rules, to increase or decrease the amount of the installment payments or to receive a non-periodic payment of all or a portion of the Participant's remaining Account balances. Prior to April 1 of the calendar year following the calendar year during which he or she attains age 70, the Participant may elect, in writing to the Administrator, whether the life expectancies for the Participant and his or her spouse are to be recalculated on an annual basis for purposes of determining the amount of each

installment payment hereunder. Any such election will become irrevocable as of the date specified above. If no such election is made, the life expectancies of the Participant and his or her spouse will not be recalculated. Distribution in the form of installment payments will be made on a pro rata basis among the Accounts and investment funds in which the Accounts are invested.

(E) Subject to Subsection (A)(1), if a Participant dies before receiving the full amount to which he or she is entitled, the amount remaining will be distributed to the Participant's Beneficiary at such time or times and in such manner as the Beneficiary elects (subject to and in accordance with Plan Rules), subject, however to the following rules:

(1) If the Participant dies after the April 1 of the calendar year following the calendar year during which he or she has both attained age 70 and terminated employment, distribution will be made to the Beneficiary at a rate that would result in the benefit being distributed at least as rapidly as if distribution were made at the same rate as was in effect immediately prior to the Participant's death. If the Participant is a "5-percent owner" subject to the provisions of Subsection (F), then he or she shall be treated as having terminated employment upon attaining age 70.

(2) If the Participant dies before April 1 of the calendar year following the calendar year during which he or she attains age 70, distribution will, at the Beneficiary's election, be made either -

(a) in a lump sum payment no later than December 31 of the calendar year which contains the fifth anniversary of the date of the Participant's death, or

(b) in installments, commencing no later than December 31 of the calendar year immediately following the calendar year in which the Participant died (unless the Beneficiary is the Participant's spouse, in which case payments will begin no later than such date specified above or December 31 of the calendar year in which the Participant would have attained age 70 if he or she had lived), and being paid over a period not exceeding the Beneficiary's remaining life expectancy, (as determined on the basis of the Beneficiary's age as of the date on which payments are required to commence under this clause (2) and, if the Beneficiary is the Participant's surviving spouse, as redetermined on an annual basis if so elected by such surviving spouse).

A Beneficiary's election with respect to the time and manner in which any amount remaining at the

Participant's death will be distributed must be made no later than the earlier of the dates set forth in clause 2(a) and (b) above, and is irrevocable following such date. If the Beneficiary fails to make an election under clause (2), distribution will be made in the manner set forth at clause (2)(a). If the Participant's spouse is the Beneficiary and dies after the Participant's death but before distributions to such spouse have commenced, the foregoing rules will be applied as if the surviving spouse were the Participant, including the substitution of the surviving spouse's date of death for the Participant's date of death; provided, that the alternative commencement date in clause (2)(b) relating to the date on which the Participant would have attained age 70 had he or she lived will not be available.

(F) Notwithstanding Subsection (C), distribution to a Participant who is a "5-percent owner," within the meaning of Code section 416, must be made or commenced not later than April 1 of the calendar year following the calendar year during which he or she attains age 70, whether or not the Participant has terminated employment, as if he or she had terminated employment. Any contribution allocated to the account of a 5-percent owner who has attained age 70 will be distributed (or distribution will be commenced subject to Subsection (G)) not later than the last day of the Plan Year following the Plan Year for which such allocation was made.

(G) Notwithstanding any other provision of the Plan to the contrary, distributions will be made in accordance with regulations issued under Code section 401(a)(9), including Treasury Regulation section 1.401(a)(9)-2, and any provisions of the Plan reflecting Code section 401(a)(9) takes precedence over any distribution options in the Plan that are inconsistent with Code section 401(a)(9).

## 8.2. Beneficiary Designation.

(A) (1) Each Participant may designate, on a form provided by the Administrator, one or more persons to be primary Beneficiaries or alternative Beneficiaries for all or a specified fractional part of his or her aggregate Accounts and may change or revoke any such designation from time to time. No such designation, change or revocation will be effective unless executed by the Participant and received by the Administrator during the Participant's lifetime. Except as provided in Subsection (B), no such change or revocation will require the consent of any person.

(2) If a Participant

- (a) fails to designate a Beneficiary, or
- (b) revokes a Beneficiary designation without naming another Beneficiary, or
- (c) designates as Beneficiaries one or more persons none of whom survives the Participant, for all or any portion of the Participant's Accounts, such Accounts or portion will be distributed to the first class of the following classes of automatic Beneficiaries that includes a member surviving the Participant:

- Participant's spouse;
- Participant's issue, per stirpes and not per capita;
- Participant's parents;
- Participant's brothers and sisters;
- Representative of Participant's estate.

(3) When used in this section and, unless the designation otherwise specifies, when used in a Beneficiary designation: the term "per stirpes" means in equal shares among living children and the issue (taken collectively) of each deceased child, with such issue taking by right of representation; "children" means issue of the first generation; and "issue" means all persons who are descended from the person referred to, either by legitimate birth or legal adoption. The automatic Beneficiaries specified above and, unless the designation otherwise specifies, the Beneficiaries designated by the Participant, will become fixed as of the Participant's death so that, if a Beneficiary survives the Participant but dies before the receipt of all payments due such Beneficiary, any remaining payments will be made to the representative of such Beneficiary's estate. Any designation of a Beneficiary by name that is accompanied by a description of relationship or only by statement of relationship to the Participant will be effective only to designate the person or persons standing in such relationship to the Participant at the Participant's death.

(B) Notwithstanding Subsection (A), no designation of a Beneficiary other than the Participant's spouse will be effective unless such spouse consents to the designation. Any such consent will be effective only with respect to the Beneficiary or class of Beneficiaries so designated and only with respect to the

spouse who so consented.

### 8.3. Assignment, Alienation of Benefits.

(A) Except as required under a qualified domestic relations order or by the terms of any loan from the Trust, no benefit under the Plan may in any manner be anticipated, alienated, sold, transferred, assigned, pledged, encumbered or charged, and any attempt to do so will be void. No benefit under the Plan may in any manner be liable for, or subject to, the debts, contracts, liabilities, engagements or torts of the person entitled to such benefit.

(B) To the extent provided in a qualified domestic relations order, distribution of benefits assigned to an alternate payee by such order may be distributed to the alternate payee prior to the Participant's earliest retirement age in the form of a lump sum payment. The terms "qualified domestic relations order," "alternat payee" and "earliest retirement age" have the meanings given in Code section 414(p).

### 8.4. Payment in Event of Incapacity.

If any person entitled to receive any payment under the Plan is physically, mentally or legally incapable of receiving or acknowledging receipt of the payment, and no legal representative has been appointed for such person, the Administrator in his or her discretion may (but is not required to) cause any sum otherwise payable to such person to be paid to any one or more as may be chosen by the Administrator from the following: the Beneficiaries, if any, designated by such person, the institution maintaining such person, a custodian for such person under the Uniform Transfers to Minors Act of any state or such person's spouse, children, parents or other relatives by blood or marriage. Any such payment completely discharges all liability under the Plan to the extent of the payment.

### 8.5. Payment Satisfies Claims.

Any payment to or for the benefit of any Participant, legal representative or Beneficiary in accordance with the provisions of the Plan will, to the extent of such payment, be in full satisfaction of all claims against the Trustee, the Administrator and all Affiliated Organizations, any of whom may require the payee to execute a receipted release as a condition precedent to such payment.

### 8.6. Disposition if Distributee Cannot be Located.

If the Administrator is unable to locate a Participant or Beneficiary to whom a distribution is due, the Participant's

Accounts will continue to be held in the Fund until such time as the Administrator has located the Participant or Beneficiary or the Participant or Beneficiary makes a proper claim for the benefit, as the case may be; provided, that, any Accounts not claimed within the period prescribed by applicable escheat laws will be paid to such governmental authorities, in such manner, as is specified in such laws.

#### 8.7. Direct Rollovers and Transfers.

(A) To the extent a distribution is an "eligible rollover distribution," within the meaning of Code section 402(c)(4), the Administrator will, if so instructed by the distributee in accordance with Plan Rules, direct the Trustee to make the distribution to an "eligible retirement plan," within the meaning of Code section 402(c)(8). The foregoing provision will not apply (1) if the aggregate taxable distributions to be made to the distributee during the calendar year are less than \$200 or (2) if less than the entire taxable amount of the distribution is to be distributed to the eligible retirement plan, and the amount to be distributed to the eligible retirement plan is less than \$500.

(B) The Company may direct the Trustee to transfer the balance of any or all of the Accounts of a Participant to the trustee of any other plan, provided

- (1) the other plan is qualified under Code section 401(a),
- (2) the other plan satisfies the requirements set forth in Code sections 401(k) and 411(d)(6) with respect to the transferred Accounts to which such requirements are applicable, and
- (3) the trustee is willing to accept such transfer.

### ARTICLE

#### 9.

#### CONTRIBUTION LIMITATIONS

##### 9.1. Pre-Tax Contribution Dollar Limitation.

The aggregate amount of Pre-Tax Contributions and other "elective deferrals" (within the meaning of the Code section 402(g)(3)) under any other qualified plan maintained by any Affiliated Organization with respect to a Participant for any taxable year of the Participant may not exceed \$7000 (automatically adjusted for increases in the cost of living in accordance with Treasury Regulations). The limitation for any Participant who received a hardship distribution under Section 6.1 will, for the year following the year in which such distribution was made, be

reduced as provided in Section 6.1(C)(4). If the foregoing limitation is exceeded for any taxable year of the Participant, the Participant will be deemed to have notified the Administrator of such excess and the amount of Pre-Tax Contributions in excess of the limitation, increased by Fund earnings or decreased by Fund losses attributable to the excess determined in accordance with Section 9.5, will be distributed to the Participant. Such distribution may be made at any time after the excess contributions are received, but not later than April 15 of the taxable year following the taxable year to which such limitation relates. The amount distributed to a Participant who has made elective deferrals for the taxable year other than pursuant to Section 3.1 will, to the extent of such other elective deferrals, be determined in accordance with written allocation instructions received by the Administrator from the Participant not later than March 1 of the taxable year following the taxable year with respect to which the Pre-Tax Contributions were made.

## 9.2. Actual Deferral Percentage Limitations.

(A) Notwithstanding Section 3.1, for any Plan Year, Pre-Tax Contributions may be made on behalf of Active Participants who are Highly Compensated Employees only if the requirements of Code section 401(k)(3), as set forth in Subsection (B) are satisfied. To the extent deemed necessary by the Administrator in order to comply with such requirements, the Administrator may, in accordance with Plan Rules, prospectively decrease the rate at which a Participant's Eligible Earnings will be reduced.

(B)

(1) The requirements of Code section 401(k)(3) will be satisfied for any Plan Year if, for that Plan Year, the Plan satisfies the requirements of Code section 410(b)(1) with respect to "eligible employees" and either of the following tests.

(a) The "actual deferral percentage" for eligible employees who are Highly Compensated Employees is not more than the product of the actual deferral percentage for all other eligible employees, multiplied by one and one-quarter.

(b) The excess of the actual deferral percentage for eligible employees who are Highly Compensated Employees over the actual deferral percentage for all other eligible employees is not more than two percentage points and the actual deferral percentage for eligible employees who are Highly Compensated Employees is not more than the product of the actual deferral percentage of all other eligible employees, multiplied by two.



(2) For purposes of this section,

(a) "eligible employee" means an Active Participant who is eligible to have Pre-Tax Contributions made on his or her behalf for the Plan Year in question or would be so eligible but for a suspension imposed under Section 6.1(C) (3); and

(b) "actual deferral percentage," with respect to the group of eligible employees who are not Highly Compensated Employees, is the average of the ratios, calculated separately for each eligible employee in such group, of the amount of Pre-Tax Contributions made on behalf of the eligible employee for the preceding Plan Year, to the eligible employee's Testing Wages for the preceding Plan Year, or the portion of the Plan Year during which he or she was an eligible employee, as specified in Plan Rules. If the Company so elects, the actual deferral percentage for the eligible employees who are not Highly Compensated Employees may be determined on the basis of the Plan Year's group of eligible employees and their Pre-Tax Contributions and Testing Wages for the Plan Years. Except for the 1998 Plan Year, the Company may not convert to use of the prior Plan Year data without IRS consent. The actual deferral percentage with respect to the group of eligible employees who are Highly Compensated Employees is the average of the ratios, calculated separately for each eligible employee in such group, of the amount of Pre-Tax Contributions made on behalf of the eligible employee for the Plan Year, to the eligible employee's Testing Wages for the Plan Year. In computing the actual deferral percentage, the following general rules apply.

(i) Any Pre-Tax Contributions made on behalf of an eligible employee who is not a Highly Compensated Employee that are in excess of the limitation of Section 9.1 will be excluded.

(ii) Any Pre-Tax Contributions that are distributed to the eligible Employee pursuant to Section 9.6(C) will be excluded.

(iii) Except as otherwise provided in Treasury Regulations, Pre-Tax Contributions taken into account in determining the actual contribution percentage under Section 9.3(B) (2) will be excluded.

(iv) To the extent determined by the Administrator, all or any portion of the Matching Contribution for the Plan Year on behalf of all or any similarly

situated group of eligible employees will be included.

(v) Elective contributions under any other plan that is aggregated with this Plan to satisfy the requirements of Code section 410(b) will be included.

(vi) To the extent required by Treasury Regulations, elective contributions made under any other qualified cash or deferred arrangement of a qualified plan of any Affiliated Organization on behalf of any eligible employee who is a Highly Compensated Employee will be included.

(C) If, for any Plan Year, the requirements of Subsection (B) are not satisfied, the Administrator will determine the amount by which Pre-Tax Contributions made on behalf of each eligible employee who is a Highly Compensated Employee for the Plan Year exceeds the permissible amount as determined under Subsection (B). The determination will be made by successively decreasing the rate of Eligible Earnings reductions for Highly Compensated Employees who, during the Plan Year, had the greatest percentage of Eligible Earnings reductions made on their behalf, to the next lower percentage, then again decreasing the percentage of such Highly Compensated Employees' Eligible Earnings reductions, together with the percentage of Eligible Earnings reductions of such Highly Compensated Employees who were already at such lower percentage, to the next lower percentage, and continuing such procedure for as many percentage decreases as the Administrator deems necessary. The Administrator may, in his or her discretion, make such reductions in any amount, in lieu of one percent increments.

(D) At such time as the Administrator specifies following the last day of the Plan Year for which the determination described in Subsection (B) is made, but in no case later than the last day of the following Plan Year, the excess determined pursuant to Subsection (C) will be corrected by taking either or both of the following steps.

(1) The aggregate amount of excess Pre-Tax Contributions so determined, increased by Fund earnings or decreased by Fund losses attributable to such excess as determined under Section 9.5, will be returned to Highly Compensated Employees. The amount to be returned to Highly Compensated Employees pursuant to the foregoing sentence with respect to any Plan Year will be reduced by the portion of the amount, if any, distributed pursuant to Section 9.1 that is attributable to Pre-Tax Contributions that relate to such Plan Year, determined by assuming that Pre-Tax Contributions in excess of the limitation described in Section 9.1 for a given taxable year are the first contributions made for a Plan Year falling within such taxable

year. Additional amounts to be returned shall be determined by successively decreasing the amount of the Pre-Tax Contributions for the Highly Compensated Employees who, during the Plan Year, had the largest amount of Pre-Tax Contributions made on their behalf, down to the next lower amount, and continuing such procedure until an amount equal to the aggregate amount of excess Pre-Tax Contributions has been removed from the Pre-Tax Contribution Accounts of Highly Compensated Employees.

(2) The Participating Employer will make an additional contribution for the Plan Year pursuant to Section 3.7.

(E) To the extent required or permitted by Treasury Regulations, the Administrator will or may, as the case may be, apply the limitations described in this section separately to each group of eligible employees who are included in a unit of employees covered by a collective bargaining agreement and those who are not included or are included in a different unit.

### 9.3. Actual Contribution Percentage Limitations.

(A) Notwithstanding Section 3.2, for any Plan Year, Matching Contributions may be made on behalf of Active Participants who are Highly Compensated Employees with respect to that Plan Year only to the extent that either of the following tests is satisfied.

(1) The "actual contribution percentage" for "eligible employees" who are Highly Compensated Employees is not more than the product of the actual contribution percentage for all other eligible employees, multiplied by one and one-quarter.

(2) The excess of the actual contribution percentage for eligible employees who are Highly Compensated Employees over the actual contribution percentage for all other eligible employees is not more than two percentage points and the actual contribution percentage for Highly Compensated Employees is not more than the product of the actual contribution percentage for all other eligible employees, multiplied by two.

(B) For purposes of this section,

(1) "eligible employee" means an Active Participant who is eligible to make Voluntary Contributions or to have Matching Contributions made on his or her behalf for the Plan Year in question or would have been so eligible if he or she had elected to make Pre-Tax Contributions for such Plan Year, or but for a suspension imposed pursuant to Section 3.1(B)(6) or 3.3(B)(4), and

(2) the "actual contribution percentage" with respect to either of the two groups of eligible employees referenced above, is the average of the ratios, calculated separately for each eligible employee in the particular group, of the aggregate amount of Matching Contributions made on behalf of and Voluntary Contributions made by the eligible employee for the Plan Year, to the Employee's Testing Wages for the Plan Year, or the portion of the Plan Year during which he or she was an eligible employee, as specified in Plan Rules. In computing the "actual contribution percentage" the following rules apply.

- (a) Except as otherwise provided in Treasury Regulations, Matching Contributions taken into account in determining the actual deferral percentage under Section 9.2(B) (2) (b) will be excluded.
- (b) Matching Contributions taken into account for purposes of the minimum contribution required by Section 14.3(A) will be excluded.
- (c) Any Matching Contributions forfeited pursuant to Section 9.6(C) will be excluded.
- (d) To the extent determined by the Administrator, all or any portion of the Pre-Tax Contributions for the Plan Year on behalf of eligible employees will be included.
- (e) Matching contributions (within the meaning of Code section 401(m) (4) (A)) and after-tax Contributions made under any other plan that is aggregated with this Plan to satisfy the requirements of Code section 410(b) will be included.
- (f) To the extent required by Treasury Regulations, matching contributions (within the meaning of Code section 401(m) (4) (A)) and after-tax contributions made under any other qualified plan of any Affiliated Organization on behalf of or by any eligible employee who is a Highly Compensated Employee will be included.

(C) If, for any Plan Year, the requirements of Subsection (A) are not satisfied, the Administrator will determine the amount by which Voluntary Contributions made by each Highly Compensated Employee for the Plan Year and, if necessary, Matching Contributions made on behalf of each Highly Compensated Employee for the Plan Year exceeds the permissible amount as determined under Subsection (A), such determination being made in accordance with the procedure described in Section 9.2(C) with respect to reductions of Eligible Earnings.

(D) At such time as the Administrator specifies on or following the last day of the Plan Year for which the determination described in Subsection (B) is made, but in no case later than the last day of the following Plan Year, the excess determined pursuant to Subsection (C) will be corrected by taking one or more of the following steps.

(1) The aggregate amount of excess Voluntary and Matching Contributions so determined with respect to Highly Compensated Employees, increased by Fund earnings or decreased by Fund losses attributable to such excess as determined under Section 9.5, will be distributed to Highly Compensated Employees. The amount to be distributed pursuant to the foregoing sentence with respect to any Plan Year shall be determined by successively decreasing the amount of Voluntary Contributions and Matching Contributions for the Highly Compensated Employees who, during the Plan Year, had the largest amount of Voluntary Contributions and Matching Contributions made on their behalf, down to the next lower amount, and continuing such procedure until an amount equal to the aggregate amount of excess Voluntary and Matching Contributions has been removed from the Voluntary Contribution and Matching Accounts of Highly Compensated Employees.

(2) The Participating Employer will make an additional contribution for the Plan Year pursuant to Section 3.5.

(E) To the extent provided in Treasury Regulations, the limitations described in this section do not apply to any group of eligible employees who are included in a unit of Employees covered by a collective bargaining agreement.

#### 9.4. Multiple Use Limitation.

(A) This section applies for any Plan Year for which the sum of the actual deferral percentage, as determined under Section 9.2(B)(2)(b), for eligible employees who are Highly Compensated Employees plus the actual contribution percentage, as determined under Section 9.3(B)(2), for eligible employees who are Highly Compensated Employees, exceeds the "aggregate limit." For purposes of this subsection, the aggregate limit is the greater of:

(1) The sum of:

(a) the product of one and one-quarter, multiplied by the greater of:

(i) the actual deferral percentage, as determined under Section 9.2(B)(2)(b), for the Plan Year for

eligible employees who are not Highly Compensated Employees, or

(ii) the actual contribution percentage, as determined under Section 9.3(B)(2), for the Plan Year for eligible employees who are not Highly Compensated Employees;

plus

(b) the sum of two percentage points plus the lesser of the actual deferral percentage determined under item (i) of clause (a) above or the actual contribution percentage determined under item (ii) of clause (a) above, with such sum in no case exceeding twice the lesser of such actual deferral percentage or actual contribution percentage;

or

(2) The sum of:

(a) the product of one and one-quarter, multiplied by the lesser of:

(i) the actual deferral percentage, as determined under Section 9.2(B)(2)(b), for the Plan Year for eligible employees who are not Highly Compensated Employees, or

(ii) the actual contribution percentage, as determined under Section 9.3(B)(2), for the Plan Year for eligible employees who are not Highly Compensated Employees;

plus

(b) the sum of two percentage points plus the greater of the actual deferral percentage determined under item (i) of clause (a) above or the actual contribution percentage determined under item (ii) of clause (a) above, with such sum in no case exceeding twice the lesser of such actual deferral percentage or actual contribution percentage.

(B) If, for any Plan Year, the calculations under Subsection (A) require that this section be applied, the Administrator will determine the amount by which Matching Contributions made on behalf of each Highly Compensated Employee for the Plan Year causes the excess amount determined under Subsection (A), such determination being made in accordance with the provisions of Section 9.3(C). At such time as the Administrator specifies on

or following the last day of the Plan Year for which such determination is made, but in no case later than the last day of the following Plan Year, the excess will be corrected by taking any one or more of the steps described in Sections 9.2(D) and 9.3(D).

(C) To the extent provided in Treasury Regulations, the limitations described in this section do not apply to any group of eligible employees who are included in a unit of employees covered by a collective bargaining agreement.

#### 9.5. Earnings on Excess Contributions.

The amount of Fund earnings or losses with respect to contributions returned to a Participant pursuant to the provisions of this article is an amount equal to the product of the total earnings or losses for the Participant's Account to which the excess contributions were credited for the Plan Year, multiplied by a fraction, the numerator of which is the excess amount of contributions made on the Participant's behalf to such Account for the Plan Year, and the denominator of which is the closing balance of such Account for the Plan Year, decreased by the amount of earnings credited to that Account, or increased by the amount of losses debited to that Account, for the Plan Year.

#### 9.6. Aggregate Defined Contribution Limitations.

(A) Notwithstanding any contrary provisions of this Plan, there will not be allocated to any Participant's Accounts for a Plan Year any amount that would cause the aggregate "annual additions" with respect to the Participant for the Plan Year to exceed the lesser of:

(1) \$30,000 (or, if greater, one-fourth of the dollar limitation in effect under Code section 415(b)(1)(A) for the calendar year during which the Plan Year in question begins); and

(2) 25 percent of the Participant's Section 415 Wages for the Plan Year.

(B) For purposes of Subsection (A), the "annual additions" with respect to a Participant for a Plan Year are the sum of -

(1) the aggregate amount of Pre-Tax, Matching, Voluntary and Profit Sharing Contributions and forfeitures allocated for the Plan Year to the Participant's Accounts under the Plan for the Plan Year (including any Pre-Tax Contributions, Matching Contributions and Voluntary Contributions that are distributed pursuant to Section 9.2, 9.3 or 9.4, but excluding any Pre-Tax Contributions in excess of the limitation of Section 9.1 that

are distributed to the Participant by the April 15 following the Plan Year to which such contributions relate) and employer contributions, employee contributions and forfeitures allocated for the Plan Year to the Participant's accounts under the Fingerhut Corporation's Fixed Contribution Retirement Plan and any other qualified defined contribution plan maintained by any Affiliated Organization; plus

(2) the amount, if any, attributable to post-retirement medical benefits that is allocated to a separate account for the Participant as a "key employee" (as defined in Section 14.3(C)), to the extent required under Code section 419A(d) (1).

(C)

(1) If the Administrator determines that the limitation under Subsection (A) may otherwise be exceeded for a Plan Year, to the extent necessary to prevent such excess from occurring, the amount of a Participant's Pre-Tax Contributions will be prospectively reduced.

(2) If a further reduction of contributions is required, the amount of the Matching Contribution that would otherwise be allocated to the Participant's Matching Account will be reduced and then the amount of the Profit Sharing Contribution that would otherwise be allocated to the Participant's Profit Sharing Account will be reduced and the aggregate amount of the Matching Contribution and Profit Sharing Contribution for the Plan Year will be reduce by the same amount.

(3) If, in spite of such reductions and as a result of reasonable error in estimating the amount of the Participant's Eligible Earnings or Section 415 Wages for the Plan Year, a reasonable error in determining the amount of Pre-Tax Contributions or other elective deferrals within the meaning of Code section 402(g) (3) permitted under Code Section 415 or other circumstances specified in Treasury Regulations, the limitation would otherwise be exceeded, then, to the extent required to prevent such excess, the amount of Voluntary Contributions made by the Participant, together with earnings on such contributions, will be returned to the Participant and then, the amount of Pre-Tax Contributions made for the Participant, together with earnings on such contributions, will be distributed to the Participant and any Matching Contributions attributable to the amount so distributed, together with earnings on such contributions, will be forfeited and applied as provided in Section 3.2(D).

#### 9.7. Aggregate Defined Contribution/Defined Benefit Limitations.

(A) In no event will the amount of a Participant's annual



additions under the Plan for any Plan Year beginning before January 1, 2000 exceed an amount that would cause the decimal equivalent of the sum of the "defined benefit fraction" plus the "defined contribution fraction" to exceed one.

(B) The "defined benefit fraction" is a fraction, the numerator of which is the Participant's aggregate projected annual benefit under all qualified defined benefit pension plans maintained by any Affiliated Organization (determined as of the end of the Plan Year), and the denominator of which is the lesser of:

(1) 125 percent of the maximum dollar benefit limitation in effect under Code section 415(b)(1)(A) for the calendar year during which the Plan Year in question begins; and

(2) 140 percent of the average Section 415 Wages of the Participant during the three consecutive Plan Years during which he or she was a Participant in any such defined benefit pension plan that produce the highest average.

(C) The "defined contribution fraction" is a fraction, the numerator of which is the sum of the annual additions with respect to the Participant for the Plan Year under this Plan and any other qualified defined contribution plans maintained by an Affiliated Organization, determined in the manner described in Section 9.6, and the denominator of which is the aggregate of the lesser of:

(1) 125 percent of the maximum annual addition dollar limit in effect under Code section 415(c)(1)(A) for the calendar year during which the Plan Year in question begins; and

(2) 140 percent of 25 percent of the Participant's Section 415 Wages for the Plan Year,

applied for all years during which the Participant was an Employee, without regard to whether there was a qualified defined contribution plan in effect during all such years.

(D) If the annual additions that would otherwise be made with respect to a Participant for a Plan Year would cause the limitation of Subsection (A) to be exceeded, the Participant's benefit under one or more qualified defined benefit pension plans maintained by an Affiliated Organization will, to the extent provided in such plans, be reduced to the extent necessary to prevent such excess from occurring, and, if a sufficient reduction cannot be made under such plans, the provisions of Section 9.6(C) will be applied to reduce the amount of the annual additions to the Participant's Accounts under this Plan for such Plan Year to the extent necessary to prevent such excess.

9.8. Administrator's Discretion.

Notwithstanding the foregoing provisions of this article, the Administrator may, in his or her discretion, apply the provisions of Sections 9.1 through 9.7 in any manner permitted by Treasury Regulations that will cause the Plan to satisfy the limitations of the Code incorporated in such sections, and the Administrator's good faith application of Treasury Regulations will be binding on all Participants and Beneficiaries.

ARTICLE  
10.  
SERVICE RULES

10.1. Computation Period.

The "Computation Period" is -

- (a) for the purpose of determining whether an Employee has completed one year of Eligibility Service, the 12-month period commencing with the date on which he or she first completes an Hour of Service of the type specified at Section 10.4(A)(1) and, thereafter, Plan Years, commencing with the Plan Year that includes the first anniversary of such date; and
- (b) for the purpose of determining the extent of an Employee's Vesting Service, Plan Years.

If an Employee who terminates employment before completing at least one year of Eligibility Service again becomes an Employee after the end of the Computation Period of the type described in clause (a) during which he or she terminated employment, his or her previous service will be disregarded in determining his or her new Computation Period pursuant to clause (a).

10.2. Eligibility Service.

The term "Eligibility Service" with respect to an Employee means the aggregate number of Computation Periods of the type specified at clause (a) of Section 10.1 during each of which the Employee completes at least 1000 Hours of Service.

10.3. Vesting Service.

The term "Vesting Service" with respect to an Employee means, except as otherwise provided in Section 10.6, the aggregate number of Computation Periods of the type specified at clause (b) of Section 10.1 during each of which the Employee completes at least 500 Hours of Service. In addition, solely for the purpose

of determining the Vesting Service of a Participant who ceases to be an Employee in connection with the disposition of an Affiliated Organization or a substantial amount of the operating assets of an Affiliated Organization, the former Affiliated Organization or the entity that purchased the assets will be deemed to be an Affiliated Organization until the Participant's first termination of employment with the former Affiliated Organization or entity that purchased the assets following the disposition.

10.4. Hour of Service.

(A) Subject to the remaining subsections of this section, the term "Hour of Service," with respect to an Employee, includes and is limited to -

(1) each hour for which the Employee is paid, or entitled to payment, for the performance of duties for an Affiliated Organization;

(2) each hour for which the Employee is paid, or entitled to payment, by an Affiliated Organization on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness (including disability), layoff, jury duty, military duty or leave of absence;

(3) each hour for which the Employee is not paid or entitled to payment but which is required by federal law to be credited to the Employee on account of his or her military service or similar duties;

(4) each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by an Affiliated Organization; provided, first, that Hours of Service taken into account under clause (1) or (2) will not also be taken into account under this clause (4); and second, that Hours of Service taken into account under this clause (4) that relate to periods specified in clause (2) will be subject to the rules under Subsection (B); and

(5) each hour for which an Employee is not performing duties on account of disability whether or not such Employee is actually paid or entitled to payment for such period of time.

(B) The following rules will apply for purposes of determining the Hours of Service completed by an Employee under Subsection (A) (2) and (A) (5):

(1) No more than 501 hours will be credited to the Employee on

account of any single continuous period during which the Employee performs no duties (whether or not such period occurs in a single Computation Period).

(2) No more than the number of hours regularly scheduled for the performance of duties for the period during which no duties are performed will be credited to the Employee for such period.

(3) The Employee will not be credited with hours for which payments are made solely to reimburse medical or medically related expenses.

(4) A payment will be deemed to be made by or due from an Affiliated Organization, regardless of whether such payment is made by or due from the Affiliated Organization directly or indirectly through a trust fund or insurer to which the Affiliated Organization contributes or pays premiums.

(5) If the payment made or due is calculated on the basis of units of time, the number of Hours of Service to be credited will be the number of regularly scheduled working hours included in the units of time on the basis of which the payment is calculated; provided, that, if such a payment is made to an Employee described in Subsection (D) (1), the number of Hours of Service to be credited will be the number of equivalent hours determined under Subsection (D) (1) that are included in the units of time on the basis of which the payment is calculated.

(6) If the payment made or due is not calculated on the basis of units of time, the number of Hours of Service to be credited will be equal to the amount of the payment, divided by the Employee's most recent hourly rate of compensation before the period during which no duties are performed.

(C) Hours of Service will be credited -

(1) in the case of Hours of Service described in Subsection (A) (1), to the Computation Period in which the duties are performed;

(2) in the case of Hours of Service described in Subsection (A) (2) and (A) (5), to the Computation Period or Periods in which the period during which no duties are performed occurs; provided, that, if the payment is not calculated on the basis of units of time, the Hours of Service will not be allocated between more than the first two Computation Periods of such period;

(3) in the case of Hours of Service described in Subsection (A) (3), to the Computation Period or Periods determined by the

Administrator in accordance with the applicable federal law;  
and

(4) in the case of Hours of Service described in Subsection (A) (4), to the Computation Period or Periods to which the award or agreement for back pay pertains.

(D) For purposes of determining the number of Hours of Service completed by an Employee during a particular period of time -

(1) an Employee who is not subject to the overtime provisions of the Fair Labor Standards Act of 1938, as from time to time amended, will be credited with 45 Hours of Service for each week during which he or she completes at least one Hour of Service;

(2) each other Employee will be credited with the number of Hours of Service that he or she completes during such period.

(E) Notwithstanding the foregoing provisions of this section, an individual will be credited with the number of Hours of Service he or she completes, determined in the manner specified in Subsections (A) through (E),

(1) while, although not an Employee, he or she is considered to be a "leased employee" of an Affiliated Organization or of a "related person" (within the meaning of Code sections 414(n) (2) and 144(a) (3)), respectively, and

(2) with any other organization to the extent such Hours of Service are required to be taken into account pursuant to Treasury Regulations under Code section 414(o).

#### 10.5. One-Year Break in Service.

An Employee will incur a "One-Year Break in Service" if the Employee fails to complete at least 500 Hours of Service during a Computation Period; provided, that, for purposes only of determining whether an Employee has incurred such a One-Year Break in Service, in addition to Hours of Service credited under Section 10.4, there will be taken into account the number of Hours of Service that otherwise would have been credited to the Employee, or, if the number of such hours of service cannot be determined, eight hours of service for each day on which the Employee would have otherwise performed services for an Affiliated Organization, during an authorized leave of absence, while still employed with the Affiliated Organization, due to -

(a) the Employee's pregnancy,

(b) the birth of the Employee's child,

- (c) the placement of a child with the Employee in connection with the adoption of such child by the Employee, or
- (d) the Employee's caring for such child for a period beginning immediately following such birth or placement; provided, first, that the total number of such additional Hours of Service taken into account by reason of any such absence will not exceed 501; second, that, if the Employee would be prevented from incurring a One-Year Break in Service for the Computation Period in which such absence commenced solely because the additional Hours of Service are so credited, such Hours of Service will be credited only to such Computation Period or, if a One-Year Break in Service for such Computation Period would not be so prevented, such additional Hours of Service will be credited to the Computation Period following the Computation Period during which such absence commenced; and third, that, notwithstanding the foregoing, no such additional Hours of Service will be credited unless the Employee furnishes to the Administrator, on a timely basis, such information as the Administrator reasonably requires in order to establish the number of days during which the Employee was absent for one of the reasons set forth at items (a) through (d). In addition, an Employee will be credited with Hours of Service for the purpose of determining whether he or she has incurred a One-Year Break in Service to the extent required by the Family and Medical Leave Act of 1993.

#### 10.6. Loss of Service.

If an Employee terminates employment and experiences at least five consecutive One-Year Breaks in Service with respect to his or her Vesting Service, then:

- (a) if the Employee had a vested interest in any Account prior to the Breaks in Service,
  - (i) Vesting Service completed prior to such Breaks in Service will be taken into account in determining his or her vested interest in his or her Accounts attributable to contributions made for periods after the Breaks in Service, and

(ii) the extent of the Employee's vested interest in his or her Accounts as determined under Section 7.1 prior to the Breaks in Service will not be increased by Vesting Service completed following the Breaks in Service;

or

(b) if the Employee had no vested interest in any Account prior to the Breaks in Service, the Employee's Vesting Service completed prior to the Breaks in Service will not be taken into account for any purpose under the Plan.

#### 10.7. Pre-Acquisition Service.

Service with an Affiliated Organization prior to the date on which it became an Affiliated Organization (or, with another entity prior to the acquisition of such entity's business or assets by an Affiliated Organization) will be taken into account under this Plan only if, to the extent and for the purposes, provided in any agreement pursuant to which it became an Affiliated Organization (or such business or assets were acquired) or as provided by resolution of the Company's Board. If such Hours of Service are to be taken into account, unless otherwise specifically provided in such agreement or resolution, such Hours of Service will be determined in accordance with the provisions of this article. If less than the entire period of employment with an Affiliated Organization prior to its becoming such (or with another entity prior to the acquisition of its business or assets) is to be taken into account, the extent to which such period of employment is to be taken into account will be specified in an exhibit to the Plan.

#### 10.8. Transition from Elapsed Time.

(A) Eligibility Service. Employees who were employed by an Affiliated Organization prior to July 1, 1997 will receive credit for Eligibility Service as follows:

(1) Each Employee will be credited with a number of years of Eligibility Service equal to the number of one year periods of Recognized Service credited to the Employee under the Plan as of July 1, 1997; and

(2) For the Computation Period which includes June 30, 1997, each Employee employed on such date will receive credit for 1000 Hours of Service for the fractional period of service as of July 1, 1997.

(B) Vesting Service. The amendment of the Plan converting from the elapsed time method to the general method of counting Hours

of Service will be effective January 1, 1998, with the provisions of the Plan regarding Recognized Service continuing through January 1, 1998. Employees who are employed by an Affiliated Organization on or prior to December 31, 1997 will receive credit for Vesting Service as follows:

(1) Each Employee will be credited with a number of years of Vesting Service equal to the number of one year periods of Recognized Service credited to the Employee as of January 1, 1998.

(2) On and after January 1, 1998 each Employee will receive credit for Vesting Service based on all Hours of Service credited during a Computation Period.

#### ARTICLE

#### 11.

#### ADOPTION, AMENDMENT AND TERMINATION

##### 11.1. Adoption by Affiliated Organizations.

An Affiliated Organization may adopt this Plan and become a Participating Employer with the prior approval of the Administrator by furnishing to the Administrator a certified copy of a resolution of its Board adopting the Plan. Any adoption of the Plan by an Affiliated Organization, however, must either be authorized by the Company's Board in advance or be ratified by such Board prior to the end of the fiscal year of such Affiliated Organization in which it adopts the Plan.

##### 11.2. Authority to Amend and Procedure.

(A) The Company reserves the right to amend the Plan at any time, to any extent that it may deem advisable. Each amendment will be stated in a written instrument, approved in advance or ratified by the Company's Board and executed in the name of the Company by its President or Vice President and attested by the Secretary or Assistant Secretary. On and after the effective date of the amendment, all interested parties will be bound by the amendment; provided, first, that no amendment will increase the duties or liabilities of the Trustee without its written consent; and, second, that no amendment will have any retroactive effect so as to deprive any Participant, or any Beneficiary of a deceased Participant, of any benefit already accrued or vested or of any option with respect to the form of such benefit that is protected by Code section 411(d)(6), except that any amendment that is required to conform the Plan with government regulations so as to qualify the Trust for income tax exemption may be made retroactively to the Effective Date of the Plan or to any later date.



(B) If the schedule for determining the extent to which benefits under the Plan are vested is changed, each Participant with at least three years of Vesting Service may elect to have his or her vested benefits determined without regard to such change by giving written notice of such election to the Administrator within the period beginning on the date such change was adopted (or the Plan's top heavy status changed) and ending 60 days after the latest of (1) the date such change is adopted, (2) the date such change becomes effective or (3) the date the Participant is issued notice of such change by the Administrator or the Trustee. Except as otherwise provided in an amendment permitted by Treasury Regulations, if an optional form of benefit payment protected under Code section 411(d)(6) is eliminated, each Participant may elect to have that portion of the value of his or her Accounts that was accrued as of the date of such elimination, distributed in the optional form of benefit payment that was eliminated.

(C) The provisions of the Plan in effect at the termination of a Participant's employment will, except as specifically provided otherwise by a subsequent amendment, continue to apply to such Participant.

#### 11.3. Authority to Terminate and Procedure.

The Company expects to continue the Plan indefinitely but reserves the right to terminate the Plan in its entirety at any time. Each Participating Employer expects to continue its participation in the Plan indefinitely but reserves the right to cease its participation in the Plan at any time. The Plan will terminate in its entirety as of the date specified in a written instrument adopted and executed in the manner of an amendment. The Plan will terminate with respect to a particular Participating Employer as of the date specified by the Participating Employer in a written instrument approved in advance or ratified by the Participating Employer's Board and executed in the name of the Participating Employer by two duly authorized officers.

#### 11.4. Vesting Upon Termination, Partial Termination or Discontinuance of Contributions.

Upon termination of the Plan or upon the complete discontinuance of contributions by all Participating Employers, to the extent required by Code section 411(d)(3) and Treasury Regulations thereunder, the Accounts of each affected Participant will, to the extent funded, vest in full. Upon a partial termination of the Plan, the Accounts of each Participant as to whom the Plan has been partially terminated will, to the extent funded, vest in full.

11.5. Distribution Following Termination, Partial Termination or Discontinuance of Contributions.

After termination or partial termination of the Plan or the complete discontinuance of contributions under the Plan, the Trustee will continue to hold and distribute the Fund at the times and in the manner provided by Article 8 as if such event had not occurred or, if the Administrator so directs in accordance with Treasury Regulations, will distribute to each Participant the entire balance of his or her Accounts.

ARTICLE

12.

DEFINITIONS, CONSTRUCTION AND INTERPRETATIONS

The definitions and the rules of construction and interpretations set forth in this article will be applied in construing this instrument unless the context otherwise indicates.

12.1. Account.

An "Account" with respect to a Participant is any or all of the accounts maintained on his or her behalf pursuant to Section 4.1, as the context requires.

12.2. Active Participant.

An "Active Participant" is a Participant who is a Qualified Employee.

12.3. Administrator.

The "Administrator" of the Plan is the Company or the person to whom administrative duties are delegated pursuant to Section 13.1, as the context requires.

12.4. Affiliated Organization.

An "Affiliated Organization" is the Company and:

(a) any corporation that is a member of a controlled group of corporations (within the meaning of Section 1563(a) of the Code without regard to Code sections 1563(a)(4) and 1563(e)(3)(C)) that includes the Company;

(b) any trade or business (whether or not incorporated) that is controlled (within the meaning of Code section 414(c)) by the Company;

(c) any member of an "affiliated service group" (within the meaning of Code section 414(m)) of which the Company

is a member; or

(d) any other organization that, together with the Company, is treated as a single employer pursuant to Code section 414(o) and Treasury Regulations;

provided, that, for purposes of applying the limitations set forth at Sections 9.6 and 9.7 of the Plan, Code section 1563(a) will be applied by substituting the phrase "more than 50 percent" for the phrase "at least 80 percent" wherever it appears.

#### 12.5. Board.

The "Board" is the board of directors of the Affiliated Organization in question. When the Plan provides for an action to be taken by the Board, the action may be taken by any committee or individual authorized to take such action pursuant to a proper delegation by the board of directors in question.

#### 12.6. Beneficiary.

A "Beneficiary" is a person designated or otherwise determined under the provisions of Section 8.2 as the distributee of benefits payable after the death of a Participant. A person designated as, or otherwise determined to be, a Beneficiary under the terms of the Plan has no interest in or rights under the Plan until the Participant in question has died. A Beneficiary will cease to be such on the day on which all benefits to which he or she is entitled under the Plan have been distributed.

#### 12.7. Code.

The "Code" is the Internal Revenue Code of 1986, as amended. Any reference to a specific provision of the Code includes a reference to such provision as it may be amended from time to time and to any successor provision.

#### 12.8. Company.

The "Company" is Fingerhut Corporation, any successor which will maintain this Plan and any predecessor that has maintained this Plan.

#### 12.9. Disabled.

A Participant will be considered to be "Disabled" only if the Administrator determines that, by reason of illness, bodily injury or disease, he or she is unable to perform any occupation for remuneration or profit and the disability is likely to be of long and indefinite duration or to result in death.

12.10. Effective Date.

The "Effective Date" of the Plan is January 15, 1960.

12.11. Eligible Earnings.

(A) The "Eligible Earnings" of a Participant from a Participating Employer for any Plan Year is the sum of all remuneration paid to the Participant by the Participating Employer during the portion of a Plan Year in which he or she is an Active Participant that is reportable in the "wages, tips, other compensation" box of Internal Revenue Form W-2, excluding (to the extent otherwise included) bonuses paid under a long-term incentive compensation plan, severance payments, taxable fringe benefits, taxable lump sum moving expenses and other items of an unusual or nonrecurring nature specified in Plan Rules, increased by amounts that are deferred under Section 3.1 as Pre-Tax Contributions and amounts by which a Participant's wages or salary is reduced under a Code section 125 cafeteria plan.

(B) Notwithstanding Subsection (A), in no event will a Participant's Eligible Earnings for any Plan Year be taken into account to the extent they exceed \$150,000 (or such dollar amount, adjusted to reflect increases in the cost of living, as in effect under Code section 401(a)(17) for the calendar year during which the Plan Year begins).

12.12. Employee.

An "Employee" is an individual who performs services for an Affiliated Organization as a common-law employee of the Affiliated Organization.

12.13. Fingerhut Stock.

"Fingerhut Stock" means common stock issued by Fingerhut Companies, Inc.

12.14. Fund.

The "Fund" is the total of all of the assets of every kind and nature, both principal and income, held in the Trust at any particular time or, if the context so requires, one or more of the investment funds described in Section 5.1.

12.15. Governing Law.

To the extent that state law is not preempted by provisions of the Employee Retirement Income Security Act of 1974, as amended, or any other laws of the United States, this Plan will be administered, construed, and enforced according to the internal,

substantive laws of the State of Minnesota, without regard to its conflict of laws rules.

12.16. Headings.

The headings of articles and sections are included solely for convenience. If there is a conflict between the headings and the text, the text will control.

12.17. Highly Compensated Employee.

(A) A "Highly Compensated Employee" for any Plan Year is any employee who -

(1) at any time during such Plan Year or the preceding Plan Year, owns or owned (or is considered as owning or having owned within the meaning of Code section 318) more than five percent of the outstanding stock of an Affiliated Organization or stock possessing more than five percent of the total combined voting power of all outstanding stock of an Affiliated Organization, or

(2) during the preceding Plan Year -

(a) had compensation in excess of \$80,000 (or such dollar amount, adjusted to reflect increases in the cost of living, as in effect under Code section 414(q)(1)(B) for the calendar year during which the Plan Year in question begins), and

(b) had compensation which exceeded the compensation of at least 80 percent of all employees, excluding, for purposes of determining the number of employees in such group but not for purposes of determining the specific employees comprising the group, all employees who

(i) have completed less than six months of service with the Affiliated Organizations,

(ii) normally work fewer than 17 hours per week for the Affiliated Organizations,

(iii) normally work for the Affiliated Organizations during not more than six months during any calendar year, or

(iv) have not attained age 21.

(B) For purposes of this section,

(1) an "employee" is any individual who is not described in clause (b) of Section 12.31 and who, during the Plan Year for which the determination is being made, performs services for an Affiliated Organization as

- (a) a common law employee,
- (b) an employee pursuant to Code section 401(c)(1), or
- (c) a leased employee who is treated as an employee of an Affiliated Organization pursuant to Code section 414(n)(2) or 414(o)(2), and

(2) "compensation" for any Plan Year means an employee's Section 415 Wages for the Plan Year (increased for any Plan Year beginning before January 1, 1998 by the amount of any reductions to the employee's compensation for the period in connection with an election by the employee made pursuant to a plan maintained by an Affiliated Organization under Code section 125 or 401(k)).

#### 12.18. Matching Account.

The "Matching Account" is the account established pursuant to Section 4.1(b) to evidence Matching Contributions made on behalf of a Participant.

#### 12.19. Matching Contributions.

"Matching Contributions" means contributions made pursuant to Section 3.2 or 3.6.

#### 12.20. Normal Retirement Date.

The "Normal Retirement Date" of a Participant is the day on which he or she attains age 60.

#### 12.21. Number and Gender.

Wherever appropriate, the singular number may be read as the plural, the plural may be read as the singular, and the masculine gender may be read as the feminine gender.

#### 12.22. Participant.

A "Participant" is a current or former Qualified Employee who has entered the Plan pursuant to the provisions of Article 2 and has not ceased to be a Participant pursuant to Section 2.6.

#### 12.23. Participating Employer.

A "Participating Employer" is the Company and any other

Affiliated Organization that has adopted the Plan, or all of them collectively, as the context requires, and their respective successors. An Affiliated Organization will cease to be a Participating Employer upon a termination of the Plan as to its Employees or upon its ceasing to be an Affiliated Organization.

12.24. Plan.

The "Plan" is the Fingerhut Corporation Profit Sharing Plan established and maintained by this instrument, as from time to time amended.

12.25. Plan Rule.

A "Plan Rule" is a rule, policy, practice or procedure adopted by the Administrator.

12.26. Plan Year.

A "Plan Year" is the calendar year.

12.27. Pre-Tax Contribution Account.

The "Pre-Tax Contribution Account" is the account established pursuant to clause (a) of Section 4.1 to evidence Pre-Tax Contributions made on behalf of a Participant.

12.28. Pre-Tax Contributions.

"Pre-Tax Contributions" means contributions made pursuant to Section 3.1.

12.29. Profit Sharing Account.

The "Profit Sharing Account" is the Account established pursuant to Section 4.1(c) to evidence Profit Sharing Contributions made on behalf of a Participant.

12.30. Profit Sharing Contributions.

"Profit Sharing Contributions" means contributions made pursuant to Section 3.3 or 3.5.

12.31. Qualified Employee.

A "Qualified Employee" is an Employee who is a common-law employee of a Participating Employer (as classified by the Participating Employer at the time the services are performed without regard to any subsequent reclassification), excluding, however, any such person who -

- (a) is covered by a collective bargaining agreement, for whom retirement benefits were the subject of good faith bargaining between such person's representative and the Participating Employer, and who is not, as a result of such bargaining, specifically covered by this Plan; or
- (b) is a nonresident alien who receives no earned income (within the meaning of Code section 911(d)(2)) from a Participating Employer that constitutes income from sources within the United States (within the meaning of Code section 861(a)(3)); or
- (c) performs services for the participating Employer outside the continental United States (including Alaska) or Hawaii, or has his or her principal base of operations to which he or she frequently returns outside the continental United States (including Alaska) or Hawaii, other than while on a temporary assignment for the Participating Employer. For purposes of this section only, a collective bargaining agreement will be deemed to continue after its formal expiration during collective bargaining negotiations pending the execution of a new agreement.

#### 12.32. Rollover Account.

The "Rollover Account" is the account established pursuant to clause (e) of Section 4.1 to evidence the amounts, if any, rolled over from an individual retirement arrangement or another qualified plan, or transferred directly from another qualified plan with respect to a Participant, pursuant to Section 3.4.

#### 12.33. Section 415 Wages.

(A) An individual's "Section 415 Wages" for any period is the sum of his or her remuneration for the period from all Affiliated Organizations that constitutes "compensation" within the meaning of Code section 415(c)(3) and Treasury Regulations thereunder.

(B) Notwithstanding Subsection (A), the Administrator may, in his or her discretion, for any Plan Year, determine the items of remuneration that, in accordance with Treasury Regulations, will be included in Section 415 Wages for such Plan Year; provided that for each purpose under this Plan, the Administrator's determination will be uniform throughout any Plan Year.

(C) For any Plan Year beginning before January 1, 1998, Section 415 Wages will not include the amount by which a Participant's compensation is reduced under Code section 125 or 401(k).



#### 12.34. Spousal Consent.

Whenever the consent of a Participant's spouse is required with respect to any act of the Participant, such consent will be deemed to have been obtained only if

- (a) the Participant's spouse executes a written consent to such act, which consent acknowledges the effect of such act and is witnessed by a Plan representative or a notary public; or
- (b) the Administrator determines that no such consent can be obtained because the Participant has no spouse, because the Participant's spouse cannot be located, or because of such other circumstances as may, under Treasury Regulations, justify the lack of such consent.

Any such consent by the Participant's spouse or such determination by the Administrator that such spouse's consent is not required is effective only with respect to the particular spouse of the Participant who so consented or with respect to whom such determination was made. Any such consent by the Participant's spouse to an act of the Participant under the Plan is irrevocable with respect to that act.

#### 12.35. Termination of Employment.

(A) For purposes of determining entitlement to a distribution under this Plan, a Participant will be deemed to have terminated employment only if he or she has completely severed his or her employment relationship with all Affiliated Organizations or become Disabled. Neither transfer of employment among Affiliated Organizations nor absence from active service by reason of disability leave, other than in connection with a Participant becoming disabled, or any other leave of absence will constitute a termination of employment.

(B) A Participant will be deemed to have terminated employment in conjunction with the disposition of all or any portion of the business operation of an Affiliated Organization which is a disposition of a subsidiary or of substantially all of the assets used in a trade or business of an Affiliated Organization within the meaning of Code section 401(k)(10)(A) with respect to which the requirements of Code section 401(k)(10)(B) and (C) are satisfied.

(C) A Participant who, in conjunction with the disposition of all or any portion of a business operation of an Affiliated Organization which is not described in Subsection (B), transfers employment to the acquirer of such business operation or to any

affiliate of such acquirer will not be considered to have terminated employment. If a Participant is deemed to have continued employment by reason of the preceding sentence, such sentence will continue to apply to such Participant in the event of any subsequent transfer of employment in conjunction with the disposition of all or any portion of a business operation of the initial acquirer or any subsequent acquirers which is not a disposition of a subsidiary of such acquirer or of substantially all of the assets used in a trade or business of such acquirer within the meaning of Code section 401(k)(10)(A) with respect to which the requirements of Code section 401(k)(10)(B) and (C) are satisfied. Except in conjunction with such a disposition of a subsidiary or substantially all of the assets used in a trade or business of the seller, such a Participant will be considered to have terminated employment only when he or she has severed the employment relationship with all such acquirers and their affiliates.

12.36. Testing Wages.

(A) An individual's "Testing Wages" for any period is his or her Section 415 Wages for the period (increased for any Plan Year beginning before January 1, 1998 by the amount by which a Participant's compensation for the period is reduced in connection with an election by the individual under a plan maintained by an Affiliated Organization pursuant to Code section 125 or Code section 401(k)).

(B) In no event will an individual's Testing Wages for any Plan Year be taken into account to the extent it exceeds \$150,000 (or such dollar amount, adjusted to reflect increases in the cost of living, as in effect under Code section 401(a)(17) for the calendar year during which the Plan Year begins).

(C) The Administrator may, in his or her discretion, for any Plan Year, adopt any alternative definition of Testing Wages that complies with Code section 414(s) and Treasury regulations thereunder; provided, that for each purpose under this Plan, the Administrator's determination will be uniform throughout any Plan Year.

12.37. Treasury Regulations.

"Treasury Regulations" mean regulations, rulings, notices and other promulgations issued under the authority of the Secretary of the Treasury that apply to, or may be relied upon in the administration of, this Plan.

12.38. Trust.

The "Trust" that is created by the Company for purposes of

implementing benefits under the Plan, and may, as from time to time amended, be referred to as the "Fingerhut Plans Master Trust."

12.39. Trustee.

The "Trustee" is the corporation and/or individual or individuals who from time to time is or are the duly appointed and acting trustee or trustees of the Trust.

12.40. Voluntary Contributions.

"Voluntary Contributions" means contributions made pursuant to the provisions of the Plan in effect prior to July 1, 1997.

12.41. Voluntary Account.

"Voluntary Account" is the account established and maintained under Section 4.1(d) to evidence the amount of a Participant's Voluntary Contributions, if any, made to the Plan.

ARTICLE

13.

ADMINISTRATION OF PLAN

13.1. Administrator, Named Fiduciary.

The general administration of the Plan and the duty to carry out its provisions will be vested in the Company, which will be the "named fiduciary" of the Plan for purposes of the Employee Retirement Income Security Act of 1974. Except in cases where the Plan expressly requires action on behalf of the Company to be taken by its Board of Directors, action on behalf of the Company may be taken by any of the following:

- (1) Board of Directors of the Company;
- (2) the President and Chief Operating Officer of the Company;
- (3) any person or persons, natural or otherwise, or committee, to whom responsibilities for the operation and administration of the Plan are allocated by the Company, by resolution of its Board of Directors, but action of such person or persons, or committee shall be within the scope of said allocation;
- (4) any person or persons, natural or otherwise, or committee, to whom responsibilities for the operation and administration of the Plan are allocated by the Company, by written instrument executed by the President and Chief Operating Officer of the Company, but action of such person or persons or committee shall be within the scope of said allocation. A copy of each such

written instrument shall be delivered to the secretary of the Company and filed with its permanent records.

### 13.2. Compensation and Expenses.

An Employee performing administrative duties in connection with the Plan will receive no compensation from the Fund for such services, but may be reimbursed from the Fund for all sums reasonably and necessarily expended in the performance of such duties. The Administrator may retain such independent accounting, legal, clerical and other services as may reasonably be required in the administration of the Plan and may pay reasonable compensation from the Fund for such services. Any such reimbursement or compensation and all other costs of administering the Plan will, to the extent not paid by the Participating Employers, be paid by the Trustee from the Fund upon statements issued by the Administrator.

### 13.3. Plan Rules.

The Administrator has the discretionary power to make, amend and rescind such Plan Rules as he or she deems to be necessary or advisable. Plan Rules will be uniform and nondiscriminatory with respect to persons determined by the Administrator to be similarly situated.

### 13.4. Administrator's Discretion.

The Administrator has the discretionary power and authority to make all determinations necessary for administration of the Plan, except those determinations that the Plan requires others to make, and to construe, interpret, apply and enforce the provisions of the Plan and Plan Rules, including the discretionary power and authority to remedy ambiguities, inconsistencies, omissions and erroneous Account balances. In the exercise of discretionary powers, the Administrator will treat all persons determined by the Administrator to be similarly situated in a uniform and nondiscriminatory manner.

### 13.5. Indemnification.

The Participating Employers jointly and severally agree to indemnify and hold harmless, to the extent permitted by law, each director, officer, and employee of any Affiliated Organization against any and all liabilities, losses, costs and expenses (including legal fees) of every kind and nature that may be imposed on, incurred by, or asserted against such person at any time by reason of such person's services in connection with the Plan, but only if such person did not act dishonestly or in bad faith or in willful violation of the law or regulations under which such liability, loss, cost or expense arises. The

Participating Employers have the right, but not the obligation, to select counsel and control the defense and settlement of any action for which a person may be entitled to indemnification under this provision.

#### 13.6. Benefit Claim Procedure.

If a request for a benefit by a Participant or Beneficiary of a deceased Participant is denied in whole or in part, he or she may, within 30 days after receipt of notice of the denial, file with the Administrator a written claim objecting to the denial. (Such a claim must be made to the Administrator prior to filing any sort of lawsuit.) Not later than 90 days after receipt of such claim, the Administrator will render a written decision on the claim to the claimant. If the claim is denied in whole or in part, such decision will include: the reasons for the denial; a reference to the Plan provision that is the basis for the denial; a description of any additional material or information necessary for the claimant to perfect the claim; an explanation as to why such information or material is necessary; and an explanation of the Plan's claim procedure. Not later than 60 days after receiving the Administrator's written decision, the claimant may file with the Administrator a written request for review of the Administrator's decision, and the claimant or the representative may thereafter review Plan documents that relate to the claim and submit written comments to the Administrator. Not later than 60 days after the Administrator's receipt of the request for review, the Administrator will render a written decision on the claim, which decision will include the specific reasons for the decision, including reference to specific Plan provisions where appropriate. The 90- and 60-day periods during which the Administrator must respond to the claimant may be extended by up to an additional 90 or 60 days, respectively, if circumstances beyond the Administrator's control so require and if notice of such extension is given to the claimant. A claimant must exhaust the procedure described in this section before making any claim of entitlement to benefits or objecting to any claim denial in any court or other proceeding.

#### 13.7. Correction of Errors.

If the Administrator determines that, by reason of administrative error or other cause attributable to a Participating Employer, the Account of any Participant has incurred a loss, the Administrator may enter into an agreement with such Participating Employer under which the Account is fully restored and may, upon such restoration, release the Participating Employer from further responsibility.

### ARTICLE

### 14.

14.1. Merger, Consolidation, Transfer of Assets.

If this Plan is merged or consolidated with, or its assets or liabilities are transferred to, any other plan, each Participant will be entitled to receive a benefit immediately after such merger, consolidation or transfer (if such other plan were then terminated) that is equal to or greater than the benefit he or she would have been entitled to receive immediately before such merger, consolidation or transfer (if this Plan had then terminated).

14.2. Limited Reversion of Fund.

(A) Except as provided in Subsection (B), no corpus or income of the Trust will at any time revert to Participating Employer or be used other than for the exclusive benefit of Eligible Employees, Participants and Beneficiaries by paying benefits and, if applicable, administrative expenses of the Plan.

(B) Notwithstanding any contrary provision in the Plan,

(1) All contributions made by a Participating Employer to the Trustee prior to the initial determination of the Internal Revenue Service as to qualification of the Plan under Section 401(a) of the Code and the tax exempt status of the Trust under Code section 501(a) will be repaid by the Trustee to such Participating Employer, upon the Participating Employer's written request, if the Internal Revenue Service rules that the Plan, as adopted by that Participating Employer, is not qualified or the Trust is not tax exempt; provided, that the Participating Employer requests such determination within a reasonable time after adoption of the Plan, and the repayment by the Trustee to such Participating Employer is made within one year after the date of denial of qualification of the Plan; and

(2) To the extent a contribution is made by a Participating Employer by a mistake of fact or a deduction is disallowed a Participating Employer under Code section 404, the Trustee will repay the contribution to such Participating Employer upon the Participating Employer's written request; provided, that such repayment is made within one year after the mistaken payment is made or the deduction is disallowed, as the case may be. The amount returned to the Participating Employer will not include any investment gains or earnings but will be reduced by any investment losses. Each contribution to the Plan by a Participating Employer is expressly conditioned on such contribution's being fully deductible by the Participating Employer under Code section 404.

14.3. Top-Heavy Provisions.

(A)

(1) Notwithstanding the provisions of Sections 3.1, 3.2 and 3.3, for any Plan Year during which the Plan is a top-heavy plan, the amount of contributions (excluding Pre-Tax Contributions) made and allocated for such Plan Year on behalf of each Active Participant who is not a key employee and who is employed with an Affiliated Organization on the last day of the Plan Year, expressed as a percentage of the Participant's Testing Wages for the Plan Year, must be at least equal to the lesser of

- (a) three percent, or
- (b) the largest percentage of such Testing Wages at which contributions (including Pre-Tax Contributions) are made and allocated on behalf of any key employee for such Plan Year.

(2) If, in addition to this Plan, an Affiliated Organization maintains another qualified defined contribution plan or one or more qualified defined benefit pension plans during a Plan Year, the provisions of clause (1) will be applied for such Plan Year

- (a) by taking into account the employer contributions (other than elective deferrals for a non-key employee) on behalf of the Participant under all such defined contribution plans;
- (b) without regard to any Participant who is not a key employee and whose accrued benefit, expressed as a single life annuity, under a defined benefit pension plan maintained by the Affiliated Organization for such Plan Year is not less than the product of -
  - (i) the Participant's average Testing Wages for the period of consecutive years not exceeding the period of consecutive years (not exceeding five) when the Participant had the highest aggregate Testing Wages, disregarding years in which the Participant completed less than 1000 Hours of Service, multiplied by
  - (ii) the lesser of (A) two percent per year of service, disregarding years of service beginning after the close of the last Plan Year in which such defined benefit plan was a top heavy plan, or (B) 20

percent.

(B) For purposes of Subsection (A),

(1)

(a) The Plan will be a "top-heavy plan" for a particular Plan Year if, as of the last day of the initial Plan Year or, with respect to any other Plan Year, as of the last day of the preceding Plan Year, the aggregate of the Account balances of key employees is greater than 60 percent of the aggregate of the Account balances of all Participants.

(b) For purposes of calculating the aggregate Account balances for both key employees and employees who are not key employees:

(i) Any distributions made within the five-year period preceding the Plan Year for which the determination is being made, other than a distribution transferred or rolled over to a plan maintained by an Affiliated Organization, will be included;

(ii) Amounts transferred or rolled over from a plan not maintained by an Affiliated Organization at the initiation of the Participant will be excluded;

(iii) The Account balances of any key employee and any employee who is not a key employee who has not performed an Hour of Service of the type specified in Section 10.4(A)(1) at any time during the five-year period ending on the date as of which the determination is being made will be excluded; and

(iv) The terms "key employee" and "employee" will include the Beneficiaries of such persons who have died.

(2)

(a) Notwithstanding the provisions of clause (1), this Plan will not be a top-heavy plan if it is part of either a "required aggregation group" or a "permissive aggregation group" and such aggregation group is not top-heavy. An aggregation group will be top-heavy if the sum of the present value of accrued benefits and account balances of key



employees is more than 60 percent of the sum of the present value of accrued benefits and account balances for all Participants, such accrued benefits and account balances being calculated in each case in the same manner as set forth in clause (1).

- (b) Each plan in a required aggregation group will be top-heavy if the group is top-heavy. No plan in a required aggregation group will be top-heavy if the group is not top-heavy.
- (c) If a permissive aggregation group is top-heavy, only those plans that are part of an underlying top-heavy, required aggregation group will be top-heavy. No plan in a permissive aggregation group will be top-heavy if the group is not top-heavy.

(3) The "required aggregation group" consists of (i) each plan of an Affiliated Organization in which a key employee participates, and (ii) each other plan of an Affiliated Organization that enables a plan in which a key employee participates to meet the nondiscrimination requirements of Code sections 401(a)(4) and 410.

(4) A "permissive aggregation group" consists of those plans that are required to be aggregated and one or more plans (providing comparable benefits or contributions) that are not required to be aggregated, which, when taken together, satisfy the requirements of Code sections 401(a)(4) and 410.

(5) For purposes of applying clauses (2), (3) and (4) of this Subsection (B), any qualified defined contribution plan maintained by an Affiliated Organization at any time within the five-year period preceding the Plan Year for which the determination being made which, as of the date of such determination, has been formally terminated, has ceased crediting service for benefit accruals and vesting and has been or is distributing all plan assets to participants or their beneficiaries, will be taken into account to the extent required or permitted under such clauses and under Code section 416.

(C) A "key employee" is any individual who is or was employed with an Affiliated Organization and who, at any time during the Plan Year in question or any of the preceding four Plan Years is or was:

(1) An officer of the Affiliated Organization (an administrative executive in regular and continued service with the Affiliated Organization) whose compensation for such Plan Year exceeds 50 percent of the amount in effect under

Code section 415(b) (1) (A) for such Plan Year, but in no case will there be taken into account more than the lesser of (a) 50 individuals or (b) the greater of (i) three individuals or (ii) ten percent of the number of the Affiliated Organization employees, excluding for purposes of determining the number of such officers, any employees that are excluded pursuant to Section 12.17(A) (2) (b);

(2) The owner of an interest in the Affiliated Organization, that is not less than the interest owned by at least ten other individuals employed with the Affiliated Organization; provided, that, such owner will not be a key employee solely by reason of such ownership for a Plan Year if he or she does not own more than one-half of one percent of the value of the outstanding interests of the Affiliated Organization or if the amount of his or her compensation for such Plan Year is less than the amount in effect under Code section 415(c) (1) (A) for such Plan Year;

(3) The owner of more than five percent of the Affiliated Organization's outstanding stock or more than five percent of the total combined voting power of the Affiliated Organization stock; or

(4) The owner of more than one percent of the Affiliated Organization's outstanding stock or more than one percent of the total combined voting power of the Affiliated Organization's stock, whose compensation for such Plan Year exceed \$150,000.

For purposes of this Subsection (C), the term "compensation" has the same meaning as in Section 12.17(B) (2) and ownership of an Affiliated Organization stock will be determined in accordance with Code section 318; provided, that subparagraph 318(a) (2) (C) will be applied by substituting the phrase "5 percent" for the phrase "50 percent" wherever it appears in such Code section.

(D) If an Affiliated Organization maintains a qualified defined contribution plan and a qualified defined pension plan, the limitation on combined contributions and accrued benefits will be adjusted by substituting "100 percent" for "125 percent" in the definitions of the defined benefit fraction and the defined contribution fraction in Section 9.7; provided, first, that this Subsection (D) will be applied prospectively only to prohibit additional contributions allocated, and forfeitures reallocated, to and defined benefit accruals for, a Participant and will not reduce any allocations or reallocations made to, or benefits accrued for, such Participant prior to the Plan Year for which it first becomes effective; and, second, that if the Plan would not be a top heavy plan if "90 percent" were substituted for "60 percent" in clause (1) (a) of Subsection (B), this Subsection (D) will not apply if -

(1) the aggregate employer contribution (other than elective contributions) under all such qualified defined contribution plans on behalf of each Participant who is not a key employee and who is employed with an Affiliated Organization on the last day of the Plan Year is not less than seven and one-half percent of his or her Testing Wages for the Plan Year, or

(2) the accrued benefit for each Participant under the qualified defined benefit pension plan is not less than the benefit described in Subsection (A) (2) (b), applied by substituting "3 percent" for "2 percent" in item (A) of clause (ii) and "30 percent" for "20 percent" in item (B) of clause (ii).

#### 14.4. No Employment Rights Created.

The establishment and maintenance of the Plan neither give any Employee a right to continuing employment nor limit the right of an Affiliated Organization to discharge or otherwise deal with the Employee without regard to the effect such action might have on his or her initial or continued participation in the Plan.

#### 14.5. Special Provisions.

Special provisions of the Plan applicable only to certain Participants will be set forth on an exhibit to the Plan. In the event of a conflict between the terms of the exhibit and the terms of the Plan, the exhibit controls.

#### 14.6. USERRA.

(A) The provisions of this Section 14.6 apply only to a Qualified Employee whose reemployment rights are protected under the Uniformed Services Employment and Reemployment Rights Act of 1994 ("USERRA") and are intended to comply with the requirements of Code section 414(u).

(B) Notwithstanding any other provisions of this Plan to the contrary, any Qualified Employee who leaves the employ of a Participating Employer for qualified military service and returns to employment with a Participating Employer will be entitled to the restoration of benefits under this Plan which would have accrued but for the Qualified Employee's absence due to qualified military service.

(C) The Qualified Employee shall be entitled to make Voluntary Contributions to the Plan subject only to the limitations of the Plan with respect to Voluntary Contributions applicable for the Plan Year to which the contribution relates and not those applicable to the Plan Year in which the contribution is made.

(D) The Participating Employer shall make Pre-Tax Contributions to the Plan on behalf of the Qualified Employee for the Plan Years during which the Qualified Employee has qualified military service in the amount by which the Participant's Eligible Earnings have been reduced in accordance with Section 3.1 and the following additional rules:

(1) the Qualified Employee may elect to make additional reductions of his Eligible Earnings subject to the maximum amount the Employee may have reduced his or her Eligible Earnings during the period of qualified military service;

(2) the Employee may elect to reduce his Eligible Earnings under this Section 14.6(D) at any time during the period which begins on his or her date of reemployment and has the same length as the lesser of five years or the period of the Employee's qualified military service multiplied by three;

(3) the additional Pre-Tax Contributions under this Section 14.6(D) are not subject to the Actual Deferral Percentage Limitation of Section 9.2.

(E) The Participating Employer will make any additional Matching Contributions with respect to the Qualified Employee's Pre-Tax Contributions under Section 3.2 which would have been required if such Pre-Tax Contributions had actually been made during the Qualified Employee's period of qualified military service. These additional Matching Contributions are not subject to the Actual Contribution Percentage Limitations of Section 9.3.

(F) The Participating Employer's obligation to contribute restored benefits to the Plan on behalf of a reemployed Qualified Employee is subject to the following rules and conditions:

(1) the Qualified Employee shall not be treated as having incurred a One-Year Break in Service within the meaning of Section 10.5 by reason of his or her qualified military service;

(2) any period of qualified military service shall be treated as Vesting Service under Section 10.3 with respect to the Participating Employer;

(3) for purposes of Section 3.4(B)(1), a Qualified Employee shall be treated as employed by the Participating Employer and accruing service during any period of qualified military service;

(4) for purposes of determining the Qualified Employee's Eligible Earnings and Section 415 Wages, the Qualified Employee

shall be treated as receiving compensation from the Participating Employer during the period of qualified military service in an amount equal to the compensation he or she would have received during such period if he or she were not in qualified military service determined based on the rate of pay the Qualified Employee would have received from the Participating Employer but for the absence due to qualified military service; provided, however, if the compensation the Qualified Employee would have received from the Participating Employer is not reasonably certain, then the Qualified Employee's rate of compensation will be equal to his or her average compensation for the 12-month period preceding the qualified military service (or, if shorter, the period of employment immediately preceding the qualified military service);

(5) contributions to the Trust on behalf of the Qualified Employee will be subject to the limitations of Article IX only with respect to the Plan Years to which such contribution relates;

(6) the Qualified Employee will not be entitled to any crediting of earnings on contributions for any period prior to actual payment to the Trust; and

(7) the Qualified Employee will not be entitled to restoration of any forfeitures which were not allocated to his or her Account as a result of his or her qualified military service.

(G) For purposes of this Section 14.6, "qualified military service" means any service in the uniformed services as defined in USERRA by a Qualified Employee who is entitled to reemployment rights with a Participating Employer under USERRA.

#### EXHIBIT A

Special Rules applicable to Employees of Customer Communications Center, Inc.

This Exhibit A sets forth special rules applicable to Employees of Customer Communications Center, Inc. ("CCCI") in connection with the adoption of the Plan by CCCI.

1. For purposes of the definition of "Qualified Employee" under Section 12.28, a Qualified Employee shall be any Employee of CCCI who has transferred from the employment of an Affiliated Organization and immediately prior to such transfer was an Active Participant under the Plan.

FINGERHUT COMPANIES, INC. AND SUBSIDIARIES

1997 KEY MANAGEMENT INCENTIVE BONUS PLAN

JANUARY 1997

Participation in this Plan is limited to officers, directors and managers of Fingerhut Companies, Inc., and subsidiaries recommended by the Senior Vice President of the functional area, and approved by the Director of Compensation, Benefits and HRIS, the Senior Vice President Human Resources and the Chief Executive Officer. The intent of the Plan is to pay bonus amounts at the par goal based on: (1) bonus percentages specified on an Individual Opportunity Statement, (2) Company financial performance, (which includes performance of the overall Company and the performance of designated business unit(s)), and (3) achievement of individual objectives.

For the Chief Executive Officer, 100% of the bonus amount will be determined by overall Company financial performance. For all others, the Individual Opportunity Statement specifies the weighting of Company financial performance allocated between overall Company performance and performance of designated business unit(s).

This Plan will be effective for the fiscal year commencing January 1, 1997, but the Company may change, modify or terminate the Plan at any time, including adding or deleting business units.

#### Eligibility

1. Participation in the Plan is limited to officers, directors and managers of Fingerhut Companies, Inc. and subsidiaries who are recommended and approved.
2. Each participant will receive an Individual Opportunity Statement specifying the par goal percentage payment opportunity. Maximum performance achievement will pay out two times this par opportunity, while threshold performance earns one-half of this par opportunity.
3. No bonus award will be made if a participant leaves the employ of the Company prior to the last day of the

measurement period. The only exceptions to this will be for death, retirement, disability, or transfer to an affiliate company and in these situations a prorated bonus award will be made.

In the event of a prorated award the participant may be paid a bonus for the time during the bonus period that he or she was a participant. In the event of an involuntary termination, the company will have complete discretion to pay or not pay a bonus and to adjust the bonus amount in whatever way the Company deems appropriate.

4. A new participant who becomes eligible to participate in the Plan during a bonus period may be paid a bonus in proportion to the time during the bonus period that he or she was a participant. A participant whose position and bonus percentage opportunities change during the year shall receive an adjusted bonus based on performance in each position held and proportional in amount to the period each position was held. This adjustment will apply to both Company and individual performance objectives.

#### Definition of Salary and Benefits

1. Salary shall be defined as paid base salary earnings during the fiscal year exclusive of any benefits and other payments.
2. Bonus amounts paid under the Plan shall be included for purposes of determining benefits from the Fingerhut Corporation Pension and Profit Sharing Plans.

#### Payment Examples

The algorithm yielding the individual bonus payment for all participants will be as follows:

Paid Base Earnings	X	Par Bonus Percent	X	Overall Company Performance Factor	+	Business Unit(s) Performance	+	Individual Performance Factor	=	Bonus Amount
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#### Example - At Par Performance

- A participant earns \$100,000 salary
- Par bonus percentage is 50% of paid base salary earnings
- Company performance factor is allocated 10% to overall

Company financial performance and 55% to designated business unit objectives

- Individual objectives factor weight is 35%
- Overall Company performance factor, business unit and individual objectives are achieved at par goal

$$\begin{array}{rcll} \text{Salary} & \times & 50\% & \times & (10\% + 55\% + 35\%) & = & \text{Bonus Amount} \\ \$100,000 & \times & 50\% & \times & 100\% & = & \$ 50,000 \end{array}$$

#### Example - Above Par Goal Performance at 75th percentile

- A participant earns \$100,000 salary
- Par bonus percentage is 50% of paid base salary earnings
- Company performance factor is allocated 10% to overall Company financial performance and 55% to business unit objectives
- Individual objectives factor weight is 35%
- Overall Company performance factor, business unit and individual objectives are achieved at 150% of goal.

$$\begin{array}{rcll} \text{Salary} & \times & 50\% & \times & (15\% + 82.5\%+52.5\%) & = & \text{Bonus Amount} \\ \$100,000 & \times & 50\% & \times & 150\% & = & \$ 75,000 \end{array}$$

#### Example - At Threshold Goal Performance

- A participant earns \$100,000 salary
- Par bonus percentage is 50% of paid base salary earnings
- Company performance factor is allocated 10% to overall Company financial performance and 55% to team objectives
- Individual objectives factor weight is 35%
- Overall Company performance factor, business unit and individual objectives achieved below goal at 50%

$$\begin{array}{rcll} \text{Salary} & \times & 50\% & \times & (5\% + 27.5\% + 17.5) & = & \text{Bonus Amount} \\ \$100,000 & \times & 50\% & \times & 50\% & = & \$ 25,000 \end{array}$$

#### Other Plan Provisions

1. In the event the minimum Plan threshold for payout for the Retail performance factor is not attained, no payout will be made for the Retail factor or the individual MBO.
2. For individual factor awards to earn over 100%, the Retail Business must meet or exceed its par level financial target. To earn individual payouts above par level, the performance level of the objective must be high, and the supervisor must indicate on the MBO if payment should be made at threshold, par, 75th percentile or maximum level. This allows for additional reward incentive on some or all of the individual



MBO's.

3. Payment of bonus awards will be made in cash and will include required payroll deductions after the actual results have been reviewed by the Chief Financial Officer and approved by the Chief Executive Officer. The bonus payments will occur as soon as practical after the approval date.
4. The Plan is self-funding. Thus, the financial objectives of the Retail Business must be met after the effect of any bonus payments.
5. The Chief Executive Officer may make discretionary bonus payments to participants over and above the defined formula for (i) extraordinary performance or (ii) in other cases, upon the recommendation of the Executive Compensation Committee where determined by the Committee to be warranted.
6. If significant unforeseen results affect the Company's business positively or negatively during the year, that were not included in the Company performance goal and/or business unit(s) goal for the year, the financial performance goal may be adjusted to reflect the effects of such unplanned events. Such unplanned situations shall include but are not limited to:
  - A. Unplanned acquisitions/new business ventures
  - B. Unplanned divestitures
  - C. The inclusion or exclusion of new participants under the Plan as mentioned in items A and B.

The Chief Executive Officer will make a recommendation on the appropriate adjustment of such an unplanned situation on this Plan, and the Board Compensation Committee will decide upon any such adjustment.

## Approvals

1. The head of each Department will recommend individual objectives and the weighting between overall Company performance and business unit(s) performance at the start of the measurement period. Each such officer will recommend and justify the weighting of the company performance factor, objectives, and performance factors for participating officers. The decision of the Chief Executive Officer will be final and conclusive with respect to the establishment of Company performance factor weightings, objectives, and performance of the participants.
2. Achievement of objectives ratings of the participants will be reviewed, recommended and submitted by the appropriate

officer to the next two levels of management for approval. Final determination and approval of satisfaction of Plan objectives and bonus amounts will be by the Chief Executive Officer.

3. The administration of the Key Management Incentive Bonus Plan is the responsibility of the Compensation, Benefits and HRIS Department.

FINGERHUT COMPANIES, INC.

AND SUBSIDIARIES

GUIDELINES FOR ESTABLISHING INDIVIDUAL

PERFORMANCE OBJECTIVES

1. Key Management Incentive Bonus Plan (KMIBP) participants will meet with the appropriate Officer prior to the beginning of the measurement period to discuss specific results to be achieved during the year.
2. The participant will then draft and submit to the Officer goals to be accomplished during the year. These objectives must be written on the KMIBP MBO form. The participant and Officer will then recommend achievement rating points to each objective. Points assigned should reflect the priority of the objective; i.e. higher priority objectives should carry more points.
3. Characteristics of Well Developed Objectives - To be meaningful, individual performance objectives (MBO's) should be:

Challenging - The objective should present a challenge to the participant.

Attainable - The objective should be both realistic and achievable.

Measurable - The objective should be as specific and quantitative as possible. It should be expressed in tangible and measurable terms. If it is not quantifiable, the results of the achievement should be verifiable.

Relevant - There should be a clear and direct relationship between the objective and the Company's goals.

4. Performance objectives require the approval of the next

level of management. The Chief Executive Officer reserves the right to add, delete, or change recommended objectives.

5. At the end of each quarter, and at fiscal year end, the participant and the appropriate Officer will review results against objectives. The final rating at the end of the measurement period will determine the bonus amount paid.

FINGERHUT CORPORATION  
DEFERRED COMPENSATION PLAN  
Effective January 1, 1998

Purpose

The purpose of this Plan is to provide specified benefits to a select group of management and highly compensated Employees who contribute materially to the continued growth, development and future business success of Fingerhut Corporation, a Minnesota corporation, and its subsidiaries, if any, that sponsor this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

ARTICLE 1  
Definitions

For purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

- 1.1 "Account Balance" shall mean, with respect to a Participant, a credit on the records of the Employer equal to the sum of (i) the Deferral Account balance, (ii) the vested Company Contribution Account balance and (iii) the vested Company Restoration Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.
- 1.2 "Annual Bonus" shall mean any compensation, in addition to Base Annual Salary relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, payable to a Participant as an Employee under any Employer's annual bonus and cash incentive plans, excluding stock options and severance pay or other payments made on account of an Employee's Termination of Employment.
- 1.3 "Annual Company Contribution Amount" shall mean, for any one Plan Year, the amount determined in accordance with Section 3.5.
- 1.4 "Annual Company Restoration Amount" for any one Plan Year shall be the amount determined in accordance with Section 3.6.
- 1.5 "Annual Deferral Amount" shall mean that portion of a Participant's Base Annual Salary and Annual Bonus that a Participant elects to have, and is deferred, in accordance with Article 3, for any one Plan Year. In the event of a

Participant's Termination of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.

- 1.6 "Annual Installment Method" shall be an annual installment payment over the number of years selected by the Participant in accordance with this Plan, calculated as follows: The Account Balance of the Participant shall be calculated as of the close of business on the last business day of the year. The annual installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one, and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if the Participant elects a 10 year Annual Installment Method, the first payment shall be 1/10 of the Account Balance, calculated as described in this definition. The following year, the payment shall be 1/9 of the Account Balance, calculated as described in this definition. Each annual installment shall be paid on or as soon as practicable after the last business day of the applicable year.
- 1.7 "Base Annual Salary" shall mean the annual cash compensation relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, excluding bonuses, commissions, overtime, fringe benefits, stock options, relocation expenses, incentive payments, non-monetary awards, directors fees and other fees, automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee's gross income), and severance pay or other payments an account of the Employee's Termination of Employment. Base Annual Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of any Employer and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by any Employer; provided, however, that all such amounts will be included in compensation only to the extent that, had there been no such plan, the amount would have been payable in cash to the Employee.
- 1.8 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 7, that are entitled to receive benefits under this Plan upon the death of a Participant.
- 1.9 "Beneficiary Designation Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.
- 1.10 "Board" shall mean the board of directors of the Company.
- 1.11 "Change in Control" shall mean the first to occur of any of

the following events:

- (a) Any "person" (as that term is used in Section 13 and 14(d)(2) of the Securities Exchange Act of 1934 ("Exchange Act")) becomes the beneficial owner (as that term is used in Section 13(d) of the Exchange Act), directly or indirectly, of 50% or more of the Parent's capital stock entitled to vote in the election of directors;
  - (b) During any period of not more than two consecutive years, not including any period prior to the adoption of this Plan, individuals who at the beginning of such period constitute the board of directors of the Parent, and any new director (other than a director designated by a person who has entered into an agreement with the Parent to effect a transaction described in clause (a), (c), (d) or (e) of this Section 1.11) whose election by the board of directors or nomination for election by the Parent's stockholders was approved by a vote of at least three-fourths (3/4ths) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;
  - (c) The shareholders of the Parent approve any consolidation or merger of the Parent, other than a consolidation or merger of the Parent in which the holders of the common stock of the Parent immediately prior to the consolidation or merger hold more than 50% of the common stock of the surviving corporation immediately after the consolidation or merger;
  - (d) The shareholders of the Parent approve any plan or proposal for the liquidation or dissolution of the Parent; or
  - (e) The shareholders of the Parent approve the sale or transfer of all or substantially all of the assets of the Parent to parties that are not within a "controlled group of corporations" (as defined in Code Section 1563) in which the Parent is a member.
- 1.12 "Claimant" shall have the meaning set forth in Section 12.1.
- 1.13 "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.
- 1.14 "Committee" shall mean the committee described in Article 10.
- 1.15 "Company" shall mean Fingerhut Corporation, a Minnesota corporation, and any successor to all or substantially all of the Company's assets or business.
- 1.16 "Company Contribution Account" shall mean (i) the sum of the Participant's Annual Company Contribution Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Company Contribution Account, less (iii) all distributions made to the Participant or his or her

Beneficiary pursuant to this Plan that relate to the Participant's Company Contribution Account.

1.17 "Company Restoration Account" shall mean (i) the sum of all of a Participant's Annual Company Restoration Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Company Restoration Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Restoration Account.

1.18 "Deduction Limitation" shall mean the following described limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan. Except as otherwise provided, this limitation shall be applied to all distributions that are "subject to the Deduction Limitation" under this Plan. If an Employer determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Employer would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Employer to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, the Employer may defer all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.9 below, even if such amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) at the earliest possible date, as determined by the Employer in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Section 162(m), or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.

1.19 "Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.

1.20 "Disability" shall mean a period of disability during which a Participant qualifies for permanent disability benefits under the Participant's Employer's long-term disability plan, or, if a Participant does not participate in such a plan, a period of disability during which the Participant would have

qualified for permanent disability benefits under such a plan had the Participant been a participant in such a plan, as determined in the sole discretion of the Committee. If the Participant's Employer does not sponsor such a plan, or discontinues to sponsor such a plan, Disability shall be determined by the Committee in its sole discretion.

- 1.21 "Election Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan.
- 1.22 "Employee" shall mean a person who is an employee of any Employer.
- 1.23 "Employer(s)" shall mean the Company and/or any of its subsidiaries (now in existence or hereafter formed or acquired) that have been selected by the Board to participate in the Plan and have adopted the Plan as a sponsor.
- 1.24 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.
- 1.25 "Parent" shall mean Fingerhut Companies, Inc., a Minnesota corporation, and any successor to all or substantially all of the Parent's assets or business.
- 1.26 "Participant" shall mean any Employee (i) who is selected by the Committee to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who signs a Plan Agreement, an Election Form and a Beneficiary Designation Form, (iv) whose signed Plan Agreement, Election Form and Beneficiary Designation Form are accepted by the Committee, (v) who commences participation in the Plan, and (vi) whose Plan Agreement has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an account balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation, divorce, or otherwise.
- 1.27 "Plan" shall mean the Company's Deferred Compensation Plan, which shall be evidenced by this instrument and by each Plan Agreement, as they may be amended from time to time.
- 1.28 "Plan Agreement" shall mean a written agreement, as may be amended from time to time, which is entered into by and between an Employer and a Participant. Each Plan Agreement executed by a Participant and the Participant's Employer shall provide for the entire benefit to which such Participant is entitled under the Plan; should there be more than one Plan Agreement, the Plan Agreement bearing the latest date of acceptance by the Employer shall supersede all previous Plan Agreements in their entirety and shall govern such entitlement. The terms of any Plan Agreement may be different for any Participant, and any Plan Agreement may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan; provided, however, that any such additional benefits or benefit limitations must be agreed to by both the Employer



and the Participant.

- 1.29 "Plan Year" shall mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.
- 1.30 "Qualified Plans" shall mean the Fingerhut Corporation Profit Sharing and 401(k) Savings Plan, dated March 28, 1969, amended and restated July 1, 1997 (the "401(k) Plan"), the Fingerhut Corporation Fixed Contribution Retirement Plan, effective July 1, 1997 (the "Fixed Contribution Plan"), the Fingerhut Corporation Pension Plan, dated June 30, 1966, amended and restated March 26, 1990 (the "Pension Plan"), the Figi's Inc. Profit Sharing and 401(k) Savings Plan, effective July 5, 1981, amended and restated October 1, 1997 (the "Figi's 401(k) Plan") and the Figi's Inc. Employees Pension Plan, effective July 5, 1981 (the "Figi's Pension Plan"), as they may be further amended from time to time.
- 1.31 "Short-Term Payout" shall mean the payout set forth in Section 4.1.
- 1.32 "Termination Benefit" shall mean the benefit set forth in Article 5.
- 1.33 "Termination of Employment" shall mean the severance from employment with all Employers, voluntarily or involuntarily, for any reason (including death, Disability or retirement) other than an authorized leave of absence.
- 1.34 "Trust" shall mean one or more trusts established pursuant to that certain Fingerhut Corporation Deferred Compensation Plan Trust, dated as of January 1, 1998 between the Company and the trustee named therein, as amended from time to time.

## ARTICLE 2

### Selection, Enrollment, Eligibility

- 2.1 Selection by Committee. Participation in the Plan shall be limited to a select group of management and highly compensated Employees of the Employers, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Employees who are eligible to participate in the Plan.
- 2.2 Enrollment Requirements. As a condition to participation, each selected Employee shall complete, execute and return to the Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form, all within 30 days after he or she is selected to participate in the Plan. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary or desirable.
- 2.3 Eligibility; Commencement of Participation. Provided an Employee selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, including returning all required documents to the Committee within the specified time period, that Employee shall commence participation in the Plan as soon as practical, generally

two weeks after the Employee completes all enrollment requirements. If an Employee fails to meet all such requirements within the period required, in accordance with Section 2.2, that Employee shall not be eligible to participate in the Plan until the first day of the Plan Year following the delivery to and acceptance by the Committee of the required documents.

- 2.4 Termination of Participation and/or Deferrals. If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes, (ii) prevent the Participant from making future deferral elections and/or (iii) immediately distribute the Participant's then Account Balance in the same manner as a Termination Benefit and terminate the Participant's participation in the Plan.

### ARTICLE 3

#### Deferral Commitments/Crediting/Taxes

##### 3.1 Minimum Deferrals.

- (a) Base Annual Salary and Annual Bonus. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Annual Salary and/or Annual Bonus in the following combined minimum amount:

Deferral	Minimum Amount
Base Annual Salary	\$ 0
Annual Bonus	\$ 0
Combined Total	\$2,500

If an election is made for less than the stated combined minimum amount, or if no election is made, the amount deferred shall be zero.

- (b) Short Plan Year. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, or in the case of the first Plan Year of the Plan itself, the minimum deferral shall be an amount equal to the minimum set forth above, multiplied by a fraction, the numerator of which is the number of complete months remaining in the Plan Year and the denominator of which is 12.

##### 3.2 Maximum Deferral.

- (a) Base Annual Salary and/or Annual Bonus. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Annual Salary and/or Annual Bonus up to the following maximum percentages for each deferral elected:

Deferral	Maximum Percentage
Base Annual Salary	25%
Annual Bonus	100%

(b) Short Plan Year. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, or in the case of the first Plan Year of the Plan itself, the maximum Annual Deferral Amount, with respect to Base Annual Salary and Annual Bonus shall be limited to the amount of compensation not yet earned by the Participant as of the date the Participant submits a Plan Agreement and Election Form to the Committee for acceptance.

### 3.3 Election to Defer; Effect of Election Form

(a) First Plan Year. In connection with a Participant's commencement of participation in the Plan, the Participant shall make an irrevocable deferral election for the Plan Year in which the Participant commences participation in the Plan, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above) and accepted by the Committee.

(b) Subsequent Plan Years. For each succeeding Plan Year, an irrevocable deferral election for that Plan Year, and such other elections as the Committee deems necessary or desirable under the Plan, shall be made by timely delivering to the Committee, in accordance with its rules and procedures, before the end of the Plan Year preceding the Plan Year for which the election is made, a new Election Form. If no such Election Form is timely delivered for a Plan Year, the Annual Deferral Amount shall be zero for that Plan Year.

3.4 Withholding of Annual Deferral Amounts. For each Plan Year, the Base Annual Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Base Annual Salary payroll in equal amounts, as adjusted from time to time for increases and decreases in Base Annual Salary. The Annual Bonus portion of the Annual Deferral Amount shall be withheld at the time the Annual Bonus is or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself.

3.5 Annual Company Contribution Amount. For each Plan Year, an Employer, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Company Contribution Account under this Plan, which amount shall be for that Participant the Annual Company Contribution Amount for that Plan Year. The amount so credited to a Participant may be smaller or larger than the amount credited to any

other Participant, and the amount credited to any Participant for a Plan Year may be zero, even though one or more other Participants receive an Annual Company Contribution Amount for that Plan Year. The Annual Company Contribution Amount, if any, shall be credited as of the last day of the Plan Year. If a Participant is not employed by an Employer as of the last day of a Plan Year, the Annual Company Contribution Amount for that Plan Year shall be zero.

- 3.6 Annual Company Restoration Amount. A Participant's Annual Company Restoration Amount for any Plan Year shall be equal to the actuarial equivalent present value of the benefits, as determined by the Committee in its reasonable discretion, that the Participant would have accrued during the Plan Year under the Qualified Plans, but for the Participant's participation in this Plan.
- 3.7 Investment of Trust Assets. The Trustee of the Trust shall be authorized, upon written instructions received from the Committee or investment manager appointed by the Committee, to invest and reinvest the assets of the Trust in accordance with the applicable Trust Agreement, including the disposition of stock and reinvestment of the proceeds in one or more investment vehicles designated by the Committee.
- 3.8 Vesting.
- (a) A Participant shall at all times be 100% vested in his or her Deferral Account.
  - (b) A Participant shall be vested in his or her Company Contribution Account in accordance with the schedule, if any, contained in his or her Plan Agreement.
  - (c) A Participant shall be vested in his or her Company Restoration Account as follows: (i) the Participant shall at all times be 100% vested in the portion of his or her Company Restoration Account related to the 401(k) Plan, the Fixed Contribution Plan and the Figi's 401(k) Plan; (ii) the Participant shall be vested in the portion of his or her Company Restoration Account related to the Pension Plan in accordance with the Pension Plan's vesting schedule, as determined by the Committee in its reasonable discretion; and (iii) the Participant shall be vested in the portion of his or her Company Restoration Account related to the Figi's Pension Plan in accordance with the Figi's Pension Plan's vesting schedule, as determined by the Committee in its reasonable discretion .
  - (d) Notwithstanding anything to the contrary contained in this Section 3.8, in the event of a Change in Control, or a Participant's death or Disability, the Participant's Company Contribution Account and Company Restoration Account shall immediately become 100% vested (if it is not already vested in accordance with the above vesting schedules).
  - (e) Notwithstanding subsection (d), the vesting schedule for a Participant's Company Contribution Account and Company Restoration Account shall not be accelerated to the extent that the Committee determines that such acceleration would cause the deduction

limitations of Section 280G of the Code to become effective. In the event that all of a Participant's Company Contribution Account and/or Company Restoration Account is not vested pursuant to such a determination, the Participant may request independent verification of the Committee's calculations with respect to the application of Section 280G. In such case, the Committee must provide to the Participant within 15 business days of such a request an opinion from a nationally recognized accounting firm selected by the Participant (the "Accounting Firm"). The opinion shall state the Accounting Firm's opinion that any limitation in the vested percentage hereunder is necessary to avoid the limits of Section 280G and contain supporting calculations. The cost of such opinion shall be paid for by the Company.

3.9 Crediting/Debiting of Account Balances. In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance in accordance with the following rules:

- (a) Election of Measurement Funds. A Participant, in connection with his or her initial deferral election in accordance with Section 3.3(a) above, shall elect, on the Election Form, one or more Measurement Fund(s) (as described in Section 3.9(c) below) to be used to determine the additional amounts to be credited to his or her Account Balance for the first day in which the Participant commences participation in the Plan and continuing thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the next sentence. Commencing with the first day that follows the Participant's commencement of participation in the Plan and continuing thereafter for each subsequent day in which the Participant participates in the Plan, the Participant may (but is not required to) elect, in accordance with the rules adopted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the additional amounts to be credited to his or her Account Balance, or to change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply to the next business day and continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence.
- (b) Proportionate Allocation. In making any election described in Section 3.9(a) above, the Participant shall specify, in accordance with the rules adopted by the Committee, in increments of five percentage points (5%), the percentage of his or her Account Balance to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with

that portion of his or her Account Balance).

- (c) Measurement Funds. The Participant may elect one or more of the following measurement funds, based on certain mutual funds (the "Measurement Funds"), for the purpose of crediting additional amounts to his or her Account Balance:
  - (1) Putnam Money Market Fund;
  - (2) Dodge & Cox Balanced Fund;
  - (3) The Putnam Fund for Growth and Income;
  - (4) Putnam Vista Fund;
  - (5) UAM ICM Small Company Portfolio; and
  - (6) Ivy International Fund.

As necessary, the Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund. Each such action will take effect no sooner than thirty (30) days after the day on which the Committee gives Participants advance written notice of such change.

- (d) Crediting or Debiting Method. The performance of each elected Measurement Fund (either positive or negative) will be determined by the Committee, in its reasonable discretion, based on the performance of the Measurement Funds themselves. A Participant's Account Balance shall be credited or debited on a daily basis based on the performance of each Measurement Fund selected by the Participant, as determined by the Committee in its sole discretion, as though (i) a Participant's Account Balance were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such day, at the closing price on such date; (ii) the portion of the Annual Deferral Amount that was actually deferred during any day were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such day, no later than the close of business on the fifteenth business day after the day on which such amounts are actually deferred from the Participant's Base Annual Salary through reductions in his or her payroll, at the closing price on such date; and (iii) any distribution made to a Participant that decreases such Participant's Account Balance ceased being invested in the Measurement Fund(s), in the percentages applicable to such day, no earlier than fifteen business days prior to the distribution, at the closing price on such date. The Participant's Annual Company Contribution Amount and Annual Company Restoration Amount shall be credited to his or her Annual Company Contribution Account and Company Restoration Account, respectively, for purposes of this Section 3.9(d) no later than the close of business on the last business day in March of the Plan Year following the Plan Year to which they relate.
- (e) No Actual Investment. Notwithstanding any other

provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Company or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company or the Trust; the Participant shall at all times remain an unsecured creditor of the Company.

### 3.10 FICA and Other Taxes.

- (a) Annual Deferral Amounts. For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Annual Salary and Bonus that is not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.10.
- (b) Company Contribution Account and Company Restoration Account. For each Plan Year in which a Participant becomes vested in a portion of his or her Company Contribution Account or Company Restoration Account, the Participant's Employer(s) shall withhold from the Participant's Base Annual Salary and/or Bonus that is not deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes. If necessary, the Committee may reduce the vested portion of the Participant's Company Contribution Account and Company Restoration Account in order to comply with this Section 3.10.

3.11 Distributions. The Participant's Employer(s), or the trustee of the Trust, shall withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Employer(s), or the trustee of the Trust, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Employer(s) and the trustee of the Trust.

## ARTICLE 4

### Short-Term Payout; Withdrawal Election

- 4.1 Short-Term Payout. In connection with each election to defer an Annual Deferral Amount, a Participant may irrevocably elect to receive a future "Short-Term Payout" from the Plan with respect to any portion of such Annual Deferral Amount. Subject to the Deduction Limitation, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Annual Deferral Amount, or elected portion thereof, plus amounts credited or debited in the manner provided in Section 3.8 above on that portion or amount, determined at the time that the Short-Term Payout becomes payable (rather than the date of a Termination of Employment). Subject to the Deduction Limitation and the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid out during a 30 day period commencing on January 1, 2005 or any subsequent fifth anniversary of such January 1 (i.e, January 1, 2010, 2015, 2020, etc.); provided, however, the January 1 must be more than five (5) years and must be ten (10) years or less from the January 1 of the Plan Year in which the Annual Deferral Amount is initially deferred. By way of examples, if a five Short-Term Payout is elected for Annual Deferral Amounts that are deferred in the Plan Year commencing January 1, 1998, the date for distribution of the Short-Term Payout must be January 1, 2005. If a Short-Term Payout is elected for Annual Deferral Amounts that are deferred in the Plan Year commencing January 1, 2000, the date for distribution of the Short-Term Payout must be January 1, 2010.
- 4.2 Other Benefits Take Precedence Over Short-Term. Should an event occur that triggers payment of a Termination Benefit under Article 5, any Annual Deferral Amount, plus amounts credited or debited thereon, that is subject to a Short-Term Payout election under Section 4.1 shall not be paid in accordance with Section 4.1 but shall be paid in accordance with Article 5.
- 4.3 Withdrawal Election. A Participant (or, after a Participant's death, his or her Beneficiary) may elect, at any time, to withdraw all of his or her Account Balance, calculated as if there had occurred a Termination of Employment as of the day of the election, less a withdrawal penalty equal to 10% of such amount (the net amount shall be referred to as the "Withdrawal Amount"). This election can be made at any time, before or after Termination of Employment, and whether or not the Participant (or Beneficiary) is in the process of being paid pursuant to an installment payment schedule. If made before Termination of Employment, a Participant's Withdrawal Amount shall be his or her Account Balance calculated as if there had occurred a Termination of Employment as of the day of the election. No partial withdrawals of the Withdrawal Amount shall be allowed. The Participant (or his or her Beneficiary) shall make this election by giving the Committee advance written notice of the election in a form determined from time to time by the Committee. The Participant (or his or her Beneficiary) shall be paid the



Withdrawal Amount within 60 days of his or her election. Once the Withdrawal Amount is paid, the Participant's participation in the Plan shall terminate and the Participant shall not be eligible to participate in the Plan during the remainder of that Plan Year and the next three (3) Plan Years. The payment of this Withdrawal Amount shall not be subject to the Deduction Limitation.

ARTICLE 5  
Termination Benefit

- 5.1 Termination Benefit. Subject to the Deduction Limitation and the provisions of Section 5.2, a Participant who experiences a Termination of Employment shall receive, as a Termination Benefit, his or her Account Balance.
- 5.2 Payment of Termination Benefit. A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form to receive the Termination Benefit in a lump sum or pursuant to an Annual Installment Method over 2, 3, 4, 5, 6, 7, 8, 9 or 10 years. The Participant may change his or her election to another allowable alternative payout period by submitting a new Election Form to the Committee, provided that any such Election Form is submitted at least 18 months prior to the Participant's Termination of Employment and is accepted by the Committee in its sole discretion. The Election Form most recently accepted by the Committee and submitted at least 18 months prior to Termination of Employment shall govern the payout of the Termination Benefit. If a Participant does not make any election with respect to the payment of the Termination Benefit, then such benefit shall be payable in a lump sum. The lump sum payment shall be made, or installment payments shall commence, no later than 30 days after the last day of the Plan Year in which the Participant experiences the Termination of Employment. Any payment made shall be subject to the Deduction Limitation.
- 5.3 Termination of Employment due to Death. If a Participant experiences a Termination of Employment due to death, the Participant's Termination Benefit payments shall be paid to the Participant's Beneficiary (a) over the same number of years and in the same amounts as that benefit would have been paid to the Participant had the Participant survived, or (b) in a lump sum, if requested by the Beneficiary and allowed in the sole discretion of the Committee, that is equal to the Participant's Account Balance.
- 5.4 Death after Termination of Employment. If a Participant dies after Termination of Employment but before the Termination Benefit is paid in full, the Participant's unpaid Termination Benefit payments shall continue and shall be paid to the Participant's Beneficiary (a) over the remaining number of years and in the same amounts as that benefit would have been paid to the Participant had the Participant survived, or (b) in a lump sum, if requested by the Beneficiary and allowed in the sole discretion of the Committee, that is equal to the Participant's Account Balance.

ARTICLE 6  
Disability Waiver and Benefit

6.1 Disability Waiver.

- (a) Waiver of Deferral. A Participant who is determined by the Committee to be suffering from a Disability shall be excused from fulfilling that portion of the Annual Deferral Amount commitment that would otherwise have been withheld from a Participant's Base Annual Salary and/or Annual Bonus for the Plan Year during which the Participant first suffers a Disability. During the period of Disability, the Participant shall not be allowed to make any additional deferral elections, but will continue to be considered a Participant for all other purposes of this Plan.
- (b) Return to Work. If a Participant returns to employment with an Employer, after a Disability ceases, the Participant may elect to defer an Annual Deferral Amount for the Plan Year following his or her return to employment or service and for every Plan Year thereafter while a Participant in the Plan; provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.3 above.

6.2 Continued Eligibility; Benefit . A Participant suffering a Disability shall, for benefit purposes under this Plan, continue to be considered to be employed and shall be eligible for the benefits provided for in Articles 4 or 5 in accordance with the provisions of those Articles. Notwithstanding the above, the Committee shall have the right to, in its sole and absolute discretion and for purposes of this Plan only deem the Participant to have experienced a Termination of Employment at any time after such Participant is determined to be suffering a Disability, in which case the Participant shall receive a Termination Benefit equal to his or her Account Balance at the time of the Committee's determination. The Termination Benefit shall be paid in accordance with the payment method selected by the Participant under Section 5.2 above. Any payment made shall be subject to the Deduction Limitation.

ARTICLE 7  
Beneficiary Designation

7.1 Beneficiary. Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a Beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.

- 7.2 Beneficiary Designation; Change; Spousal Consent. A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. If the Participant names someone other than his or her spouse as a Beneficiary, a spousal consent, in the form designated by the Committee, must be signed by that Participant's spouse and returned to the Committee. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.
- 7.3 Acknowledgment. No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Committee or its designated agent.
- 7.4 No Beneficiary Designation. If a Participant fails to designate a Beneficiary as provided in Sections 7.1, 7.2 and 7.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.
- 7.5 Doubt as to Beneficiary. If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Participant's Employer to withhold such payments until this matter is resolved to the Committee's satisfaction.
- 7.6 Discharge of Obligations. The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant, and that Participant's Plan Agreement shall terminate upon such full payment of benefits.

## ARTICLE 8 Leave of Absence

- 8.1 Paid Leave of Absence. If a Participant is authorized by the Participant's Employer for any reason to take a paid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed by the Employer and

the Annual Deferral Amount shall continue to be withheld during such paid leave of absence in accordance with Section 3.3.

- 8.2 Unpaid Leave of Absence. If a Participant is authorized by the Participant's Employer for any reason to take an unpaid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed by the Employer and the Participant shall be excused from making deferrals until the earlier of the date the leave of absence expires or the Participant returns to a paid employment status. Upon such expiration or return, deferrals shall resume for the remaining portion of the Plan Year in which the expiration or return occurs, based on the deferral election, if any, made for that Plan Year. If no election was made for that Plan Year, no deferral shall be withheld.

## ARTICLE 9

### Termination, Amendment or Modification

- 9.1 Termination. Although each Employer anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that any Employer will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, each Employer reserves the right to discontinue its sponsorship of the Plan and/or to terminate the Plan at any time with respect to any or all of its participating Employees, by action of its board of directors. Upon the termination of the Plan with respect to any Employer, the Plan Agreements of the affected Participants who are employed by that Employer shall terminate and their Account Balances, determined as if they had experienced a Termination of Employment on the date of Plan termination, shall be paid to the Participants as follows: Prior to a Change in Control, if the Plan is terminated with respect to all of its Participants, an Employer shall have the right, in its sole discretion, and notwithstanding any elections made by the Participant, to pay such benefits in a lump sum or pursuant to an Annual Installment Method of up to 10 years, with amounts credited and debited during the installment period as provided herein. If the Plan is terminated with respect to less than all of its Participants, an Employer shall be required to pay such benefits in a lump sum. For a Plan Termination arising after a Change in Control, the Employer shall be required to pay such benefits in a lump sum. The termination of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination; provided however, that the Employer shall have the right in its sole discretion to accelerate installment payments without a premium or prepayment penalty by paying the Account Balance in a lump sum or pursuant to an Annual

Installment Method using fewer years.

- 9.2 Amendment. Any Employer may, at any time, amend or modify the Plan in whole or in part with respect to that Employer by the action of its board of directors; provided, however, that: (i) no amendment or modification shall be effective to decrease or restrict the value of a Participant's Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification, and (ii) no amendment or modification of this Section 9.2 or Section 10.2 of the Plan shall be effective. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification; provided, however, that the Employer shall have the right in its sole discretion to accelerate installment payments by paying the Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).
- 9.3 Plan Agreement. Despite the provisions of Sections 9.1 and 9.2 above, if a Participant's Plan Agreement contains benefits or limitations that are not in this Plan document, the Employer may only amend or terminate such provisions with the consent of the Participant.
- 9.4 Effect of Payment. The full payment of the applicable benefit under Articles 4, 5, or 6 of the Plan shall completely discharge all obligations of the Employer(s) to a Participant and his or her designated Beneficiaries under this Plan and the Participant's Plan Agreement shall terminate.

## ARTICLE 10 Administration

- 10.1 Committee Duties. Except as otherwise provided in this Article 10, the Administrator shall delegate administration of this Plan to a Committee which shall consist of the Board, or such committee as the Board shall appoint. Members of the Committee may be Participants under this Plan. Except as limited by the Administrator, the Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a Participant shall not vote

or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Company.

10.2 Administration Upon Change In Control. For purposes of this Plan, the Company shall be the "Administrator" at all times prior to the occurrence of a Change in Control. Upon and after the occurrence of a Change in Control, the "Administrator" shall be an independent third party selected by the trustee of the Trust and approved by the individual who, immediately prior to such event, was the Company's Chief Executive Officer or, if not so identified, the Company's highest ranking officer (the "Ex-CEO"). The Administrator shall have the discretionary power to determine all questions arising in connection with the administration of the Plan and the interpretation of the Plan and Trust including, but not limited to benefit entitlement determinations; provided, however, upon and after the occurrence of a Change in Control, the Administrator shall have no power to direct the investment of Trust assets or select any investment manager or custodial firm for the Trust. Upon and after the occurrence of a Change in Control, the Company must: (1) pay all reasonable administrative expenses and fees of the Administrator; (2) indemnify the Administrator against any costs, expenses and liabilities including, without limitation, attorney's fees and expenses arising in connection with the performance of the Administrator hereunder, except with respect to matters resulting from the gross negligence or willful misconduct of the Administrator or its employees or agents; and (3) supply full and timely information to the Administrator or all matters relating to the Plan, the Trust, the Participants and their Beneficiaries, the Account Balances of the Participants, the date of circumstances of the Termination of Employment of the Participants, and such other pertinent information as the Administrator may reasonably require. Upon and after a Change in Control, the Administrator may be terminated (and a replacement appointed) by the trustee of the Trust only with the approval of the Ex-CEO. Upon and after a Change in Control, the Administrator may not be terminated by the Company.

10.3 Agents. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to any Employer.

10.4 Binding Effect of Decisions. The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and

binding upon all persons having any interest in the Plan.

- 10.5 Indemnity of Committee. All Employers shall indemnify and hold harmless the members of the Committee, any Employee to whom the duties of the Committee may be delegated, and the Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, any of its members, any such Employee or the Administrator.
- 10.6 Employer Information. To enable the Committee and/or Administrator to perform its functions, the Company and each Employer shall supply full and timely information to the Committee and/or Administrator, as the case may be, on all matters relating to the compensation of its Participants, the date and circumstances of the Disability or Termination of Employment of its Participants, and such other pertinent information as the Committee or Administrator may reasonably require.

#### ARTICLE 11

##### Other Benefits and Agreements

- 11.1 Coordination with Other Benefits. The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Participant's Employer. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

#### ARTICLE 12

##### Claims Procedures

- 12.1 Presentation of Claim. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within 60 days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.
- 12.2 Notification of Decision. The Committee shall consider a Claimant's claim within a reasonable time after filing the claim, and, not later than 90 days after filing shall notify the Claimant in writing:
- (a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or

(b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:

- (i) the specific reason(s) for the denial of the claim, or any part of it;
- (ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;
- (iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary; and
- (iv) an explanation of the claim review procedure set forth in Section 12.3 below.

12.3 Review of a Denied Claim. Within 60 days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. Thereafter, but not later than 30 days after the review procedure began, the Claimant (or the Claimant's duly authorized representative):

- (a) may review pertinent documents;
- (b) may submit written comments or other documents; and/or
- (c) may request a hearing, which the Committee, in its sole discretion, may grant.

12.4 Decision on Review. The Committee shall render its decision on review promptly, and not later than 60 days after the filing of a written request for review of the denial, unless a hearing is held or other special circumstances require additional time, in which case the Committee's decision must be rendered within 120 days after such date. Such decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

- (a) specific reasons for the decision;
- (b) specific reference(s) to the pertinent Plan provisions upon which the decision was based; and
- (c) such other matters as the Committee deems relevant.

12.5 Legal Action. A Claimant's compliance with the foregoing provisions of this Article 14 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under this Plan.

## ARTICLE 13 Trust

13.1 Establishment of the Trust. The Company shall establish the Trust, and each Employer shall at least annually transfer over to the Trust such assets as the Employer determines, in its sole discretion, are necessary to provide, on a present value basis, for its respective future liabilities created



with respect to the Annual Deferral Amounts, Annual Company Contribution Amounts and Annual Company Restoration Amounts for such Employer's Participants for all periods prior to the transfer, as well as any debits and credits to the Participants' Account Balances for all periods prior to the transfer, taking into consideration the value of the assets in the trust at the time of the transfer.

13.2 Interrelationship of the Plan and the Trust. The provisions of the Plan and the Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.

13.3 Distributions From the Trust. Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Employer's obligations under this Plan.

#### ARTICLE 14 Miscellaneous

14.1 Status of Plan. The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employee" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.

14.2 Unsecured General Creditor. Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of an Employer's assets shall be, and remain, the general, unpledged unrestricted assets of the Employer. An Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

14.3 Employer's Liability. An Employer's liability for the payment of benefits shall be defined only by the Plan and the Plan Agreement, as entered into between the Employer and a Participant. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.

14.4 Nonassignability. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof,

which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

- 14.5 Not a Contract of Employment. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of any Employer as an Employee, or to interfere with the right of any Employer to discipline or discharge the Participant at any time.
- 14.6 Furnishing Information. A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.
- 14.7 Terms. Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.
- 14.8 Captions. The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.
- 14.9 Governing Law. Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of Minnesota without regard to its conflicts of laws principles.
- 14.10 Notice. Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Fingerhut Corporation  
Benefits Department - Tom Segal

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

14.11 Successors. The provisions of this Plan shall bind and inure to the benefit of the Participant's Employer and its successors and assigns and the Participant and the Participant's designated Beneficiaries.

14.12 Spouse's Interest. The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.

14.13 Validity. In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

14.14 Incompetent. If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

14.15 Court Order. The Committee is authorized to make any payments directed by court order in any action in which the Plan or the Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Committee, in its sole discretion, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.

14.16 Distribution in the Event of Taxation.

- (a) In General. If, for any reason, all or any portion of a Participant's benefits under this Plan becomes taxable to the Participant prior to receipt, a Participant may petition the Committee before a Change in Control, or the trustee of the Trust after a Change in Control, for a distribution of that portion of his or her benefit that has become taxable. Upon the grant of such a petition, which grant shall not be unreasonably withheld (and, after a Change in Control, shall be granted), a Participant's Employer shall distribute to the Participant immediately available funds in an amount equal to the taxable portion of his or her benefit (which amount shall not exceed a Participant's unpaid Account Balance under the Plan). If the petition is granted, the tax liability distribution shall be made within 90 days of the date when the Participant's petition is granted. Such a distribution shall affect and reduce the benefits to be paid under this Plan.
- (b) Trust. If the Trust terminates in accordance with Section 3.6(e) of the Trust and benefits are distributed from the Trust to a Participant in accordance with that Section, the Participant's benefits under this Plan shall be reduced to the extent of such distributions.

14.17 Insurance. The Employers, on their own behalf or on behalf of the trustee of the Trust, and, in their sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as the Trust may choose. The Employers or the trustee of the Trust, as the case may be, shall be the sole owner and beneficiary of any such insurance. The Participant shall have no interest whatsoever in any such policy or policies, and at the request of the Employers shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Employers have applied for insurance.

14.18 Legal Fees To Enforce Rights After Change in Control. The Company and each Employer is aware that upon the occurrence of a Change in Control, the Board or the board of directors of a Participant's Employer (which might then be composed of new members) or a shareholder of the Company or the Participant's Employer, or of any successor corporation might then cause or attempt to cause the Company, the Participant's Employer or such successor to refuse to comply with its obligations under the Plan and might cause or attempt to cause the Company or the Participant's Employer to institute, or may institute, litigation seeking to deny Participants the benefits intended under the Plan. In these circumstances, the purpose of the Plan could be frustrated. Accordingly, if, following a Change in Control, it should appear to any Participant that the Company, the Participant's Employer or any successor corporation has failed to comply

with any of its obligations under the Plan or any agreement thereunder or, if the Company, such Employer or any other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny, diminish or to recover from any Participant the benefits intended to be provided, then the Company and the Participant's Employer irrevocably authorize such Participant to retain counsel of his or her choice at the expense of the Company and the Participant's Employer (who shall be jointly and severally liable) to represent such Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company, the Participant's Employer or any director, officer, shareholder or other person affiliated with the Company, the Participant's Employer or any successor thereto in any jurisdiction.

IN WITNESS WHEREOF, the Company has signed this Plan document as of \_\_\_\_\_, 199\_.

"Company"

Fingerhut Corporation,  
a Minnesota corporation

By: \_\_\_\_\_

Title:  
\_\_\_\_\_

FIRST AMENDMENT  
OF THE  
FINGERHUT COMPANIES, INC.  
NONQUALIFIED SUPPLEMENTAL  
EXECUTIVE RETIREMENT PLAN

The Fingerhut Companies, Inc. Nonqualified Supplemental Executive Retirement Plan, heretofore adopted by the Board of Directors of Fingerhut Companies, Inc., a Delaware corporation, on February 14, 1996, is hereby amended in the following respects.

I. PRINCIPAL SPONSOR CHANGED. Effective as of January 1, 1996, Section 1.1 is amended to read in full as follows:

1.1. Preamble ERISA authorizes the establishment of an unfunded, nonqualified plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees and to coordinate the benefits provided to them under other qualified and nonqualified retirement programs available to them as a result of their employment. FINGERHUT CORPORATION, a Minnesota corporation (hereinafter "Principal Sponsor") and certain affiliates of the Principal Sponsor (collectively the "Employers") have determined that it is in their best interest to establish and maintain such an unfunded, nonqualified deferred compensation plan for those purposes. Therefore, the Principal Sponsor, for itself and the other Employers, does hereby establish this SERP, the terms and conditions of which are as follows.

1. OFFSET ELIMINATED. Effective with respect to each Participant who is actively employed by an Employer at some time on or after the date of the adoption of this First Amendment, Section 1.2.5 is amended to read in full as follows:

1.2.5. Benefit Offset \_ a dollar amount determined as of a Participant's Termination of Employment and expressed as an annual single life annuity payable for the life of the Participant commencing as of the first of the Plan Year following the later of the date of the Participant's Termination of Employment or the date the Participant would attain age sixty-five (65) years and which is equal to the sum of:

(a) the Participant's Social Security Benefit determined as of such Termination of Employment when expressed as an annual single life annuity commencing

as of the first of the Plan Year following the later of the date of the Participant's Termination of Employment or the date the Participant would attain age sixty-five (65) years; and

(b) the Participant's accrued benefit under the Pension Plan and the Pension Excess Plan determined as of such Termination of Employment when expressed as an annual single life annuity commencing as of the first of the Plan Year following the later of the date of the Participant's Termination of Employment or the date the Participant would attain age sixty-five (65) years; and

(c) seventy-five percent (75%) of the Participant's account balance under the Profit Sharing Plan attributable to employer contributions (including both the elective contributions and the non-elective contributions) determined as of such Termination of Employment and determined as if no withdrawals or distributions had been made from the Profit Sharing Plan and as if all elective contributions which could have been contributed to the Profit Sharing Plan had been contributed to the Profit Sharing Plan:

(i) together with interest at eight and one-half percent (8.5%) compounded annually from the Termination of Employment to the later of the date of the Participant's Termination of Employment or the date the Participant would attain age sixty-five (65) years, and

(ii) then converted to and expressed as an Actuarial Equivalent annual single life annuity commencing as of the first of the Plan Year following the later of the date of the Participant's Termination of Employment or the date the Participant would attain age sixty-five (65) years; and

(d) an amount equal to the dollars credited or paid to the Participant under the Profit Sharing Excess Plan:

(i) together with interest at eight and one-half percent (8.5%) compounded annually from the date so credited or paid to the Termination of Employment, and

(ii) then converted to and expressed as an Actuarial Equivalent annual single life annuity commencing as of the first of the Plan Year following the later of the date of the

Participant's Termination of Employment or the date the Participant would attain age sixty-five (65) years.

The Benefit Offset may increase or decrease from time to time before a Termination of Employment.

1. OFFSET ELIMINATED. Effective with respect to each Participant who is actively employed by an Employer at some time on or after the date of the adoption of this First Amendment, Section 1.2.10 is deleted without replacement.

1. PRINCIPAL SPONSOR CHANGED. Effective as of January 1, 1996, Section 1.2.17 is amended to read in full as follows:

1.2.17. Plan Statement \_ this document entitled "FINGERHUT NONQUALIFIED SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN," as adopted by the Principal Sponsor effective as of January 1, 1996, as the same may be amended from time to time thereafter.

1. PRINCIPAL SPONSOR CHANGED. Effective as of January 1, 1996, Section 1.2.19 is amended to read in full as follows:

1.2.19. Principal Sponsor \_ FINGERHUT CORPORATION, a Minnesota corporation.

1. PRINCIPAL SPONSOR CHANGED. Effective as of January 1, 1996, Section 1.2.22 is amended to read in full as follows (and each other reference to the name of the SERP is conformed to this name as amended):

1.2.22. SERP \_ the nonqualified deferred compensation plan of the Employers established for the benefit of employees eligible to participate therein, as first set forth in this Plan Statement. (As used herein, "SERP" refers to the legal entity established by an Principal Sponsor and not to the document pursuant to which the SERP is maintained. That document is referred to herein as the "Plan Statement.") The SERP shall be referred to as the "FINGERHUT NONQUALIFIED SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN."

1. AUTOMATIC PARTICIPATION. Effective for initial determinations of who is a Participant which are made as of a date on or after the date of the adoption of this First Amendment, Section 2.1 is amended to read in full as follows:

2.1. General Participation Rule. An individual shall be a Participant in this SERP if that individual, on or after January 1, 1996, satisfies all of the following criteria:

(i) he or she is a Vice



President or more senior officer (including, without limiting the generality of the foregoing, the President, Chief Operating Officer, Chief Executive Officer, a Senior Vice President, an Executive Vice President or a Vice President of the Principal Sponsor), and

(ii) he or she is actively employed by the Principal Sponsor.

Any individual who has become a Participant in the SERP shall continue as a Participant until all benefits which are due under this SERP have been received without regard to whether he or she continues as an officer or a participant in the Pension Plan or an active employee. The Compensation Committee may, in its discretion, impose restrictions or limitations upon the benefits payable under the SERP as a condition of participation. Notwithstanding any thing apparently to the contrary contained in this Plan Statement, it shall be construed to prevent the duplication of benefits provided under any other plan or arrangement, whether qualified or nonqualified, funded or unfunded, to the extent that such other benefits are provided directly or indirectly by an Employer.

1. CROSS REFERENCE. Effective with respect to each Participant who is actively employed by an Employer at some time on or after the date of the adoption of this First Amendment, the Appendix A to the Plan Statement is amended by replacing it with the Appendix A attached to this Amendment.

1. CONDITIONAL ADOPTION OF AMENDMENT. This First Amendment shall be effective as of the dates hereinabove recited for every individual who becomes a Participant on or after the date that this Amendment is adopted. This Amendment shall be effective as of the dates herein above recited for every individual who was a Participant before the adoption of this Amendment only if such individual affirmatively consents in writing to the adoption of this Amendment and delivers such consent to the Secretary of the Compensation Committee (or his delegee) not later than thirty (30) days after such individual is notified in writing of the adoption of this Amendment.

1. SAVINGS CLAUSE. Save and except as herein expressly amended the Plan Statement shall continue in full force and effect.

#### APPENDIX A

#### ACTUARIALLY EQUIVALENT BENEFITS

When converting benefits to a single lump sum for payment

to a Participant, the benefit to be converted is the single life annuity form payable at age sixty-five (65) years or the date as of which it is determined, if later. When converting benefits to a single lump sum for any other purpose, the benefit to be converted shall be the benefit payable at the latest date such benefit may commence. The factors to be used to convert any form to a lump sum benefit (or to make the conversions into single life annuities required by Section 1.2.5(c) or (d)) shall be:

Interest Assumption: The compounded average yield on 30-year Treasury securities for the five (5) calendar years preceding the calendar year including the year of the Participant's Termination of Employment or death (reduced, for the purpose of making the conversions into single life annuities required by Section 1.2.5(d) but not for the purpose of making the conversions into single life annuities required by Section 1.2.5(c), to reflect the highest federal marginal income tax rate in effect as of such Termination of Employment or death).

Mortality Assumption: The mortality rate determined from the table prescribed by the Secretary of the Treasury under section 417(e)(3)(A)(ii)(I) of the Code based on the prevailing commissioners' standard table used to determine reserves for group annuity contracts.

## Exhibit 11

FINGERHUT COMPANIES, INC. AND SUBSIDIARIES  
 Computation of Earnings Per Share  
 (In thousands of dollars, except per share data)  
 Unaudited

	Thirteen Weeks Ended		Fifty-Two Weeks Ended	
	Dec. 26, 1997	Dec. 27, 1996	Dec. 26, 1997	Dec. 27, 1996
Basic				
Net earnings (a)	\$ 43,866	\$ 31,500	\$ 69,329	\$ 40,159
Weighted average shares of common stock outstanding (b)	46,277,014	46,165,698	46,166,842	46,210,151
Basic earnings per share of common stock (a/b)	\$ .95	\$ .68	\$ 1.50	\$ .87
Diluted				
Net earnings (c)	\$ 43,866	\$ 31,500	\$ 69,329	\$ 40,159
Weighted average shares of common stock outstanding	46,277,014	46,165,698	46,166,842	46,210,151
Common stock equivalents	3,851,682	2,307,098	3,210,853	2,418,157
Weighted average shares of common stock and common stock equivalents (d)	50,128,696	48,472,796	49,377,695	48,628,308
Fully diluted earnings per share of common stock and common stock equivalents (c/d)	\$ .88	\$ .65	\$ 1.40	\$ .83

Common stock equivalents for earnings per share are computed by the treasury stock method using the average market price.

Exhibit 13  
<TABLE>

FINGERHUT COMPANIES, INC.  
FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

For the Fiscal Year Ended (In thousands, except per share data)	December 26, 1997	December 27, 1996	December 29, 1995	December 30, 1994	December 31, 1993 (e)
Earnings data:					
<S>	<C>	<C>	<C>	<C>	<C>
Revenues (a)	\$1,798,617	\$1,762,865	\$1,814,853	\$1,699,772	\$1,652,244
Earnings before income taxes and minority interest (b)	120,871	64,991	76,306	70,926	111,879
Net earnings	69,329	40,159	50,858	45,925	75,328
Net earnings as a percent of revenues	3.9%	2.3%	2.8%	2.7%	4.6%
Per Share:					
Earnings:					
Basic (c)	\$ 1.50	\$ .87	\$ 1.11	\$ .99	\$1.64
Diluted (d)	\$ 1.40	\$ .83	\$ 1.05	\$ .91	\$1.50
Dividends declared	\$ .16	\$ .16	\$ .16	\$ .16	\$ .16
At Fiscal Year-End (In thousands)					
Financial position data:					
Total assets	\$1,751,756	\$1,389,698	\$1,281,077	\$1,097,933	\$988,302
Total current debt	\$144,084	\$73,084	\$215,099	\$ 336	\$ 313
Long-term debt and capitalized leases, less current portion	\$345,187	\$271,481	\$146,564	\$246,516	\$246,852
Total stockholders' equity	\$669,985	\$605,401	\$547,490	\$500,950	\$472,389

</TABLE>

(a) Prior year revenues were restated to reflect the reclassification of "Discount on sale of accounts receivable," the "Provision for uncollectible accounts," and "Administrative and selling expenses" (collection costs) associated with the receivables sold to "Finance income and other securitization income, net." These amounts totaled \$264.5 million, \$262.5 million, \$214.7 million, and \$140.4 million for the fiscal years ended December 27, 1996; December 29, 1995; December 30, 1994; and December 31, 1993, respectively.

(b) 1994 earnings before income taxes and minority interest included a \$29.9 million charge (\$19.4 million after tax) relating to unusual items. 1995 earnings before income taxes and minority interest included an \$8.0 million adjustment (\$5.3 million after tax) to these unusual items.

(c) Based on a weighted average of 46,166,842; 46,210,151; 45,834,575; 46,237,706; and 46,019,158 shares of common stock for the fiscal years ended December 26, 1997; December 27, 1996; December 29, 1995; December 30, 1994; and December 31, 1993, respectively.

(d) Based on a weighted average of 49,377,695; 48,628,308; 48,478,971; 50,270,419; and 50,101,739 shares of common stock and common stock equivalents for the fiscal years ended December 26, 1997; December 27, 1996; December 29, 1995; December 30, 1994; and December 31, 1993, respectively.

(e) In 1993, the Company sold certain assets of COMB Corporation and FDC, Inc., a subsidiary of Figi's, Inc.

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

## RESULTS OF OPERATIONS

Fingerhut Companies, Inc. (the "Company") experiences variances in quarterly results from year to year that result from changes in the timing of its promotions, the types of customers and products promoted and, to some extent, variations in dates of holidays and the timing of the fiscal quarter ends. In addition, the individual cost components (product cost, administrative and selling expenses, and provision for uncollectible accounts) and gross margin as a percent of net sales may vary from period to period due to the different types of products, mail programs and customers promoted.

## 1997 COMPARED WITH 1996

The Company reported revenues of \$1.799 billion in 1997 compared to \$1.763 billion in 1996. 1997 revenues were positively impacted by a significant increase in finance income and other securitization income, net, due to the continued strong performance of Metris Companies Inc. ("Metris"). Revenues also reflected a decrease in net sales in the Retail Segment as a result of the Company's strategy to reduce credit risk and optimize long term customer profitability.

&lt;TABLE&gt;

## RETAIL SEGMENT

Highlights of Operations -- Managed Basis (a): (In thousands)	For the Fiscal Year Ended	
	1997	1996
<S>	<C>	<C>
Net sales	\$1,530,228	\$1,638,363
Finance income and other revenue	232,181	241,130
Product cost	738,740	827,086
Administrative and selling expenses	610,022	633,448
Provision for uncollectible accounts	259,981	283,762
Discount on sale of accounts receivable	66,732	77,447
Interest expense, net	27,946	25,305
Provision for income taxes	21,267	11,322
Net earnings	\$37,721	\$21,123

&lt;/TABLE&gt;

(a) Presented in a format consistent with prior periods.

&lt;TABLE&gt;

Highlights of Operations -- Owned Basis (b): (In thousands)	For the Fiscal Year Ended	
	1997	1996
<S>	<C>	<C>
Net sales	\$1,530,228	\$1,638,363
Finance income and other securitization expense, net	(10,877)	(23,361)
Product cost	738,740	827,086
Administrative and selling expenses	596,084	618,082
Provision for uncollectible accounts	97,593	112,084
Interest expense, net	27,946	25,305
Provision for income taxes	21,267	11,322
Net earnings	\$37,721	\$21,123

&lt;/TABLE&gt;

(b) During 1997, the "Discount on sale of accounts receivable," the "Provision for uncollectible accounts" and "Administrative and selling expenses" (collection costs) associated with the receivables sold were reclassified to "Finance income and other securitization expense, net." This reclassification results in the financial statements being presented on an "owned" versus "managed" basis. All prior period financial information was restated to conform with the current period's presentation. The reclassifications had no effect on net earnings.

Net sales in 1997 were \$1.530 billion compared to net sales of \$1.638 billion in 1996, a decrease of 7 percent. Fingerhut Corporation ("Fingerhut"), the Company's core business in this segment, generated net sales of \$1.420 billion in 1997 compared to \$1.538 billion in 1996, a decrease of 8 percent. Net sales from Fingerhut's new customer acquisition programs decreased 13 percent in 1997 to \$231 million, due to a 20 percent reduction in mailings, partially offset by a 10 percent improvement in sales per mailing. New customer acquisition mailings were lower due to segmentation actions designed to optimize long term customer profitability and reduce cost per new customer. Net sales from Fingerhut's existing customer list declined 7 percent to \$1.190 billion, due to a 7 percent reduction in sales per mailing. Credit actions taken to reduce the number of orders from high risk customer segments, the UPS strike in August 1997, and subsequent postal service delays throughout the fourth quarter, were the primary reasons for the lower sales per mailing. Net sales from Figi's Inc. ("Figi's") increased 5 percent in 1997 to \$98 million compared to \$93 million in 1996 primarily due to an increase in mailings. Net sales from Infochoice USA, Inc. ("Infochoice") were \$2 million in 1997, compared with \$2 million in 1996.

Finance income and other securitization expense, net, was an expense of \$10.9 million for the year compared to an expense of \$23.4 million in 1996. The reduction in expense was primarily due to a lower provision for uncollectible accounts relating to receivables sold.

Product cost for the year was \$738.7 million, or 48.3 percent of net sales, compared to \$827.1 million, or 50.5 percent of net sales, during the prior year. The decrease as a percent of net sales was the result of negotiated cost reductions, partially driven by favorable currency changes, a change in the sales mix to more high-margin products, lower product obsolescence expense and favorable refurbishing costs.

Administrative and selling expenses in 1997 were \$596.1 million, or 39.0 percent of net sales, compared to \$618.1 million, or 37.7 percent of net sales, in the prior year. Lower paper prices, reduced mailings and tighter cost controls resulted in expense levels below the prior year. The increase as a percent of net sales was due to lower sales per mailing.

The provision for uncollectible accounts on a managed basis in 1997 was \$260.0 million, or 17.0 percent of net sales, compared with \$283.8 million, or 17.3 percent of net sales, for the prior year. Balances 29 days or more delinquent as a percent of managed receivables were 22.2 percent, down from 22.9 percent at the end of 1996.

The effective consolidated tax rate, which includes both the Retail Segment and Metris, was 37.3 percent in 1997 compared with 36.7 percent in the prior year. The increase in the effective tax rate was due primarily to additional state income taxes.

The Retail Segment generated net earnings of \$37.7 million, or \$.76 per share, compared with \$21.1 million, or \$.44 per share, for 1996, an increase of 79 percent.

<TABLE>

FINANCIAL SERVICES SEGMENT (METRIS)

Highlights of Operations -- Managed Basis: (In thousands)	For the Year Ended Dec. 31,	
	1997	1996
<S>	<C>	<C>
Net interest income	\$306,361	\$143,491
Provision for loan losses	319,299	136,305
Other operating income	212,869	126,647
Other operating expense	138,048	101,287
Provision for income taxes	23,825	12,530
Minority interest	6,450	980
Net earnings	\$31,608	\$19,036
Total accounts	2,293	1,418
Average managed loans	\$2,294,893	\$1,018,856
Net charge-off ratio	8.3 %	6.2 %
Delinquency ratio	6.6 %	5.5 %

</TABLE>

Metris contributed net earnings for the year ended December 31, 1997, of \$31.6 million, or \$.64 per share, up from \$19.0 million, or \$.39 per share for 1996. The 66 percent increase in net earnings is the result of an increase in net interest income and other operating income partially offset by increases in the provision for loan losses and other operating expenses. These increases are largely attributable to the 125 percent growth in average managed loans from \$1.0 billion at December 31, 1996 to \$2.3 billion at December 31, 1997.

The provision for loan losses on a managed basis was \$319.3 million in 1997, compared to \$136.3 million in 1996. The increase primarily reflects higher credit card loan balances as well as an increase in net charge-offs. The managed net charge-off rate was 8.3 percent for 1997, compared to 6.2 percent in 1996.

Other operating income on a managed basis increased \$86.2 million to \$212.9 million, primarily due to credit card fees, interchange and other credit card income, which increased to \$153.6 million for 1997, up 74 percent over \$88.3 million for 1996. In addition, fee-based product revenues increased 86 percent to \$55.5 million for 1997, up from \$29.9 million for 1996. These increases were primarily due to the growth in total accounts and outstanding receivables in the managed credit card loan portfolio.

Other operating expenses increased to \$138.0 million in 1997, compared to \$101.3 million in 1996. The increase in operating expenses is primarily due to expansion in infrastructure to support future growth. Metris' managed operating efficiency ratio improved to 26.6 percent in 1997 from 37.5 percent in 1996.

#### 1996 COMPARED WITH 1995

The Company reported revenues of \$1.763 billion in 1996. Revenues reflected a decrease in net sales as a result of the Company's strategy to reduce mailings and improve advertising productivity. As a result of this initiative, sales per mailing with respect to Fingerhut Corporation's existing customer list increased 14 percent over 1995. 1996 revenues were positively impacted by a significant increase in finance income and other revenues due to the continued strong performance of Metris.

<TABLE>

#### RETAIL SEGMENT

Highlights of Operations -- Managed Basis (a): (In thousands)	For the Fiscal Year Ended	
	1996	1995
<S>	<C>	<C>
Net sales	\$1,638,363	\$1,782,282

Finance income and other revenue	241,130	245,001
Product cost	827,086	890,737
Administrative and selling expenses	633,448	687,789
Provision for uncollectible accounts	283,762	272,295
Discount on sale of accounts receivable	77,447	82,392
Interest expense, net	25,305	25,213
Provision for income taxes	11,322	22,580
Net earnings	\$21,123	\$46,277

</TABLE>

(a) Presented in a format consistent with prior periods.

<TABLE>

Highlights of Operations -- Owned Basis (b): (In thousands)	For the Fiscal Year Ended 1996	1995
<S>	<C>	<C>
Net sales	\$1,638,363	\$1,782,282
Finance income and other securitization expense, net	(23,361)	(17,490)
Product cost	827,086	890,737
Administrative and selling expenses	618,082	673,456
Provision for uncollectible accounts	112,084	106,529
Interest expense, net	25,305	25,213
Provision for income taxes	11,322	22,580
Net earnings	\$21,123	\$46,277

</TABLE>

(b) During 1997, the "Discount on sale of accounts receivable," the "Provision for uncollectible accounts" and "Administrative and selling expenses" (collection costs) associated with the receivables sold, were reclassified to "Finance income and other securitization expense, net." This reclassification results in the financial statements being presented on an "owned" versus "managed" basis. All prior period financial information was restated to conform with the current period's presentation. The reclassifications had no effect on net earnings.

Net sales in 1996 were \$1.638 billion compared to net sales of \$1.782 billion in 1995, a decrease of 8 percent. Fingerhut generated net sales of \$1.538 billion in 1996 compared to \$1.639 billion in 1995, a decrease of 6 percent. Net sales from Fingerhut's new customer acquisition programs decreased 5 percent in 1996 to \$264 million. Net sales from Fingerhut's existing customer list declined 6 percent to \$1.274 billion. Both decreases were primarily due to planned reductions in mailings, partially offset by higher average order sizes and higher sales per mailing. Net sales from Figi's Inc. increased 13 percent in 1996 to \$93 million compared to \$82 million in 1995 due to an increase in mailings coupled with a higher average order size. Net sales from Infochoice USA, Inc. were \$2 million in 1996 compared to \$57 million for 1995. Infochoice owns 50 percent of USA Direct/Guthy Renker, Inc. ("USA Direct"), which had 1996 net sales of \$10 million. Montgomery Ward Direct L.P. ("MWD"), a former 50 percent owned affiliate, had net sales of \$31 million for 1996 compared to \$165 million for 1995. Because USA Direct and MWD are both accounted for under the equity method, their sales are not included as revenues in the Company's consolidated financial statements. In June 1996, the Company reached an agreement with Montgomery Ward & Co., Incorporated to withdraw as a partner in the MWD joint venture. This transaction did not have a material impact on the Company's consolidated financial statements.

Finance income and other securitization expense, net, for the year was an expense of \$23.4 million compared to \$17.5 million in 1995. The increase in expense was primarily due to a higher



provision for uncollectible accounts relating to receivables sold, partially offset by the favorable effect of lengthened payment plans.

Product cost for the year was \$827.1 million, or 50.5 percent of net sales, compared to \$890.7 million, or 50.0 percent of net sales, during the prior year. The increase as a percent of net sales was primarily due to margin reductions in the core catalog business as a result of the full year impact of the price value strategy implemented in mid-1995.

Administrative and selling expenses in 1996 were \$618.1 million, or 37.7 percent of net sales, compared to \$673.5 million, or 37.8 percent of net sales, in the prior year. Higher sales per mailing, coupled with Fingerhut's cost-reduction programs, offset the impact of higher paper and depreciation costs as well as the start-up of two phone centers in Tampa, Florida.

The provision for uncollectible accounts in 1996 on a managed basis was \$283.8 million, or 17.3 percent of net sales, compared with \$272.3 million, or 15.3 percent of net sales, for the prior year. Fingerhut experienced a 1996 deterioration in credit performance relating to sales booked in the fourth quarter of 1995. This deterioration was driven by a significant increase in bankruptcies. The increase as a percent of net sales was also due to the higher ongoing delinquency levels Fingerhut experienced as a result of a systems error reported in the third quarter. Fingerhut implemented corrective measures to mitigate the risk of credit losses, including tighter credit screens as well as accelerated collection programs.

The effective consolidated tax rate, which includes both the Retail Segment and Metris, was 36.7 percent in 1996 compared with 33.3 percent in the prior year. The increase in the effective tax rate was due primarily to a decrease in merchandise donations as well as additional state income taxes. In addition, the 1995 effective tax rate included a benefit for prior years' net favorable resolution of an Internal Revenue Service examination.

As a result of the items discussed above, the Retail Segment generated net earnings of \$21.1 million, or \$.44 per share, compared with \$46.3 million, or \$.96 per share, for 1995.

<TABLE>

FINANCIAL SERVICES SEGMENT (METRIS)

Highlights of Operations -- For the Year Ended Dec. 31,  
Managed Basis:

(In thousands)	1996	1995
<S>	<C>	<C>
Net interest income	\$143,491	\$26,354
Provision for loan losses	136,305	26,234
Other operating income	126,647	52,969
Other operating expense	101,287	45,640
Provision for income taxes	12,530	2,868
Minority interest	980	-
Net earnings	\$19,036	\$ 4,581
Total accounts	1,418	703
Average managed loans	\$1,018,856	\$183,274
Net charge-off ratio	6.2%	2.2%
Delinquency ratio	5.5%	4.0%

</TABLE>

Metris reported net earnings for the year ended December 31, 1996, of \$19.0 million, or \$.39 per share, up from \$4.6 million, or \$.09 per share for 1995. The 316 percent increase in net earnings was the result of an increase in net interest income and other operating income partially offset by increases in the provision for loan losses and other operating expenses. These increases are largely attributable to the growth in average

managed loans from \$183 million at December 31, 1995 to \$1 billion at December 31, 1996, an increase of 456 percent.

The provision for loan losses on a managed basis was \$136.3 million in 1996, compared to \$26.2 million in 1995. The increase primarily reflects an increase in credit card loans as well as an increase in net charge-offs consistent with the continued seasoning of the portfolio and industry trends. The managed net charge-off rate was 6.2 percent for 1996, compared to 2.2 percent in 1995.

Other operating income on a managed basis increased \$73.7 million to \$126.6 million, primarily due to credit card fees, interchange and other credit card income which increased to \$88.3 million for 1996, up 298 percent over \$22.2 million for 1995. In addition, fee-based product revenues increased 348 percent to \$29.9 million for 1996, up from \$6.7 million for 1995. These increases were primarily due to the growth in total accounts and outstanding receivables in the managed credit card loan portfolio.

Other operating expenses increased to \$101.3 million in 1996, compared to \$45.6 million in 1995. However, Metris' managed operating efficiency ratio improved to 37.5 percent in 1996 from 57.5 percent in 1995. The increase in operating expenses is primarily due to expansion in the infrastructure to support the growth of all three Metris businesses: consumer credit products, extended service plans, and fee-based products and services.

#### LIQUIDITY AND CAPITAL RESOURCES (CONSOLIDATED)

The Company funds its operations through internally generated funds, the sale of accounts receivable pursuant to the Fingerhut Master Trust and the Metris Master Trust, third party bank conduits, borrowings under the Company's Amended and Restated Revolving Credit Facility and Metris' Revolving Credit Facility (the "Revolving Credit Facilities") and the issuance of long-term debt and common stock.

The proceeds from the sale of Fingerhut accounts receivable were \$1.205 billion and \$1.280 billion at December 26, 1997 and December 27, 1996, respectively. Net proceeds received from the sale of Metris credit card receivables were \$3.057 billion at December 31, 1997 and \$1.397 billion at December 31, 1996, of which \$29.3 million and \$17.0 million, respectively, was deposited in investor reserve accounts held by the trustee of the Metris Master Trust for the benefit of the Metris Master Trust's certificateholders.

In December 1996, the Fingerhut Master Trust Series 1994-1 certificates commenced controlled amortization, whereby collections on the securitized receivables were used to pay down the principal portion of the underlying certificates. In January 1997, the Company issued Series 1997-1 variable funding certificates to refinance \$790.0 million of the amortizing certificates. The monthly proceeds generated from Series 1997-1, combined with the proceeds of the issuance of additional commercial paper under the Company's asset-backed commercial paper program, was sufficient to cover the monthly pay-down of the amortizing 1994-1 certificates. The Company plans to support future receivables growth through the sale and issuance of additional certificates by the Master Trusts and through borrowings under the Revolving Credit Facilities. During 1998, the Company plans to refinance Series 1997-1 with the proceeds from the issuance of approximately \$900 million of asset-backed term certificates.

In December 1997, the Company entered into an agreement which allows the Company to sell, to a third party conduit on a continuous basis, an undivided interest in a pool of revolving receivables arising out of private label credit card accounts originated by Fingerhut National Bank. Per the agreement, amortization begins in May 1998, whereby collections on the

securitized receivables will be used to pay down the balance of the pool. Management expects to amend the Fingerhut Master Trust in 1998 to include the revolving receivables.

In May 1997, the Metris Master Trust issued Series 1997-1 certificates to third parties with a principal amount of \$794.8 million, generating net proceeds of \$792.2 million of which \$667.7 million was used to reduce the Class A Variable Funding Certificate issued under Series 1995-1. The Series 1997-1 certificates are scheduled to begin accumulating principal collections in March 2001.

In September 1997, Metris acquired a \$317.0 million credit card portfolio from Key Bank USA, National Association. In October 1997, Metris acquired a \$405.0 million credit card portfolio from Mercantile Bank, National Association. These credit card receivables were securitized and sold to investors through a bank sponsored, multi-seller conduit.

In November 1997, the Metris Master Trust issued Series 1997-2 certificates to third parties with a principal amount of \$654.5 million, generating net proceeds of \$652.0 million of which \$478.0 million was used to reduce the Class A Variable Funding Certificate issued under Series 1995-1. The Series 1997-2 certificates are scheduled to begin accumulating principal collections in October 2001.

The Revolving Credit Facilities provide for aggregate commitments of up to \$500.0 million, of which \$200.0 million represents Fingerhut's credit facility and \$300.0 million represents Metris' credit facility. The expiration date for both facilities is September 2001. Under the Revolving Credit Facilities, outstanding revolving credit balances totaled \$144.0 million and outstanding letters of credit totaled \$6.0 million, as of year-end 1997. As of year-end 1996, the Company had outstanding revolving credit balances of \$73.0 million and outstanding letters of credit of \$5.9 million. Additional outstanding letters of credit under a separate agreement aggregated \$28.4 million and \$23.2 million at December 26, 1997 and December 27, 1996, respectively.

In February 1997, the Company completed an exchange offer whereby substantially all of the \$125.0 million unregistered notes issued in September 1996, were exchanged for registered notes with substantially identical terms. In November 1997, Metris sold \$100.0 million of seven-year notes via a private placement. In December 1997, the Company paid \$25.0 million on its privately placed senior notes. Thus, the Company had fixed rate notes outstanding of \$345.0 million as of December 26, 1997, compared to fixed rate notes outstanding of \$270.0 million as of December 27, 1996.

The Company generated \$16.9 million of cash from operations in 1997 compared with \$26.9 million generated from operations in 1996. This \$10.0 million decrease in cash generated from operations resulted from increased working capital requirements, partially offset by the increase in earnings. The most significant items affecting working capital were increases in Metris' customer accounts receivable, other payables due to credit card securitizations, net, and deferred income taxes. The change in customer accounts receivable from a \$157.0 million use of cash in 1996 to a \$227.2 million use of cash in 1997 resulted primarily from the increase in the growth of retained receivables associated with Metris credit card accounts issued or purchased by Direct Merchants Bank, partially offset by the increase in payables due to credit card securitizations, net. Deferred income taxes increased primarily as a result of an increase in Metris' reserve provisions for uncollectible accounts.

Net cash used by investing activities was \$70.7 million in 1997 compared with \$51.9 million in 1996. The increase was due to goodwill recorded in the current year through Metris' portfolio

acquisitions. This increase was partially offset by a lower level of capital spending in 1997. Higher capital expenditures in 1996 included spending relating to the western distribution center in Spanish Fork, Utah. In addition, the owner of certain office and warehouse facilities leased to the Company exercised its right to require the Company to repurchase those facilities for approximately \$14.1 million, which was completed in January 1996.

Net cash provided by financing activities was \$138.2 million in 1997 compared with \$19.9 million in 1996. This net \$118.3 million increase was due primarily to the increase in borrowings under the Revolving Credit Facilities and reduced repayments of long-term debt.

During 1994, the Company's Board of Directors authorized the repurchase of up to 2.5 million shares of the Company's common stock that may be made from time to time at prevailing prices in the open market or by block purchase and may be discontinued at any time. The purchases are made within certain restrictions relating to volume, price and timing in order to minimize the impact of the purchase on the market for the Company's common stock. During 1997, the Company repurchased at prevailing market prices 231,900 shares of its common stock for an aggregate of \$3.4 million. Total purchases through December 26, 1997 were 1,612,200 shares for an aggregate of \$24.9 million.

On October 9, 1997, the Company announced that its board of directors had approved the filing of an application with the Internal Revenue Service (IRS) for a ruling on a tax free distribution of its stock in Metris. The Company filed the ruling request with the IRS on October 23, 1997. The proposed spin off of Metris is subject to receipt of a favorable ruling from the IRS, to approval by Fingerhut's Board of Directors, and to market conditions. If approved, the spin off is expected to be completed during 1998. Should the spin off not occur, other actions such as the Company's sale of Metris shares in the open market and/or Metris' issuance of additional shares via a public offering will be considered.

On January 22, 1998, the Company declared a cash dividend of \$.04 per share, or an aggregate of \$1.9 million, payable on February 19, 1998 to shareholders of record as of the close of business on February 5, 1998.

The Company believes it will have sufficient funds available to meet current and future commitments. For further discussion of the above financing arrangements, see the Notes to Consolidated Financial Statements.

#### MARKET RISK

The Company's principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce net earnings or the net assets of the Company.

To manage the Company's direct risk to changes in market interest rates, management actively monitors the interest sensitive components of the Company's owned and managed balance sheet as well as market interest rates in order to minimize the impact of changes in interest rates on the fair market value of assets, net earnings and cash flow.

The Company's primary owned and managed assets are installment customer accounts receivable, which are at a fixed rate, and revolving customer accounts receivable, which are virtually all priced at rates indexed to the variable prime rate. On balance sheet owned receivables are funded through a combination of the Company's \$500.0 million Revolving Credit Facilities, which are indexed to the variable London Interbank Offered Rate (LIBOR), \$345.0 million in fixed rate long-term debt, and stockholders' equity. The Company's off balance sheet managed accounts

receivables indexed to variable commercial paper rates, as well as term certificates which are indexed to LIBOR or at fixed rates.

Certificates issued from the trusts are either fixed or floating rate. In the cases where fixed rate series are issued and backed by floating rate assets, the Company has entered into interest rate swap contracts with several bank counterparties in a hedged (notional) amount equal to the total amount of the fixed rate funding. This hedging activity offsets the impact of the fixed rate funding of the Company's residual cash flow and income by paying a floating LIBOR rate to the counterparties in exchange for a fixed rate comparable to the rate of the trust's term funding. Conversely, where floating rate series are issued and backed by fixed rate assets, the Company has entered into interest rate swap contracts with several bank counterparties. This hedging activity minimizes the impact of the floating rate trust funding of the Company's residual cash flow and income by paying a fixed rate to the counterparties in exchange for a floating rate which is comparable to the rate of the trust's term funding.

The primary measure of interest rate risk is the simulation of net income under different interest rate environments. An approach used by management to quantify interest rate risk is a sensitivity analysis. This approach calculates the impact on net earnings, relative to a base case scenario, of rates increasing or decreasing gradually over the next 12 months by 200 basis points for Metris credit card receivables and by 300 basis points for the Retail Segment. The aforementioned changes in interest rates affecting the Company's financial instruments, including both debt obligations and receivables, would result in approximately a \$2.0 million impact to net earnings. As interest rates increase, net earnings increase; as interest rates decrease, net earnings decrease.

#### YEAR 2000 ISSUE

The "Year 2000" issue developed because most computer systems and programs were designed to record years (e.g. `1998') as two-digit fields (e.g. `98'). When the year 2000 begins, these systems may interpret "00" as the year 1900 and either stop processing date-related computations or process them incorrectly. To prevent this, companies need to examine their computer systems and programs, fix the problem and test the results. Year 2000 compliance must be achieved on or before December 31, 1999. Also, certain systems currently refer to dates beyond December 31, 1999 and, therefore, have required earlier compliance.

The Company, as with all database marketing companies, is heavily dependent upon computer systems for all phases of its operations. For this reason, it is aggressively addressing the Year 2000 issue to mitigate the effect on software performance. The Company is also working with its significant suppliers and service providers to assure that potential failures in these organizations will have minimal impacts on the Company.

In early 1996, a comprehensive effort to identify and correct the Year 2000 programming issues began. By mid-1996 the most critical mainframe processing system was converted to be Year 2000 compliant and the Company initiated a large project to address all remaining systems. This project consists of many sub-projects which will span the remainder of 1998 and part of 1999.

In late 1997, a Year 2000 Project Office was created to oversee the project, to address all related business issues and to facilitate communication with significant suppliers and service providers. As of December 26, 1997, the Company had spent approximately \$5 million on the project with an estimated expense ranging from \$11 to \$13 million remaining. The Company believes that it has allocated adequate resources to achieve Year 2000 compliance and believes that the cost of this effort will not

have a material effect on its financial position or liquidity.

#### EFFECTS OF INFLATION AND FOREIGN EXCHANGE

Since the Company's inventory turns approximately four times a year, the product cost reported in the financial statements, on a first-in, first-out basis, would not have been materially different from the product cost at current prices. Also, since the Company does not rely on any particular product group or brand, management believes that the Company can adjust its product mix to reduce the effects of price changes on its overall merchandise base.

Due to the timing of the Company's promotions, the Company is generally able to reflect cost increases and decreases resulting from the effects of inflation and foreign currency fluctuations in its selling prices. The Company imports certain products from foreign countries. It is estimated that a 10 percent change in exchange rates would cause less than a 1 percent change in product cost.

Fingerhut Companies, Inc.  
FORWARD LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include statements regarding intent, belief or current expectations of the Company and its management. Shareholders and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties that may cause the Company's actual results to differ materially from the results discussed in the forward-looking statements, including: general economic conditions affecting disposable consumer income such as employment, business conditions, interest rates and taxation; risks associated with unsecured credit transactions; interest rate risks; seasonal variations in consumer purchasing activities; increases in postal and paper costs; competition in the retail and direct marketing industry; dependence on the securitization of accounts receivable and credit card loans to fund operations; state and federal laws and regulations related to advertising, offering and extending credit, charging and collecting state sales/use taxes; product safety; adverse litigation costs; and risks of doing business with foreign suppliers. Each of these factors is more fully discussed in Exhibit 99 to the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 1997.

<TABLE>

Fingerhut Companies, Inc.

#### CONSOLIDATED STATEMENTS OF EARNINGS

For the fiscal year ended (In thousands, except share and per share data)	December 26, 1997	December 27, 1996	December 19, 1995
Revenues:			
<S>	<C>	<C>	<C>
Net sales	\$1,534,967	\$1,652,869	\$1,793,727
Finance income and other securitization income, net	263,650	109,996	21,126
	1,798,617	1,762,865	1,814,853
Costs and expenses:			
Product cost	738,830	830,423	892,736
Administrative and selling expenses	759,687	708,477	708,946
Provision for uncollectible accounts	141,582	130,561	110,922
Interest expense, net	37,647	28,413	25,943

	1,677,746	1,697,874	1,738,547
Earnings before income taxes and minority interest	120,871	64,991	76,306
Provision for income taxes	45,092	23,852	25,448
Net earnings before minority interest	75,779	41,139	50,858
Minority interest	(6,450)	(980)	-
Net earnings	\$69,329	\$ 40,159	\$50,858
Earnings per share:			
Basic	\$ 1.50	\$ .87	\$ 1.11
Diluted	\$ 1.40	\$ .83	\$ 1.05
Weighted average shares outstanding	49,377,695	48,628,308	48,478,971

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

<TABLE>

Fingerhut Companies, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands)	December 26, 1997	December 27, 1996
<b>ASSETS</b>		
Current assets:		
<S>	<C>	<C>
Cash and cash equivalents	\$145,418	\$ 61,003
Accounts receivable	607,874	453,867
Retained interest in securitized receivables	406,650	329,926
Less: reserve for uncollectible accounts and unearned finance income	(190,777)	(187,233)
Accounts receivable	823,747	596,560
Inventories	124,424	127,735
Promotional material	64,440	60,871
Deferred income taxes	197,355	166,879
Other	13,708	12,815
Total current assets	1,369,092	1,025,863
Property and equipment	272,190	285,182
Excess of cost over fair value of net assets acquired	77,161	42,601
Customer lists	8,401	9,801
Other assets	24,912	26,251
	\$1,751,756	\$ 1,389,698
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$177,021	\$ 164,557
Accrued payroll and employee benefits	57,860	46,723
Other accrued liabilities	93,037	78,239
Revolving credit facility	144,000	73,000
Payables due to credit card securitizations, net	134,562	36,619
Current portion of long-term debt	84	84
Current income taxes payable	71,659	60,721
Total current liabilities	678,223	459,943
Long-term debt, less current portion	345,187	271,481
Deferred income taxes	20,441	21,744
Other non-current liabilities	8,130	7,692
	1,051,981	760,860
Minority interest	29,790	23,437

STOCKHOLDERS' EQUITY			
Preferred stock	-	-	
Common stock	463	462	
Additional paid-in capital	292,407	288,793	
Unearned compensation	(738)	(1,856)	
Earnings reinvested	377,853	318,002	
Total stockholders' equity	669,985	605,401	
	\$1,751,756	\$ 1,389,698	

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

<TABLE>

Fingerhut Companies, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the fiscal year ended (In thousands)	December 26, 1997	December 27, 1996	December 29, 1995
Cash flows from operating activities:			
<S>	<C>	<C>	<C>
Net earnings	\$69,329	\$40,159	\$50,858
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:			
Depreciation and amortization	55,554	52,464	47,103
Amortization of unearned compensation	1,118	2,922	-
Minority interest in earnings	6,353	980	-
Change in assets and liabilities:			
Accounts receivable	(227,187)	(156,956)	(87,999)
Inventories	3,311	28,617	2,696
Promotional material and other current assets	(4,462)	30,213	(21,777)
Accounts payable	12,464	(20,918)	29,354
Payables due to credit card securitizations, net	97,943	61,191	(24,572)
Accrued payroll and employee benefits	11,137	6,851	(19)
Accrued liabilities	14,798	4,902	(6,921)
Current income taxes payable	11,735	18,634	1,407
Deferred and other income taxes	(31,779)	(37,196)	(12,946)
Other	(3,448)	(5,010)	(6,267)
Net cash provided (used) by operating activities:	16,866	26,853	(29,083)
Cash flows from investing activities:			
Additions to property and equipment	(32,327)	(51,855)	(94,442)
Excess of cost over fair value of credit card portfolio acquisitions	(38,330)	-	-
Net cash used by investing activities	(70,657)	(51,855)	(94,442)
Cash flows from financing activities:			
Proceeds from long-term debt	100,000	125,000	-
Repayments of long-term debt	(26,294)	(100,098)	(381)
Revolving credit facility	71,000	(42,000)	115,000
Repurchase of common stock	(3,385)	(4,877)	(7,862)
Issuance of common stock	4,272	1,881	4,829
Sale of minority interest in subsidiary	-	47,384	-
Cash dividends paid	(7,387)	(7,394)	(7,334)



Net cash provided by financing activities	138,206	19,896	104,252
Net increase (decrease) in cash and cash equivalents	84,415	(5,106)	(19,273)
Cash and cash equivalents at beginning of year	61,003	66,109	85,382
Cash and cash equivalents at end of year	\$145,418	\$61,003	\$66,109
Supplemental noncash investing and financing activities:			
Net tax benefit from exercise of non-qualified stock options, disqualified dispositions of ESPP shares, and vesting of restricted stock	\$ 797	\$ 293	\$1,354
Issuance of restricted stock	204	\$4,778	\$ -

The Company included in cash and cash equivalents liquid investments with maturities of 15 days or less.

See accompanying Notes to Consolidated Financial Statements.

Fingerhut Companies, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except share data)	Common stock		Additional paid-in capital	Earnings reinvested	Unearned compensation	Total	
	Number of shares	Par value				<S>	<C>
Balance, December 30, 1994	45,572,655	\$456	\$253,926	\$246,568	\$ -	\$ 500,950	
Stock repurchase	(214,100)	(2)	(1,192)	(1,974)	-	(3,168)	
Exercise of stock options	471,599	4	4,718	-	-	4,722	
Employee stock purchase plan	119,568	1	1,465	(4)	-	1,462	
Cash dividends paid	-	-	-	(7,334)	-	(7,334)	
Net earnings	-	-	-	50,858	-	50,858	
Balance, December 29, 1995	45,949,722	459	258,917	288,114	-	547,490	
Stock repurchase	(358,800)	(3)	(1,997)	(2,877)	-	(4,877)	
Exercise of stock options	109,900	1	1,012	-	-	1,013	
Employee stock purchase plan	100,141	1	1,160	-	-	1,161	
Issuance of restricted stock, net of forfeitures	353,917	4	4,774	-	(4,778)	-	
Compensation expense	-	-	-	-	2,922	2,922	
Excess of market value over book value of minority interest sold	-	-	24,927	-	-	24,927	
Cash dividends paid	-	-	-	(7,394)	-	(7,394)	
Net earnings	-	-	-	40,159	-	40,159	
Balance, December 27, 1996	46,154,880	462	288,793	318,002	(1,856)	605,401	
Stock repurchase	(231,900)	(2)	(1,292)	(2,091)	-	(3,385)	
Exercise of stock options	300,740	3	4,007	-	-	4,010	
Employee stock purchase plan	55,159	-	695	-	-	695	
Issuance of restricted stock, net of forfeitures	13,582	-	204	-	(204)	-	
Compensation expense	-	-	-	-	1,322	1,322	
Cash dividends paid	-	-	-	(7,387)	-	(7,387)	
Net earnings	-	-	-	69,329	-	69,329	
Balance, December 26, 1997	46,292,461	\$463	\$292,407	\$377,853	\$ (738)	\$669,985	

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION

Fingerhut Companies, Inc. (the "Company") is a database marketing company selling a broad range of products and services to moderate to middle income consumers via catalogs, telemarketing, television and other media.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Consolidated Financial Statements include the accounts of the Company and its wholly owned and majority owned subsidiaries, after elimination of all material intercompany transactions and balances. Minority interest represents minority stockholders' approximate 17 percent share of the equity in Metris Companies Inc. ("Metris") (see Note 16). At December 26, 1997 and December 27, 1996, the Company's principal subsidiaries were Fingerhut Corporation ("Fingerhut"), Metris, Figi's Inc. ("Figi's") and Infochoice USA, Inc. ("Infochoice").

Reclassifications have been made to prior years' Consolidated Financial Statements whenever necessary to conform to the current year's presentation.

Fiscal Year

The Company's fiscal year ends on the last Friday in December. The fiscal years ended December 26, 1997, December 27, 1996 and December 29, 1995 included 52 weeks. The accounts of Metris are on a calendar year basis.

Revenue Recognition

Substantially all of Fingerhut's sales are made on the installment contract basis. Finance income on installment contracts (net of estimated returns and exchanges, allowances, uncollectible amounts and collection costs) is recognized using an effective interest method over the weighted average of the contract periods (which approximates eighteen months) or when collected, whichever is faster. When accounts receivable are sold (see Note 3), finance income, net, is recognized.

Sales are recorded at the time of shipment and a provision for anticipated merchandise returns and allowances, net of exchanges, is recorded based upon historical experience. The provision charged against sales for 1997, 1996 and 1995 amounted to \$216.0 million, \$249.9 million and \$295.9 million, respectively.

Amounts billed to customers for shipping and handling of orders are netted against the associated costs.

Interest income on credit card receivables is accrued and earned based on the principal amount of the receivables outstanding using the effective yield method. Accrued interest is classified on the balance sheet with the related credit card receivables. Interest income is generally recognized until a loan is charged off.

Beginning in 1997, the sale of receivables has been recorded in accordance with Statement of Financial Accounting Standards No. 125 (FAS 125), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Upon sale, the sold receivables are removed from the balance sheet and the related financial and servicing assets controlled and

liabilities incurred are initially measured at fair value, if practicable. FAS 125 also requires that servicing assets and other retained interests in the transferred assets be measured by allocating the previous carrying amount between the assets sold, if any, and retained interests, if any, based on their relative fair values at the date of the transfer. The adoption of FAS 125 did not have a material effect on the Company's financial statements.

#### Earnings Per Share

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128 (FAS 128), "Earnings Per Share." The Company adopted the provisions of FAS 128 in fiscal 1997. FAS 128 requires disclosure of earnings per share in both Basic and Diluted format. Basic earnings per share is computed by dividing net earnings by the weighted average shares of common stock outstanding during the year. Diluted earnings per share is computed by dividing net earnings by the weighted average shares of common stock and common stock equivalents outstanding during the year. The dilutive effect of the potential exercise of outstanding options to purchase shares of common stock is calculated using the treasury stock method. A reconciliation of the calculation is as follows:

<TABLE>

In thousands, except per share data	For the Year Ended December 26, 1997		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:			
<S>	<C>	<C>	<C>
Income available to common stockholders	\$69,329	46,167	\$ 1.50
Effect of Dilutive Securities:			
Options	-	3,211	
Diluted EPS:			
Income available to common stockholders and assumed conversion	\$69,329	49,378	\$ 1.40

</TABLE>

<TABLE>

In thousands, except per share data	For the Year Ended December 27, 1996		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:			
<S>	<C>	<C>	<C> <C>
Income available to common stockholders	\$40,159	46,210	\$ .87
Effect of Dilutive Securities:			
Options	-	2,418	
Diluted EPS:			
Income available to common stockholders and assumed conversion	\$40,159	48,628	\$ .83

</TABLE>

<TABLE>

In thousands, except per share data	For the Year Ended December 29, 1995		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:			

Basic EPS:

<S>	<C>	<C>	<C>
Income available to common stockholders	\$50,858	45,835	\$ 1.11
Effect of Dilutive Securities:			
Options	-	2,644	
Diluted EPS:			
Income available to common stockholders and assumed conversion	\$50,858	48,479	\$ 1.05

</TABLE>

#### Inventories

Inventories, principally merchandise, are stated at the lower of cost (as determined on a first-in, first-out basis) or market. The Company has established a reserve for excess and obsolete inventory, which is based on management's best estimates of the amount of inventory that is slow moving or subject to obsolescence. The estimates are subject to change in the near term, depending on changes in economic conditions and other factors.

#### Promotional Material

Promotional material primarily includes free gifts and items in inventory associated with direct response advertising (paper, printing and postage). The cost of direct response advertising is deferred and expensed over the period during which the orders are expected, generally one to four months. The amount of direct response advertising included in the Consolidated Statements of Financial Position is not material. The cost of non-direct response advertising is expensed as incurred.

#### Credit Card Origination Costs

Metris defers direct credit card origination costs associated with successful credit card solicitations that it incurs in transactions with independent third parties, and certain other costs that it incurs in connection with loan underwriting and the preparation and processing of loan documents. These deferred credit card origination costs are netted against the related credit card annual fees, if any, and amortized on a straight-line basis over the cardholder's privilege period, generally 12 months, as an adjustment to "Finance income and other securitization income, net."

#### Property and Equipment

Property and equipment are stated at cost and depreciated or amortized on a straight-line basis over their estimated economic useful lives (30 years for buildings; five years for software; three to 10 years for machinery and equipment, furniture and fixtures; and over the estimated useful life of the property or the life of the lease, whichever is shorter, for leasehold improvements). The Company capitalizes software developed for internal use that represents major enhancements and replacements of operating and management information systems.

#### Intangible Assets

The excess of cost over fair value of net assets acquired is amortized on a straight-line basis over 40 years.

The ongoing cost of developing and maintaining customer lists is charged to operations as incurred. Customer lists obtained by the acquisition of a business are capitalized at fair market value and amortized over their estimated useful lives, approximately 15 years.

At each balance sheet date, management assesses whether there has been an impairment in the carrying value of intangible assets, primarily by comparing current and projected sales, operating income and annual cash flows with the related annual amortization expense. Based on this assessment, management has concluded that intangible assets are fully realizable.

#### Income Taxes

The Company provides for deferred taxes on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities that will result in future taxable or deductible amounts. The Company provides for deferred taxes at the enacted tax rate that is expected to apply when the temporary differences reverse.

#### Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Stock-Based Employee Compensation

Statement of Financial Accounting Standards No. 123 (FAS 123), "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Compensation cost for restricted stock is recorded over the vesting period of the awards based on the fair market value of the Company's stock on the date of grant. See Note 14.

#### Reclassifications

"Discount on sale of accounts receivable," the "Provision for uncollectible accounts" and "Administrative and selling expenses" (collection costs) associated with the receivables sold, were reclassified to "Finance income and other securitization income, net." All prior-period financial information was restated to conform with the current period's presentation, and the reclassifications had no effect on net earnings.

#### Newly Issued Pronouncements

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130 (FAS 130), "Reporting Comprehensive Income." This statement is effective for fiscal years beginning after December 15, 1997, and amends several FASB Statements. The Company does not believe implementation will have a material impact on the consolidated financial statements and the Company intends to adopt this statement prospectively, in the first quarter of 1998.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131 (FAS 131), "Disclosures about Segments of an Enterprise and Related Information." This statement is effective for fiscal years beginning after December 15, 1997, and supersedes and amends several FASB Statements, including Statement of Financial Accounting Standards No. 14 (FAS 14), "

Financial Reporting for Segments of a Business Enterprise." The Company does not believe implementation will have a material impact on the consolidated financial statements and the Company intends to adopt this statement prospectively, in the first quarter of 1998.

### 3. SALE OF ACCOUNTS RECEIVABLE

#### Fingerhut Master Trust and Third Party Conduits

The Fingerhut Master Trust allows Fingerhut to sell, on a continuous basis, an undivided interest in a pool of customer accounts receivables, subject to meeting certain eligibility requirements. In June 1994, the Fingerhut Master Trust issued the Series 1994-1 certificates which raised \$900.0 million of proceeds. The Series 1994-1 certificates commenced controlled amortization in December 1996. In November 1994, the Fingerhut Master Trust issued the Series 1994-2 variable funding certificates with maximum proceeds of \$490.4 million. The Series 1994-2 amortization period is currently scheduled to begin in May 1999. In January 1997, the Fingerhut Master Trust issued the Series 1997-1 variable funding certificates to refinance \$790.0 million of the amortizing certificates. During 1998, the Company plans to refinance Series 1997-1 with the proceeds from the issuance of approximately \$900.0 million of asset-backed term certificates.

In December 1997, the Company entered into an agreement that allows the Company to sell, to a third party conduit on a continuous basis, an undivided interest in a pool of revolving receivables arising out of private label credit card accounts originated by Fingerhut National Bank. Per the agreement, amortization begins in May 1998, whereby collections on the securitized receivables will be used to pay down the balance of the pool. Management expects to amend the Fingerhut Master Trust in 1998 to include the revolving receivables.

The proceeds from the sale of accounts receivable were \$1.205 billion and \$1.280 billion at December 26, 1997 and December 27, 1996, respectively. The acceleration of financing income on sold receivables resulted in a 1997 gain on sale of \$2.3 million.

Included in "Finance income and other securitization income, net" is the discount on sale of accounts receivable which is comprised of the interest, discount and administrative and other fees paid or accrued to the purchasers of the accounts receivables sold. The discount, determined under the Fingerhut Master Trust, approximates the prevailing short-term London InterBank Offered Rate (LIBOR) and commercial paper rates for high grade unsecured notes plus a credit spread and administrative fees. The rates (including administrative fees) applicable to receivables sold as of December 26, 1997 and December 27, 1996 were 6.5 percent and 6.4 percent, respectively.

Prior to implementation of FAS 125, the Company had included in "Other accrued liabilities" the estimated expenses related to the subsequent collections of the receivables sold, which amounted to \$18.1 million for 1996. Under FAS 125, no servicing asset or liability is recorded as fees charged are expected to cover related expenses.

#### Metris Master Trust

In May 1995, the Company established the Metris Master Trust. The Metris Master Trust allows Metris to sell, on a continuous basis, an undivided interest in a pool of credit card receivables generated or acquired by Direct Merchants Credit Card Bank, a subsidiary of Metris. In May 1995, the Metris Master Trust issued the Series 1995-1 variable funding certificates with maximum proceeds of \$512.6 million and an

amortization period scheduled to begin in May 1999. In September 1996, the Company amended Series 1995-1 to increase the maximum proceeds to \$1.025 billion. In April 1996, the Metris Master Trust issued the Series 1996-1 certificates with a principal amount of \$655.5 million, generating proceeds of \$653.9 million, of which \$400.0 million was used to pay down asset-backed commercial paper supported by the Class A Variable Funding Certificate issued under Series 1995-1. The Series 1996-1 certificates begin to amortize in August 1998.

In May 1997, the Metris Master Trust issued Series 1997-1 certificates with a principal amount of \$794.8 million, generating proceeds of \$792.2 million of which \$667.7 million was used to reduce the Class A Variable Funding Certificate issued under Series 1995-1. The Series 1997-1 certificates are scheduled to begin accumulating principal collections in March 2001, however, the accumulation period could potentially begin at a later date. The expected final payment date for these certificates is in April 2002.

In September 1997, Metris acquired a \$317 million credit card portfolio from Key Bank USA, National Association. In October 1997, Metris acquired a \$405 million credit card portfolio from Mercantile Bank, National Association. These credit card receivables were securitized and sold to investors with a portion retained, which is included in "Retained interest in securitized receivables."

In November 1997, the Metris Master Trust issued Series 1997-2 certificates to third parties with a principal amount of \$654.5 million, generating net proceeds of \$652.0 million of which \$478.0 million was used to reduce the Class A Variable Funding Certificate issued under Series 1995-1. The Series 1997-2 certificates are scheduled to begin accumulating principal collections in October 2001, however, the accumulation period could potentially begin at a later date. The expected final payment date for these certificates is in November 2002.

Net proceeds generated from the sale of credit card receivables to the Metris Master Trust were \$3.057 billion at December 31, 1997 and \$1.397 billion at December 31, 1996, of which \$29.3 million and \$17.0 million, respectively, was deposited in an investor reserve account held by the trustee of the Metris Master Trust for the benefit of the Trust's certificate-holders.

A credit risk exists for losses on receivables in which the certificate purchasers have an undivided interest, up to the amount of the Company's retained interest in the Fingerhut Master Trust, the Metris Master Trust, and the third party conduits. Any losses beyond that level are the responsibility of the certificate purchasers.

#### 4. ACCOUNTS RECEIVABLE

Substantially all of the Company's accounts receivable were generated by Fingerhut National Bank, Direct Merchants Credit Card Bank and Figi's. Fingerhut uses fixed-term, fixed-payment installment plans with terms up to 36 months (excluding deferred billing periods of up to five months) and finance charge rates of 24.9 percent. Beginning in 1996, Fingerhut began converting its customers from existing fixed payment installment plans to revolving credit plans with finance charge rates of prime plus 16.4 percent (24.9 percent at December 26, 1997). Direct Merchants Bank grants credit card revolving lines of credit which typically include an annual fee and floating rates of interest ranging from 14.9 percent to 26.5 percent, excluding current year portfolio acquisitions. Figi's uses fixed-term, fixed-payment plans with terms up to three months (excluding deferred billing periods of up to approximately three months) with no finance charge. Accounts receivable are classified as current assets and

include some which are due after one year, consistent with industry practice. Accounts receivable, net of amounts sold, consists of the following:

<TABLE>

(In thousands)	For the fiscal year ended	
	1997	1996
<S>	<C>	<C>
Customer receivables (Retail)	\$339,553	\$389,394
Retained interest in securitized receivables	178,652	171,537
Reserve for uncollectible accounts, net of anticipated recoveries	(100,901)	(117,296)
Reserve for returns and exchanges	(12,322)	(13,319)
Other reserves	(22,765)	(19,820)
Net collectible amount	382,217	410,496
Unearned finance income	(22,750)	(23,969)
Accounts receivable	359,467	386,527
Credit card and other receivables (Metris)	268,321	64,473
Retained interest in securitized receivables	227,998	158,389
Reserve for uncollectible accounts, net of anticipated recoveries	(32,039)	(12,829)
Credit card and other receivables	464,280	210,033
Accounts receivable	\$823,747	\$596,560

</TABLE>

Other reserves for customer receivables consist primarily of allowances for anticipated adjustments of finance charges billed to customers (due to earlier than scheduled payment) and anticipated costs required to collect customer accounts.

Credit card and other receivables, net consist primarily of credit card loans held for securitization, unbilled interest and fees, and other amounts due from or to the trust as a result of securitizations. These amounts include interest-bearing deposits, which constitute amounts subject to liens by the certificate-holders of the individual securitizations under the Metris Master Trust and amounts deposited in investor reserve accounts held by the trustee for the benefit of the Metris Master Trust's certificate-holders.

Reserves for credit card receivables consist primarily of allowances for anticipated adjustments of finance charges billed to certain customers (due to unemployment and disability) and adjustments to principal and finance charges billed to certain customers (due to death) under a debt waiver plan offered by Direct Merchants Bank. These reserves are treated as a reduction of receivables in the Consolidated Statements of Financial Position as payments under the plan are generally used to reduce outstanding receivables.

The above reserves represent management's best estimates of the amounts not expected to be collected. A change in economic conditions could have a significant impact on the Company's target market, which consists of moderate to middle income consumers. As such, the reserve estimates are subject to change in the near term.

## 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

<TABLE>

(In thousands)	For the fiscal year ended	
	1997	1996



<S>	<C>	<C>
Land and improvements	\$ 7,449	\$ 7,444
Buildings and leasehold improvements	117,676	112,173
Construction in progress	66,845	74,828
Machinery and equipment	139,539	130,029
Software	132,541	115,700
Other, principally furniture and fixtures	26,233	19,988
	490,283	460,162
Less: Accumulated depreciation	(136,382)	(111,219)
Accumulated amortization of software	(81,711)	(63,761)
Property and equipment	\$272,190	\$285,182

</TABLE>

Software amortization expense recorded in 1997, 1996 and 1995 was \$18.0 million, \$19.3 million, and \$16.8 million, respectively.

#### 6. REVOLVING CREDIT FACILITY

In September 1996, the Company restructured its bank credit facilities. The Company's existing revolving credit facility was amended and restated to, among other things, reduce the aggregate commitments for revolving borrowings and letters of credit from \$400 million to \$200 million (the "Amended Revolving Credit Facility"). The Amended Revolving Credit Facility will continue to be guaranteed by certain subsidiaries of the Company and expires in September 2001. The proceeds from borrowings under the Amended Revolving Credit Facility are to be used by the Company to provide for working capital and other general corporate purposes. At December 26, 1997, the Company had no outstanding balance. At December 27, 1996, the Company had an outstanding revolving credit balance of \$23.0 million. The weighted-average interest rate on borrowings was 5.9 percent at December 27, 1996. The outstanding portion of open letters of credit, primarily established to facilitate international merchandise purchases, was not reflected in the accompanying financial statements and aggregated \$32.8 million at December 26, 1997 and \$29.1 million at December 27, 1996.

In September 1996, Metris entered into a revolving credit facility with the same group of lenders as in the Amended Revolving Credit Facility. Metris' facility (the "Metris Revolving Credit Facility") provides for aggregate commitments of \$300 million and is used by Metris for working capital and other general corporate purposes. Metris' obligations under the Metris Revolving Credit Facility are secured by a pledge of the capital stock of all of Metris' subsidiaries except Direct Merchants Bank. In addition, the Metris Revolving Credit Facility is guaranteed by Fingerhut Companies, Inc., Fingerhut Corporation, and all other subsidiaries that guarantee the Amended Revolving Credit Facility. The Metris Revolving Credit Facility expires in September 2001. At December 31, 1997, Metris had an outstanding revolving credit balance of \$144.0 million and the weighted-average interest rate on borrowings was 6.5 percent. At December 31, 1996, Metris had an outstanding revolving credit balance of \$50.0 million and the weighted-average interest rate on borrowings was 5.9 percent. The outstanding portion of open letters of credit was not reflected in the accompanying financial statements and aggregated \$1.5 million at December 26, 1997.

#### 7. LONG-TERM DEBT

In September 1996, the Company closed the private placement of \$125.0 million of three-year senior notes. In February 1997, the Company completed an exchange offer whereby substantially all of the \$125.0 million of unregistered notes were exchanged for registered notes with substantially identical terms.

In November 1997, Metris privately issued and sold \$100.0 million of seven-year senior notes (the "Metris Senior Notes") pursuant to an exemption under the Securities Act of 1933, as amended. In January 1998, Metris commenced an exchange offer of the Metris Senior Notes pursuant to a registration statement. The terms of the new Metris Senior Notes are identical in all material respects to the original private issue. The Metris Senior Notes are unconditionally guaranteed on a senior basis, jointly and severally, by Metris Direct, Inc. (the "Guarantor"), and all future subsidiaries of Metris that guarantee any of Metris' indebtedness, including the Metris Revolving Credit Facility.

Long-term debt and related maturity dates are as follows:

<TABLE>						
(In thousands)	Maturity date	Interest rate	1997	1996		
Privately Placed Senior Notes						
<S>	<C>	<C>	<C>	<C>	<S>	<C>
Series B	Dec. 1997	10.12%	\$ -	\$25,000		
Series A Unsecured	June 2002	8.92%	60,500	60,500		
Series B Unsecured	June 2004	8.92%	14,500	14,500		
Series C Unsecured	Aug. 2000	6.83%	45,000	45,000		
Senior Notes	Sept. 1999	7.38%	125,000	125,000		
Metris Senior Notes	Nov. 2004	10.00%	100,000	-		
Other indebtedness (due in various installments through November 2010; interest at varying rates ranging from 7.5% to 8.0% at December 26, 1997)						
			271	1,565		
			345,271	271,565		
Current portion of long-term debt			(84)	(84)		
Long-term debt, less current portion			\$345,187	\$271,481		
</TABLE>						

Scheduled annual maturities due on long-term debt at December 26, 1997 were as follows:

(In thousands)	
1998	\$ 84
1999	125,067
2000	45,057
2001	14
2002	60,503
Thereafter	114,546
	\$345,271

The Privately Placed Senior Notes contain covenants restricting the payment of dividends. The maximum amount of dividends the Company was permitted to pay at December 26, 1997 was \$137.5 million.

## 8. FINANCIAL INSTRUMENTS

### FAIR VALUE OF FINANCIAL INSTRUMENTS

This footnote discloses the fair value of all financial instruments, both assets and liabilities, recognized and not recognized, in the Consolidated Statements of Financial Position for which it is practicable to estimate fair value.

Quoted market prices generally are not available for all of the Company's financial instruments. Accordingly, fair values are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A description of the methods and assumptions used to estimate

the fair value of each class of the Company's financial instruments is as follows:

Cash and cash equivalents, accounts payable, accrued payroll and employee benefits, and other accrued liabilities  
The carrying amounts approximate fair value due to the short maturity of these instruments.

Accounts receivable

Customer installment receivables:

Since the average collection period exceeds 90 days, the discounted present value of expected future cash flows from the collection of the receivables and related deferred finance income was calculated and it was determined that the carrying amount approximates fair value.

Credit card receivables and revolving credit receivables:

Currently, credit card and revolving credit receivables are originated with variable rates of interest, with interest rate spreads that differ based on the related risk of such receivables. Thus, the carrying value approximates market value. However, this valuation does not include the value that relates to estimated cash flows generated from new loans from existing customers over the life of the cardholder relationship. Accordingly, the aggregate fair value of the credit card and revolving credit receivables does not represent the underlying value of the established cardholder relationships.

Retained interest in securitized receivables:

When the Company securitizes receivables, it exchanges its receivables for certificates representing undivided interests in such receivables. Due to the short-term revolving nature of the portfolio, the carrying amount of the Company's "Retained interest in securitized receivables" in the Fingerhut Master Trust, the Metris Master Trust, and third party conduits approximates fair value.

Long-term debt

The fair value of the Company's long-term debt was estimated based on the amount of future cash flows associated with each instrument discounted using the current rates offered to the Company for similar debt instruments of comparable maturity. The fair value of Metris' long-term debt was obtained from an independent third party.

Interest rate cap and swap agreements

The fair values of interest rate cap and swap agreements were obtained from dealer quoted prices. These values represent the estimated amount the Company would pay to terminate the agreements, taking into consideration current interest rates and the current creditworthiness of the counterparties.

The estimated fair values of the Company's financial instruments are summarized as follows:

<TABLE>

(In thousands)	December 26, 1997		December 27, 1996		value
	Carrying amount	Estimate fair value	Carrying amount	Estimate fair value	
<S>	<C>	<C>	<C>	<C>	
Cash and cash equivalents	\$145,418	\$145,418	\$61,003	\$61,003	
equivalents					
Accounts receivable	\$823,747	\$823,747	\$596,560	\$596,560	
Long-term debt	\$345,271	\$353,925	\$271,565	\$278,218	
Interest rate swap agreements					
in a net receivable					
(payable) position	\$ -	\$21,894	\$ -	\$2,683	
Interest rate cap	\$ 6,053	\$ 249	\$ 7,291	\$2,899	
agreements					

</TABLE>

DERIVATIVE FINANCIAL INSTRUMENTS HELD OR ISSUED FOR PURPOSES

The Company enters into interest rate cap and swap agreements to hedge its economic exposure to fluctuating interest rates currently associated with the floating rate certificates issued by the Fingerhut Master Trust and the fixed rate certificates issued by the Metris Master Trust. Any premiums paid for these agreements are amortized to "Finance income and other securitization income, net" where the economic exposure to fluctuating interest rates exists.

The Fingerhut Master Trust Series 1994-2 certificates, initially issued in November 1994, required a six-year agreement which effectively capped LIBOR exposure at 11.2 percent on a hedged (notional) amount varying up to \$490.4 million over the life of the agreement. In connection with an amendment of Series 1994-2 in May 1995, an additional two and one-half year, 11.2 percent interest rate cap was required for up to a notional amount of \$209.7 million.

As a result of the issuance of the \$512.6 million Metris Master Trust Series 1995-1 certificates in May 1995, the Company entered into an eight-year agreement effectively capping short-term LIBOR exposure at 11.2 percent for the floating notional amount of the certificates. In connection with the amendment of Series 1995-1 in September 1996, two additional six and two-thirds year, 11.2 percent interest rate caps were required for up to a notional amount of \$513.0 million.

In June and July 1995, the Company entered into several interest rate corridor swap agreements with total notional amounts of \$900.0 million. These agreements exchange an obligation to pay floating LIBOR of up to 11.2 percent for an obligation to pay fixed interest rates. The fixed interest rate obligation is approximately 5.8 percent on a \$400.0 million notional amount and approximately 5.7 percent on the remaining \$500.0 million notional amount. These agreements expire in July 1998.

In connection with the issuance of the \$655.5 million Metris Master Trust Series 1996-1 certificates in April 1996, the Company entered into two interest rate corridor swap agreements with total notional amounts of \$605.5 million. These agreements exchange an obligation to pay fixed interest rates of approximately 6.3 percent for an obligation to pay floating LIBOR rates. These agreements expire in February 2000.

In connection with the issuance of the \$850.0 million Metris Master Trust Series 1997-1 certificates in May 1997, Metris entered into three interest rate corridor swap agreements with total notional amounts of \$722.5 million. These agreements exchange an obligation to pay fixed interest rates of approximately 6.7 percent for an obligation to pay floating LIBOR rates. These agreements expire in April 2002.

In connection with the planned issuance of the \$450.0 million Fingerhut Master Trust Series 1998-1 certificates and the \$450.0 million Fingerhut Master Trust Series 1998-2 certificates in April 1998, the Company entered into an interest rate swap agreement in October 1997 with an initial notional amount of \$415.0 million. This agreement has a forward start date of April 1998 and amortizes down to \$0 in October 1999. This agreement exchanges an obligation to pay floating LIBOR rates for an obligation to pay fixed interest rates of approximately 5.95 percent. The Company also cash settled (at fair market value) the final three payments of an interest rate swap corridor agreement with a notional amount of \$400.0 million set to expire in July 1998.

For interest rate cap and swap transactions, the contract or notional amounts do not represent exposure to credit loss. Entering into interest rate cap and swap agreements involves

the risk of dealing with counterparties and their ability to meet the terms of the contracts. Notional principal amounts often are used to express the volume of these transactions, but the amounts potentially subject to credit risk are much smaller.

#### 9. INTEREST EXPENSE

Net interest expense was as follows:

(In thousands)	1997	1996	1995
Interest expense	\$40,156	\$30,073	\$27,120
Interest income	(2,509)	(1,660)	(1,177)
Net interest expense	\$37,647	\$28,413	\$25,943

The Company paid interest of \$38.5 million in 1997, \$35.0 million in 1996 and \$24.2 million in 1995.

#### 10. OPERATING LEASES

Rental expense for both cancelable and non-cancelable operating leases, (principally for office and warehouse facilities and computer equipment) for fiscal years 1997, 1996 and 1995 was \$32.9 million, \$35.9 million, and \$38.6 million, respectively. Future minimum annual rentals and payments under non-cancelable operating leases at December 26, 1997 are as follows:

(In thousands)	
1998	\$29,081
1999	\$19,415
2000	\$6,734
2001	\$2,279
2002	\$1,138
Thereafter	\$4,536

The Company leased certain office and warehouse facilities (the "properties") from a former affiliated company. Annual rental expense for the properties in 1995 was \$1.7 million. The lessor exercised its right to require the Company to purchase the properties for approximately \$14.1 million. The Company completed the purchase in January 1996.

The Company also leased office space for one of its telemarketing centers and warehouse space from a partnership owned by various members of the immediate family of one of the Company's Directors. Rental expense for 1996 and 1995 was \$.6 million and \$1.9 million, respectively.

#### 11. EMPLOYEE BENEFIT PLANS

The Company maintains four non-contributory, defined benefit pension plans which together cover substantially all full-time non-union employees. The plans provide monthly retirement benefits to eligible participants based upon years of service and level of compensation. The Company's funding policy is to make an annual contribution equal to, or exceeding, the minimum required by the Employee Retirement Income Security Act of 1974. The actuarial present value of the benefit obligation and the funded status of the plans were as follows:

(In thousands)	1997	1996
Actuarial present value of benefit obligations:		
Vested benefits	\$24,199	\$18,932
Non-vested benefits	4,616	2,097
Accumulated benefit obligation	28,815	21,029
Effect of future compensation	10,615	9,437

increases		
Projected benefit obligation	39,430	30,466
Plan assets at fair value	31,187	24,770
Unfunded projected benefit obligation	8,243	5,696
Unrecognized prior service cost	(2,436)	(1,345)
Unrecognized net gain	6,670	6,170
Additional liability	2,305	327
Accrued pension cost	\$14,782	\$10,848

</TABLE>

Plan assets at December 26, 1997 and December 27, 1996 were primarily invested in an equity fund.

The actuarial present value of the projected benefit obligations represents the present value of benefits to be paid in the future under current provisions of the plan based on accumulated service to date and assuming future annual pay increases of 6.0 percent and 5.5 percent in 1997 and 1996, respectively. Projected benefits have been discounted using rates of 7.25 percent and 7.75 percent for 1997 and 1996, respectively. In determining pension expense, the assumed long-term rate of return on plan assets was 10.5 percent for 1997 and 9.5 percent for 1996 and 1995. The Company's non-union pension plans have vesting periods of five years.

The components of pension expense for non-union employees were as follows:

<TABLE>

(In thousands)	1997	1996	1995
<S>	<C>	<C>	<C>
Benefit earned during the period	\$2,436	\$2,942	\$1,990
Interest accrued on projected benefit obligation	2,627	2,366	1,828
Actual return on assets	(6,525)	(4,291)	(4,360)
Deferred gain	4,230	2,519	2,875
Amortization of prior service cost	140	76	7
Amortization of net (gain) loss	(72)	1	(85)
Pension expense for the period	\$2,836	\$3,613	\$2,255

</TABLE>

Additionally, the Company participates in a multi-employer pension plan for all union employees. The plan provides monthly retirement benefits to eligible participants based upon years of service. The plan is funded with contributions made in accordance with negotiated labor contracts. The pension expense related to this plan for 1997, 1996 and 1995 was \$1.0 million, \$.9 million, and \$1.5 million, respectively.

The Company maintains four defined contribution plans, which together cover substantially all non-union employees. Three of the plans have a 401(k) provision, including one which provides for an employer matching contribution only; another which provides for an employer matching contribution as well as a profit sharing contribution; and the third which provides for an employer profit sharing contribution only. Each of the profit sharing contributions are discretionary and are determined by the board of directors for each of the individual companies. The maximum profit sharing contribution is 11 percent of each participant's eligible compensation. The fourth defined contribution plan is a money purchase plan and provides for a non-discretionary employer contribution of 4 percent of each participant's eligible compensation. The cost to the Company of these plans was \$12.2 million, \$10.8 million, and \$11.7 million for 1997, 1996 and 1995, respectively.

Additionally, the Company maintains one defined contribution plan (with a 401(k) provision and employer matching contribution) and participates in another multi-employer defined contribution plan (with a 401(k) provision only) for all union employees. The cost to the Company of these plans was not material for each of the years presented.

In January 1997, Metris adopted a defined contribution profit sharing plan (the "Metris Retirement Plan") that provides retirement benefits for eligible employees. During 1997, Metris' employees participated in the Metris Retirement Plan, which provides savings and investment opportunities. The Metris Retirement Plan stipulates that eligible employees with at least one year of service may elect to contribute to the Metris Retirement Plan. Metris matches a portion of employee contributions and makes discretionary contributions based upon Metris' financial performance. For the year ended December 31, 1997, Metris contributed \$.9 million to the Metris Retirement Plan.

## 12. INCOME TAXES

The provision for income taxes consisted of the following:

(In thousands)	1997	1996	1995
Currently payable:			
<S>	<C>	<C>	<C>
Federal	\$69,651	\$65,682	\$36,072
State	6,903	2,537	1,750
Deferred	(31,462)	(44,367)	(12,374)
Provision for income taxes	\$45,092	\$23,852	\$25,448

</TABLE>

The Company's effective income tax rate differed from the U.S. federal statutory rate as follows:

(In thousands)	1997	1996	1995
<S>	<C>	<C>	<C>
U.S. federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	3.0	2.0	1.4
Merchandise donations	(1.6)	(1.5)	(3.1)
Other, net	.9	1.2	-
Effective income tax rate	37.3%	36.7%	33.3%

</TABLE>

The "Other, net" tax rate in 1997, 1996 and 1995 was composed of miscellaneous items, none of which were individually significant.

The current and long-term deferred income tax assets and liabilities included in the Consolidated Statements of Financial Position as of December 26, 1997 and December 27, 1996 were composed of the following:

(In thousands)	1997	1996
Current and long-term deferred income tax assets resulting from future deductible temporary differences are:		
<S>	<C>	<C>
Accounts receivable reserves	\$258,939	\$234,566
Yield reserve	14,702	14,557
Unearned income	15,341	-
Inventory obsolescence reserves	6,368	6,635
Other	27,003	18,366
Total deferred income tax assets	\$322,353	\$274,124

Current and long-term deferred  
income tax liabilities resulting  
from future taxable temporary  
differences are:

Accelerated depreciation and amortization	\$ (27,786)	\$ (24,125)
Finance income deferred	(105,688)	(97,284)
Deferred advertising	(9,782)	(6,140)
Other	(2,183)	(1,440)
Total deferred income tax liabilities	\$(145,439)	\$(128,989)

</TABLE>

Management believes the Company's prior operating earnings, on a tax basis, will allow for full utilization of the deferred tax assets included in its consolidated financial statements.

The Company paid income taxes (net of refunds) of \$65.4 million, \$42.7 million, and \$37.1 million, during 1997, 1996 and 1995, respectively.

### 13. RELATED PARTY TRANSACTIONS

Related party transactions, detailed by subject and Note reference are as follows:

Operating leases	Note 10
Stockholders' equity	Note 14

### 14. STOCKHOLDERS' EQUITY

The Company currently has 100,000,000 authorized shares of \$.01 par value common stock of which 46,292,461 and 46,154,880 were issued and outstanding as of December 26, 1997 and December 27, 1996, respectively. The Company is authorized to issue 5,000,000 shares of \$.01 par value preferred stock, none of which have been issued.

During 1994, the Company's Board of Directors authorized the repurchase of up to 2.5 million shares of the Company's common stock that may be made from time to time at prevailing prices in the open market or by block purchase and may be discontinued at any time. The purchases will be made within certain restrictions relating to volume, price and timing in order to minimize the impact of the purchase on the market for the Company's stock. To date, the Company has repurchased 1,612,200 shares of its common stock at prevailing market prices for an aggregate of \$24.9 million.

#### Fingerhut 1994 Employee Stock Purchase Plan

Effective July 1, 1994, the Company made available to certain employees the Fingerhut 1994 Employee Stock Purchase Plan under which eligible employees have the opportunity to purchase Company common stock at a discounted market value determined on the first or last business day of the calendar quarter, whichever is lower. A maximum of 750,000 shares are authorized, of which 200,000 shares are subject to shareholder approval. During 1997, 55,159 shares were issued at an average price of \$12.60. During 1996, 100,141 shares were issued at an average price of \$11.59 per share. During 1995, 119,568 shares were issued at an average price of \$12.19 per share.

#### Fingerhut Companies, Inc. Stock Option Plan

The Fingerhut Companies, Inc. Stock Option Plan provides certain management of the Company with options to purchase up to 7,768,000 shares of common stock of which 3,625 were available for grant at December 26, 1997. The options are



granted at the fair market value on the date of grant. The options become exercisable in five equal annual installments beginning on the first anniversary of the date of grant. Unexercised options will be canceled 10 years and one month after the date of grant.

#### Fingerhut Companies, Inc. 1995 Long-Term Incentive and Stock Option Plan

The Fingerhut Companies, Inc. 1995 Long-Term Incentive and Stock Option Plan provides for the granting of 4,250,000 stock options (either incentive stock options or non-qualified stock options), stock appreciation rights or restricted stock to officers and other employees. At December 26, 1997, 1,272,546 shares were available for grant. The Compensation Committee of the Board has the authority to determine the exercise prices, vesting dates, expiration dates and other material conditions upon which options or awards may be exercised, except that the option price of incentive stock options may not be less than 100 percent of the fair market value of the common stock on the date of grant, and not less than 110 percent of the fair market value in the case of an incentive stock option granted to any employee owning more than 10 percent of the Company's common stock (a "Ten Percent Employee"), and the term of non-qualified stock options may not exceed 15 years from the date of grant (not more than 10 years for incentive stock options and five years for incentive stock options granted to a Ten Percent Employee). During 1997 and 1996, the Compensation Committee granted a total of 985,445 and 687,973 options, respectively. In 1997 and 1996, 15,000 and 353,917 shares of restricted stock were issued, respectively. The grant date fair value of each of these awards was \$14.88 and \$13.50. For restricted shares granted in 1997, 5,000 shares vested May 12, 1997 and, subject to continued employment, 5,000 shares vest on May 12, 1998 with the remaining 5,000 shares vesting on May 12, 1999. For restricted shares granted in 1996, 25 percent of the shares vested on March 31, 1996, 25 percent vested on March 31, 1997 and, subject to continued employment, the remaining 50 percent will vest on August 31, 1998. The unearned portion of the awards is being amortized as compensation expense on a straight-line basis over the related vesting period. Compensation expense related to the restricted stock awards totaled \$1.1 million and \$3.6 million for the years ended December 26, 1997 and December 27, 1996, respectively, which included tax assistance payments made by the Company with respect to the first 25 percent of the awards that vested.

#### Fingerhut Companies, Inc. Nonemployee Director Stock Option Plan

The Fingerhut Companies, Inc. Nonemployee Director Stock Option Plan provides for the granting of 100,000 stock options to directors of the Company who are not officers or employees. At December 26, 1997, 40,000 shares were available for grant. A committee of members of the Board of Directors who are officers or employees of the Company has the authority to determine the exercise prices, vesting dates, expiration dates and other conditions upon which options may be exercised, except that the term of such options may not exceed 15 years from the date of the grant.

#### Fingerhut Companies, Inc. Performance Enhancement Investment Plan

The Fingerhut Companies, Inc. Performance Enhancement Investment Plan ("PEIP Plan") provided certain management of the Company with the right to purchase options to acquire up to 3,000,000 shares of common stock. Under the PEIP Plan, management was offered the opportunity to purchase option units, each consisting of four options to purchase common stock, with exercise prices of 110 percent, 120 percent, 130

percent and 140 percent, respectively, of the fair market value at the time of grant. The options were offered at prices determined by the Company on the grant date. During 1995, the Company discontinued the PEIP Plan and canceled the remaining ungranted shares. No shares were repurchased during 1997. During 1996 and 1995, the Company repurchased 251,000 and 1,724,956 options, respectively, granted under the PEIP Plan at or below the original purchase price paid by the option holders, and the repurchase had no impact on the Company's net earnings. As of December 26, 1997, 91,244 options remained outstanding and will be repurchased, if unexercised, at an amount equal to or less than the purchase price on the earlier of the optionee's termination of employment or the seventh anniversary of the grant date. The remaining obligation to repurchase outstanding options has been accrued and is included in "Accrued payroll and employee benefits" in the Consolidated Statements of Financial Position.

Fingerhut Companies, Inc. 1992 Stock Option and Long-Term Incentive Plan

The Fingerhut Companies, Inc. 1992 Stock Option and Long-Term Incentive Plan provides certain management of the Company with options to purchase up to 523,382 shares of common stock. In 1992, the Company granted the Chairman and Chief Executive Officer non-qualified options to purchase 523,382 shares of common stock with an option price of \$15.00, the fair market value at the date of grant. In November 1993, 50 percent of these options became exercisable, 50 percent became exercisable in November 1994 and all expire in December 1999.

The Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (FAS 123), "Accounting for Stock- Based Compensation." Accordingly, no compensation cost has been recognized with respect to the Company's stock option grants or the Employee Stock Purchase Plan. Had compensation cost for these plans been determined based on the fair value methodology prescribed by FAS 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

(In thousands, except per share data)	1997	1996
<S>	<C>	<C>
Net earnings - as reported	\$69,329	\$40,159
Net earnings - pro forma	\$66,376	\$37,549
Earnings per share diluted - as reported	\$ 1.40	\$ .83
Earnings per share diluted - pro forma	\$ 1.34	\$ .77

</TABLE>

The above pro forma amounts may not be representative of the effects on reported net earnings for future years. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1997 and 1996.

	1997	1996
<S>	<C>	<C>
Dividend yield	1.1%	1.1%
Expected volatility	44.72%	44.32%
Risk-free interest rate	6.38%	6.65%
Expected lives	7.32 years	7.38 years

</TABLE>

Information regarding the Company's stock option plans for 1997, 1996 and 1995 is as follows:

<TABLE>

1997

1996

1995

	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding, beginning	<S>	<C>	<C>	<C>	<C>	<C>
of year	7,024,885	\$9.57	6,833,547	\$9.88	7,943,878	\$13.08
Options exercised	(300,740)	\$11.36	(109,900)	\$6.55	(471,599)	\$7.16
Options granted	1,155,445	\$19.58	968,973	\$13.44	1,474,800	\$15.13
Options canceled/forfeited	(84,868)	\$14.16	(667,735)	\$18.86	(2,113,532)	\$26.20
Options outstanding, end of year	7,794,722	\$10.93	7,024,885	\$9.57	6,833,547	\$9.88
Weighted-average fair value of options, granted during the year		\$10.10		\$7.28		\$8.09
Weighted-average exercise price of options, exercisable at end of year		\$8.65		\$7.98		\$7.87

&lt;/TABLE&gt;

The following table summarizes information about stock options outstanding at December 26, 1997:

&lt;TABLE&gt;

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/26/97	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/26/97	Weighted-Average Exercise Price
<C>	<C>	<C>	<S>	<C>	<C>
\$5.455	3,735,820	1.9 Years	\$ 5.455	3,735,820	\$ 5.455
\$6.750 to \$10.875	175,500	2.4 Years	\$ 8.734	175,500	\$ 8.540
\$11.250 to \$14.875	1,252,380	8.1 Years	\$13.640	457,855	\$13.520
\$15.000	1,445,427	6.6 Years	\$15.000	1,142,821	\$15.000
\$15.063 to \$20.438	1,052,497	9.3 Years	\$20.223	81,184	\$18.610
\$21.140 to \$35.690	133,098	5.8 Years	\$24.647	97,699	\$25.170
\$5.455 to \$35.690	7,794,722			5,690,879	

&lt;/TABLE&gt;

## 15. OTHER DISCLOSURES

Administrative and selling expenses included promotional material and advertising expenses of \$375.6 million, \$413.1 million, and \$488.6 million for 1997, 1996 and 1995, respectively.

Amortization expense relating to the excess of cost over fair value of net assets acquired was \$1.3 million for 1997, \$1.4 million for 1996 and \$1.3 million for 1995. Accumulated amortization was \$11.8 million and \$10.5 million at December 26, 1997 and December 27, 1996, respectively.

Amortization expense relating to customer lists was \$1.4 million for 1997, 1996 and 1995. Accumulated amortization was \$12.6 million and \$11.2 million at December 26, 1997 and December 27, 1996, respectively.

#### 16.SALE OF STOCK BY SUBSIDIARY

In October 1996, Metris, a then wholly owned subsidiary, completed an initial public offering of 3,258,333 of its common shares at \$16 a share. The transaction reduced the Company's ownership interest to approximately 83 percent. Metris realized net cash proceeds of approximately \$47.4 million from the sale of shares, after underwriting discounts and commissions and expenses of the offering. The sale resulted in an increase of approximately \$24.9 million in the Company's proportionate share of Metris' equity, which is included in "Additional paid-in capital" in the Company's Consolidated Statements of Financial Position.

#### 17.CONTINGENCIES

The Company is a party to various claims, legal actions, sales tax disputes and other complaints arising in the ordinary course of business. In the opinion of management, any losses which may occur are adequately covered by insurance, are provided for in the consolidated financial statements, or are without merit and the ultimate outcome of these matters will not have a material effect on the consolidated financial position or operations of the Company.

At December 26, 1997, the Company had unused credit line commitments on its Credit Advantage Card(SM) accounts of \$75.8 million. At December 31, 1997, Metris had unused credit line commitments on open credit card accounts of \$1.2 billion. The Company does not anticipate that all of its customers will exercise this entire available credit at any one time. Commitments on credit card lines are cancelable at any time.

#### 18.SEGMENT OF BUSINESS REPORTING

The operations of the Company are divided into the following business segments for financial reporting purposes:

**Retail:** Sells a broad range of products and services directly to consumers via catalogs, television and other media. The segment's primary subsidiaries consist of Fingerhut, Figi's 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. FNB provides credit for customers' purchases from Fingerhut, in the form of closed-end and revolving credit card loans.

**Financial Services (Metris):** Metris is an information-based direct marketer of consumer credit products, extended service plans and fee-based products and services to moderate income consumers. Currently, the segment operates two core business lines: (1) consumer credit products, which presently consist of credit card lending through various credit card products issued by Direct Merchants Bank and (2) sales of extended service plans to the Company's customers and fee-based products and services, which presently include debt waiver programs, card registration, third-party insurance and membership clubs.

Revenues, earnings before income taxes and minority interest, identifiable assets, capital expenditures and depreciation and amortization pertaining to the business segments in which the Company operates are presented below:

<TABLE>

(In thousands)	1997	1996	1995
----------------	------	------	------

Revenues	<S>	<C>	<C>	<C>
Retail		\$1,519,351	\$1,615,002	\$1,764,792
Metris		284,064	155,434	58,212
Intercompany		(4,798)	(7,571)	(8,151)
		\$1,798,617	\$1,762,865	\$1,814,853
Earnings before income taxes and minority interest				
Retail		\$58,988	\$32,445	\$68,857
Metris		61,883	32,546	7,449
		\$120,871	\$64,991	\$76,306
Identifiable assets				
Retail		\$1,229,501	\$1,224,181	\$1,115,035
Metris		673,221	286,616	174,606
Intercompany		(150,966)	(121,099)	(8,564)
		\$1,751,756	\$1,389,698	\$1,281,077
Capital expenditures				
Retail		\$20,622	\$47,742	\$93,089
Metris		11,705	4,113	1,353
		\$32,327	\$51,855	\$94,442
Depreciation and amortization				
Retail		\$51,392	\$54,960	\$46,976
Metris		5,280	426	127
		\$56,672	\$55,386	\$47,103

</TABLE>

#### 19. SUBSEQUENT EVENTS

On January 22, 1998, the Company declared a cash dividend of \$.04 per share, or an aggregate of \$1.9 million, payable on February 19, 1998 to shareholders of record as of the close of business on February 5, 1998.

Fingerhut Companies, Inc.  
REPORT OF MANAGEMENT

To the Shareholders of Fingerhut Companies, Inc.:

The Company is responsible for the information presented in this annual report. The consolidated financial statements contained herein were prepared in accordance with generally accepted accounting principles and were based on informed judgments and management's best estimates where appropriate. Financial information elsewhere in this annual report is consistent with that contained in the consolidated financial statements.

The Company maintains a system of internal controls designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and transactions are executed in accordance with established procedures. The system of internal controls includes Standards of Ethical Business Conduct, widely communicated to employees, which are designed to require them to maintain high ethical standards in their conduct of Company affairs, written procedures that provide for appropriate evidence of authority and a program of internal audit with management follow-up.

The Company's consolidated financial statements have been audited by KPMG Peat Marwick LLP, independent certified public accountants. Their audit was conducted in accordance with generally accepted auditing standards. As part of their audit of the Company's 1997 consolidated financial statements, our independent accountants considered the Company's internal controls to the extent they deemed necessary to determine the nature, timing and extent of their audit tests.

The Audit Committee of the Board of Directors is composed entirely of independent directors. This Committee supervises and reviews the Company's accounting practices; recommends to the Board the independent auditors; reviews the audit plans, scope, findings, reports and recommendations; and reviews the Company's financial controls, procedures and practices. The independent public accountants and the internal auditors have free access to the Audit Committee without management present.

Theodore Deikel  
Chairman of the Board,  
Chief Executive Officer and President

Peter G. Michielutti  
Executive Vice President and  
Chief Operating Officer

Gerald T. Knight  
Senior Vice President and  
Chief Financial Officer

#### INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Fingerhut  
Companies, Inc.:

We have audited the accompanying consolidated statements of financial position of Fingerhut Companies, Inc. and subsidiaries (the "Company") as of December 26, 1997 and December 27, 1996 and the related consolidated statements of earnings, changes in stockholders' equity and cash flows for each of the fiscal years in the three-year period ended December 26, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fingerhut Companies, Inc. and subsidiaries as of December 26, 1997 and December 27, 1996, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended December 26, 1997 in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Minneapolis, Minnesota

January 21, 1998

<TABLE>

Fingerhut Companies, Inc.

Quarterly Financial and Stock Data (unaudited)

Quarterly Financial -  
Fiscal Year

1997

Summaries

(In thousands, except  
per share data)

	First	Second	Third	Fourth	Total
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	\$350,014	\$396,215	\$403,041	\$649,347	\$1,798,617
Gross Margin	\$143,243	\$163,288	\$164,993	\$324,613	\$796,137
Net earnings	\$2,561	\$9,909	\$12,993	\$43,866	\$69,329
Earnings per share:					
Basic	\$ .06	\$ .22	\$ .28	\$ .95	\$ 1.50
Diluted	\$ .05	\$ .20	\$ .26	\$ .88	\$ 1.40

</TABLE>

<TABLE>

1996

	First	Second	Third	Fourth	Total
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	\$358,092	\$385,961	\$383,891	\$634,921	\$1,762,865
Gross Margin	\$160,192	\$168,364	\$170,769	\$323,121	\$822,446
Net (loss) earnings	\$ (2,051)	\$2,145	\$8,565	\$31,500	\$40,159
(Loss) earnings per share:					
Basic	\$ (.04)	\$ .05	\$ .19	\$ .68	\$ .87
Diluted	\$ (.04)	\$ .04	\$ .18	\$ .65	\$ .83

</TABLE>

The Company's common stock is traded under the symbol "FHT" on the New York Stock Exchange. As of February 28, 1998, there were 568 holders of record of the Company's common stock.

<TABLE>

1997

	First	Second	Third	Fourth	Total
Common stock price:					
<S>	<C>	<C>	<C>	<C>	<C>
High	\$15-7/8	\$18-1/8	\$23	\$23-1/2	\$23-1/2
Low	\$11-3/4	\$13-1/4	\$17-1/8	\$18-13/16	\$11-3/4
Dividends paid	\$ .04	\$ .04	\$ .04	\$ .04	\$ .16

</TABLE>

<TABLE>

1996

	First	Second	Third	Fourth	Total
Common stock price:					
<S>	<C>	<C>	<C>	<C>	<C>
High	\$15-1/8	\$ 17-1/8	\$16	\$14-7/8	\$17-1/8
Low	\$12-1/8	\$ 12-3/8	\$12-3/4	\$11-1/4	\$11-1/4
Dividends paid	\$ .04	\$ .04	\$ .04	\$ .04	\$ .16

</TABLE>

Dividend Policy The Company intends to pay regular quarterly cash dividends and expects to retain a substantial portion of its net earnings to fund future growth. The declaration and payment of dividends will be subject to the discretion of the Board of Directors, and there can be no assurance that any dividends will be paid in the future. In determining whether to pay dividends (as well as the amount and timing thereof), the Board of

Directors will consider a number of factors including the Company's results of operations, financial condition, future capital requirements and any applicable restrictive provisions in any financing agreements. See Note 7 for dividend restrictions.

SCHEDULE II

FINGERHUT COMPANIES, INC. AND SUBSIDIARIES  
 VALUATION AND QUALIFYING ACCOUNTS  
 FOR THE YEARS ENDED DECEMBER 26, 1997; DECEMBER 27, 1996;  
 AND DECEMBER 25, 1995  
 (In thousands of dollars)

Description	Balance at beginning of period	Additions charged to cost, expenses, revenues	Deductions	Balance at end of period
Accounts receivable reserves:				
1997	\$166,449	\$810,286	\$806,961 (a)	\$169,775
1996	\$144,680	\$845,595	\$823,826 (a)	\$166,449
1995	\$113,383	\$851,229	\$819,932 (a)	\$144,680
Inventory reserves:				
1997	\$ 18,620	\$ 24,664	\$ 27,034 (b)	\$ 16,258
1996	\$ 12,303	\$ 28,175	\$ 21,858 (b)	\$ 18,620
1995	\$ 18,102	\$ 22,756	\$ 28,555 (b)	\$ 12,303

(a) Primarily represents reductions in the reserves for actual returns and exchanges, allowances, uncollectible amounts (net of recoveries) and collection costs. And also, includes the reserves related to the accounts receivable sold under the Fingerhut Master Trust, the Metris Master Trust, third party conduits, and the Receivables Transfer Agreement.

(b) Primarily represents inventory sold to liquidators and returned to vendors.

Independent Auditors' Report

The Board of Directors and Stockholders  
 Fingerhut Companies, Inc.

Under date of January 21, 1998, we reported on the consolidated statements of financial position of Fingerhut Companies, Inc. and subsidiaries as of December 26, 1997 and December 27, 1996, and the related consolidated statements of earnings, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 26, 1997, as contained in the 1997 annual report to stockholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1997. In connection with our audits of the aforementioned consolidated financial statements, we have also audited the related financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statements schedule, when considered in relation to the basic consolidated financial



statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG Peat Marwick LLP

Minneapolis, Minnesota  
January 21, 1998

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

Name	State of Incorporation
Andy's Garage Sale, Inc.	Minnesota
Customer Communications Center, Inc.	Minnesota
Figi's Inc.	Wisconsin
Fingerhut Corporation	Minnesota
Distribution Specialists, Inc.	Minnesota
FFS Holdings, Inc.	Minnesota
Fingerhut Funding Co.	Delaware
Metris Companies Inc.(83%)	Delaware
Direct Merchants Credit Card Bank, National Association	National Banking Association
Metris Direct, Inc.	Minnesota
Metris Receivables, Inc.	Delaware
Fingerhut Company Store, Inc.	Minnesota
Wiman Corporation	Minnesota
Fingerhut National Bank	National Banking Association
Fingerhut Receivables, Inc.	Delaware
Infochoice USA, Inc.	Minnesota
USA Direct/Guthy-Renker, Inc.(50%)	Minnesota
Minnesota Telemarketing, Inc.	Minnesota
Tennessee Distribution, Inc.	Minnesota
Tennessee Telemarketing, Inc.	Minnesota
Western Distribution, Inc.	Minnesota

The above list omits the names of certain subsidiaries that, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 26, 1997.

Consent of Independent Certified Public Accountants

The Board of Directors  
Fingerhut Companies, Inc.:

We consent to incorporation by reference in the registration statements (No. 33-38988, 333-03005, 333-28501, 333-45781, 333-43013 and 333-42947) on Form S-8 of Fingerhut Companies, Inc. and subsidiaries of our reports dated January 21, 1998 relating to the consolidated statements of financial position of Fingerhut Companies, Inc. as of December 26, 1997 and December 27, 1996 and the related consolidated statements of earnings, changes in stockholders' equity and cash flows and the related financial statement schedule for each of the years in the three-year period ended December 26, 1997, which reports appear in or are incorporated by reference in the December 26, 1997 annual report on Form 10-K of Fingerhut Companies, Inc.

KPMG Peat Marwick LLP

Minneapolis, Minnesota  
March 25, 1998

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This schedule contains summary financial information extracted from the consolidated financial statements of Fingerhut Companies, Inc. for the fiscal year ended December 26, 1997 and is qualified in its entirety by reference to such financial statements.

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This schedule contains summary financial information extracted from the consolidated financial statements of Fingerhut Companies, Inc. for the fiscal years ended December 29, 1995 and December 27, 1996 and the fiscal quarters ended March 29, 1996, June 28, 1996 and September 27, 1996 and is qualified in its entirety by reference to such financial statements.

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<PP&E>	409,526	460,162	433,057	440,643	449,833
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<CURRENT-LIABILITIES>	556,163	459,943	550,315	477,873	418,383
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<COMMON>	459	462	464	462	462
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<SALES>	1,793,727	1,652,869	329,554	688,388	1,034,832
<TOTAL-REVENUES>	1,814,853	1,762,865	358,092	744,053	1,127,944
<CGS>	892,736	830,423	169,362	359,832	535,507
<TOTAL-COSTS>	1,712,604	1,669,461	353,971	729,320	1,092,647
<OTHER-EXPENSES>	0	980	0	0	0
<LOSS-PROVISION>	110,922	130,561	27,772	54,656	83,074
<INTEREST-EXPENSE>	25,943	28,413	7,337	14,585	21,719
<INCOME-PRETAX>	76,306	64,011	(3,216)	148	13,578
<INCOME-TAX>	25,448	23,852	(1,165)	548	4,919
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<NET-INCOME>	50,858	40,159	(2,051)	94	8,659
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This schedule contains summary financial information extracted from the consolidated financial statements of Fingerhut Companies, Inc. for the fiscal quarters ended March 28, 1997, June 27, 1997 and September 26, 1997 and is qualified in its entirety by reference to such financial statements.

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<INVENTORY>	131,916	129,458	173,179
<CURRENT-ASSETS>	1,075,642	1,018,621	1,179,954
<PP&E>	464,832	469,438	481,290
<DEPRECIATION>	186,227	197,304	208,980
<TOTAL-ASSETS>	1,425,168	1,361,708	1,560,175
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<COMMON>	462	460	462
<OTHER-SE>	605,559	612,446	626,420
<TOTAL-LIABILITY-AND-EQUITY>	1,425,168	1,361,708	1,560,175
<SALES>	289,537	630,263	954,037
<TOTAL-REVENUES>	350,014	746,229	1,149,270
<CGS>	146,294	323,732	482,513
<TOTAL-COSTS>	335,377	703,940	1,074,270
<OTHER-EXPENSES>	1,427	3,071	4,857
<LOSS-PROVISION>	32,046	58,628	90,691
<INTEREST-EXPENSE>	8,281	17,084	25,842
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<NET-INCOME>	2,561	12,470	25,463
<EPS-PRIMARY>	.06	.27	.55
<EPS-DILUTED>	.05	.25	.52

</TABLE>



CAUTIONARY STATEMENT  
REGARDING FORWARD-LOOKING STATEMENTS

Fingerhut Companies, Inc. (the "Company") desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is filing this cautionary statement in connection with such safe harbor legislation. The Company's Form 10-K, the Company's Annual Report to Shareholders, any Form 10-Q or Form 8-K filed by the Company or any other written or oral statements made by or on behalf of the Company may also include forward-looking statements that reflect the Company's current views with respect to future events and financial performance. The words "believe," "expect," "anticipate," "intends," "estimate," "forecast," "project" and similar expressions identify forward-looking statements.

The Company wishes to caution investors that any forward-looking statements made by or on behalf of the Company are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other factors include, but are not limited to the factors listed below (many of which have been discussed in the Company's prior filings with the Securities and Exchange Commission). Though the Company has attempted to list comprehensively these important factors, the Company wishes to caution investors that other factors may in the future prove to be important in affecting the Company's results of operations and financial condition. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Investors are further cautioned not to place undue reliance on such forward-looking statements as they speak only of the Company's views as of the date the statement was made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Importance of Fourth Quarter; Fluctuations in Quarterly Operating Results

The Company's business is subject to seasonal variations in demand that the Company believes are generally associated with the direct marketing and retail industries. Historically, the

Company has realized a significant portion of its sales and net earnings during the fourth quarter. Over the past several years, the Company has observed that customers waited until later in the fourth quarter to order merchandise from the Company's catalogs, following a trend that has affected the retail industry as a whole. The Company's annual results could be adversely affected if the Company's sales were to be substantially below seasonal norms during the fourth quarter of any year. In addition to seasonal variations, the Company experiences variances in quarterly results from year to year that result from changes in the timing of its promotions and the types of customers and products promoted and, to some extent, variations in dates of holidays and the timing of quarter ends.

#### Holding Company Structure; Effective Subordination

The Company is a holding company and substantially all of its consolidated assets are held by its subsidiaries. Accordingly, the cash flow of the Company and the consequent ability to service its debt, are dependent upon the earnings of such subsidiaries. Furthermore, the Company's rights, and the rights of its creditors, to participate in the assets of any subsidiary upon the subsidiary's liquidation or reorganization will be subject to the prior claims of such subsidiary's creditors, except to the extent that the Company may itself be a creditor with recognized claims against the subsidiary, in which case the claims of the Company would still be effectively subordinate to any security interest in, or mortgages or other liens on, the assets of such subsidiary and would be subordinate to any indebtedness of such subsidiary senior to that held by the Company. The Company may borrow up to \$200 million under its existing amended credit facility. All of the available \$200 million under this credit facility is guaranteed by Fingerhut Corporation ("Fingerhut"). At the present time, Metris Companies Inc. ("Metris"), an 83% owned subsidiary of the Company, may borrow up to \$300 million under its revolving credit facility. Should the Spin Off occur, it is expected that this guarantee will be released on or before the Spin Off. All of the available \$300 million under this facility is also guaranteed by Fingerhut. In addition, as of December 26, 1997, the Company had outstanding \$245 million aggregate principal amount of outstanding senior notes, which are also guaranteed by Fingerhut and Metris had outstanding \$100 million aggregate principal amount of outstanding senior notes, which are guaranteed by a subsidiary of Metris.

The Company announced in October 1997 that its Board of Directors had approved the filing of an application with the Internal Revenue Service (the "IRS") for a ruling on a tax-free distribution to shareholders of the Company of all of the Company's ownership in Metris (the "Spin-Off"). The Company filed the ruling request with the IRS on October 23, 1997. The proposed Spin Off, anticipated in 1998, is subject to approval of the Company's Board of Directors and the receipt of a ruling from the IRS, and

is subject to market conditions. There can be no assurance that the Spin Off will be consummated. Should the Spin Off not occur, other actions such as the Company's sale of Metris shares in the open market and/or Metris' issuance of additional shares via a public offering will be considered.

#### Increases in Postal, Paper and Freight Costs

The Company mails its catalogs and ships most of its merchandise through the United States Postal Service. The Company anticipates that postage costs will increase in 1998, however, the amount of such increase and the implementation date is currently unknown. Additional increases in postal rates or paper costs may have a material adverse impact on the Company's results of operations to the extent that the Company is unable to offset such increase by raising selling prices or by implementing more efficient mailing, delivery and order fulfillment systems. Increases in fuel costs could also adversely affect the Company's costs of incoming and outgoing freight.

#### Funding and Securitization Considerations

The Company depends heavily upon the securitization of its subsidiaries' accounts receivable and credit card loans to fund its operations and to date has been able to complete securitization transactions on terms that it believes are favorable. There can be no assurance, however, that the securitization market will continue to offer attractive funding alternatives. In addition, the Company's ability to securitize the assets of its subsidiaries depends on the continued availability of credit enhancement on acceptable terms and the continued favorable legal, regulatory, accounting and tax environment for securitization transactions. While the Company does not at present foresee any significant problems in any of these areas, any such adverse change could force the Company to rely on other potentially more expensive funding sources. Adverse changes in the performance of the securitized assets of the Company's subsidiaries, including increased delinquencies and losses, could result in a downgrade or withdrawal of the ratings on the outstanding certificates under these securitization transactions or cause early amortization of such certificates. This could jeopardize the ability of the Company's subsidiaries to effect other securitization transactions on acceptable terms, thereby decreasing the Company's liquidity and forcing the Company to rely on other funding sources to the extent available. The Company's financial statements reflect the treatment of securitization transactions as sales for accounting purposes under FAS125. Any change in such accounting treatment could have a material effect on the Company's financial statements.

## Consumer Spending

The Company is not immune to the cyclical nature of consumer spending and payments. The success of the Company's operations depends upon a number of economic conditions affecting disposable consumer income such as employment, business conditions, interest rates and taxation. Adverse changes in these economic conditions may restrict consumer spending. There can be no assurance that weak economic conditions or changes in the retail environment or other economic factors that have an impact on the level of consumer spending would not have a material adverse impact on the Company. In addition, the Company's business depends on customer response to its solicitations and marketing programs. A material decrease in response levels would have a significant impact on profitability.

## Credit Risks

The Company is subject to all of the risks associated with unsecured credit transactions, including (1) the risk of increasing delinquencies and credit losses during economic downturns, (2) the risk that an increasing number of customers will default on the payment of their outstanding balances or seek protection under bankruptcy laws, resulting in accounts being charged off as uncollectible, (3) the risk of fraud and (4) in the case of revolving credit accounts, the risk that increases in discretionary repayment of account balances by customers will result in diminished finance charges or other income. Also, general economic factors, such as the rate of inflation, unemployment levels and interest rates may affect the Company's target market customers (moderate income consumers) more severely than other market segments. In addition, approximately 42% of Metris' credit card portfolio, as of the date hereof, consists of accounts that have been generated in the last 18 months and over 19% were originated within the last 6 months. As a result, there can be no assurance as to the levels of delinquencies and losses that can be expected over time with respect to such portfolio. Until the accounts become seasoned, it is likely that the levels of delinquencies and losses will increase as the average age of Metris' accounts increases. Any material increases in delinquencies and losses above management's expectations would have a material adverse impact on the Company's results of operations and financial condition.

## Interest Rate Risk

Fingerhut National Bank's closed-end credit card loans and Fingerhut's remaining closed-end installment sales contracts are fixed-priced, fixed-term contracts. Fingerhut National Bank's revolving credit card accounts currently have finance charge rates of prime plus 16.4 percent. The Company intends to manage interest

rate risk through asset and liability management. Fluctuations in interest rates may adversely affect the Company's cost of funds.

## Regulatory Matters

The Company's business is subject to regulation by a variety of state and federal laws and regulations related to advertising, offering and extending credit, charging and collecting state sales/use taxes and product safety. The Company's practices in certain of these areas are subject to periodic inquiries and proceedings by various regulatory agencies. None of these actions has had a material adverse effect upon the Company. While the Company believes it is in material compliance with all such laws and regulations, if the Company is found not to be in compliance with any such laws and regulations, it could become subject to cease and desist orders, injunctive proceedings, obligations to collect additional sales and use taxes, obligations for prior uncollected sales and use taxes, civil fines and other penalties. The occurrence of any of the foregoing could adversely affect the Company's results of operations and financial condition.

Until January 1997, Fingerhut extended credit for its customers purchases. Fingerhut relied on the Minnesota "time-price" doctrine in establishing and collecting installment payments on products sold in many states. Under this doctrine, the difference between the time price and cash price for the same goods is not treated as interest subject to regulation under laws governing the extension of credit. Certain individuals who purchased goods from Fingerhut filed suit challenging the applicability of the time-price doctrine to Fingerhut's business.

Direct Merchants Credit Card Bank, National Association ("Direct Merchants Bank") and Fingerhut National Bank are subject to numerous federal and state consumer protection laws that impose requirements related to offering and extending credit. The United States Congress and the states may enact laws and amendments to existing laws to regulate further the credit card industry or to reduce finance charges or other fees or charges applicable to credit card and other consumer revolving loan accounts. Such laws, as well as any new laws or rulings that may be adopted, may adversely affect the ability of Direct Merchants Bank and Fingerhut National Bank to collect on account balances or maintain previous levels of periodic rate finance charges and other fees and charges with respect to the accounts. Any failure by the Company to comply with such legal requirements also could adversely affect its ability to collect the full amount of the account balances. Fingerhut National Bank and Direct Merchants Bank are also subject to regulation by the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency. Such regulations include limitations on the extent to which Fingerhut National Bank or Direct

Merchants Bank can finance or otherwise supply funds to their respective affiliates through dividends, loans or otherwise.

Changes in federal and state bankruptcy and debtor relief laws also could adversely affect the Company if such changes result in, among other things, additional administrative expenses and accounts being written off as uncollectible.

#### Foreign Suppliers

Fingerhut purchases, directly or indirectly, a significant portion (approximately 46% in fiscal 1997) of its merchandise from foreign suppliers. Although substantially all of the Company's foreign purchases are denominated in U.S. dollars, the Company is subject to the risks of doing business abroad, including increases in import duties, decreases in quotas, adverse fluctuations in currency exchange rates, increased customs regulations and political turmoil. The occurrence of any of the foregoing could adversely affect the Company's earnings.

#### Competition

The direct marketing industry includes a wide variety of specialty and general merchandise retailers and is both highly fragmented and highly competitive. The Company's Direct-to-the Consumer Marketing segment sells its products to customers in all states of the United States and competes in the purchase and sale of merchandise with all retailers, including general and specialty catalog marketers, television shopping marketers, retail department stores, discount department stores and variety stores, many of which are national chains. The loss of any significant portion of the Company's market share to other retailers could adversely affect the Company's earnings.

As a marketer of consumer credit products, Metris faces increasing competition from numerous providers of financial services, many of which have greater resources than Metris. In particular, Metris' credit card business competes with national, regional and local bank card issuers as well as issuers of other general purpose credit cards, such as American Express, Discover Card and Diners Club. Many of these issuers are substantially larger and have more seasoned credit card portfolios than the Company and often compete for customers by offering lower interest rates or fee levels. In general, customers are attracted to credit card issuers largely on the basis of price, credit limit and other product features and customer loyalty is often limited.