

BLUESTEM BRANDS, INC.*Consolidated Statements of Operations and Selected Operating Data*

(unaudited — in thousands, except average order size)

	13 Weeks Ended		
	May 2, 2014	May 3, 2013	Change ^(a)
Net sales	\$ 171,251	\$ 130,731	31.0 %
Cost of sales	98,753	71,933	37.3 %
Gross profit	72,498	58,798	23.3 %
Sales and marketing expenses	37,211	35,985	3.4 %
Net credit expense (income)	(12,706)	(1,556)	716.6 %
General and administrative expenses	36,932	28,725	28.6 %
Loss from derivatives in our own equity ^(b)	-	177,289	n/m
Loss on early extinguishment of debt	-	3,541	n/m
Interest expense, net ^(c)	4,636	8,512	(45.5)%
Income (loss) before income taxes	6,425	(193,698)	(103.3)%
Income tax expense (benefit)	2,305	(5,726)	(140.3)%
Net income (loss)	\$ 4,120	\$ (187,972)	(102.2)%

Margins and Expenses as a Percentage of Net Sales:

Gross profit rate	42.3 %	45.0 %	(264) bp
Contribution Margin ^(d)	\$ 47,993	\$ 24,369	96.9%
As a percentage of net sales	28.0 %	18.6 %	938 bp
General and administrative expenses	21.6 %	22.0 %	(41) bp
Net income (loss) before loss from derivatives in our equity ^(d)	\$ 4,120	\$ (10,683)	(138.6%)
As a percentage of net sales	2.4 %	(8.2)%	1,058 bp
Adjusted EBITDA ^(d)	\$ 22,339	\$ 1,416	1477.6%
As a percentage of net sales	13.0 %	1.1 %	1,196 bp
Adjusted pro forma EBITDA ^(d)	\$ 6,115	\$ 134	4463.4%
As a percentage of net sales	3.6 %	0.1 %	347 bp

Selected Operating Data:

Revolving new customer credit accounts ^(e)	138	120	15.0%
FreshStart new customer credit accounts ^(e)	49	63	(22.1%)
Active accounts ^(f)	1,473	1,382	6.6%
Average order size ^(g)	\$ 214	\$ 198	8.0%
Percentage of orders placed online ^(h)	62 %	56 %	584 bp

(a) Changes in rates are presented as the basis point (bp) increase (decrease) from the prior period.

(b) We had derivative liabilities relating to certain of our common stock warrants, preferred stock warrants, embedded derivatives in preferred stock, and a contingent fee agreement. These derivative liabilities were recorded at their estimated fair value at each balance sheet date. Changes in fair value were reflected in the consolidated statement of operations as losses from derivatives in our own equity.

(c) Interest expense net of interest income.

(d) Please refer to the "Non-GAAP Financial Measures" within this release for a reconciliation of non-GAAP financial measures to GAAP and why we believe these are important measures of our performance.

(e) Customers that have made their initial order on account during the fiscal period presented.

(f) Customers that have made at least one purchase on account within the previous twelve fiscal months and at least one payment on account since origination.

(g) Average order size represents retail merchandise sales including shipping and handling revenue divided by the number of merchandise orders fulfilled during the fiscal period presented.

(h) Number of online orders as a percentage of all orders taken during the fiscal period presented.

BLUESTEM BRANDS, INC.
Condensed Consolidated Balance Sheets
 (unaudited — in thousands)

	<u>May 2, 2014</u>	<u>January 31, 2014</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 85,354	\$ 132,388
Restricted cash	14,968	7,065
Customer accounts receivable — net of allowance for doubtful accounts of \$20,023 and \$37,101, respectively	29,407	36,406
Merchandise inventories	83,674	68,151
Promotional material inventories	19,107	15,362
Prepaid expenses and other assets	<u>22,332</u>	<u>28,598</u>
Total current assets	254,842	287,970
Property and equipment, net	39,341	37,063
Deferred charges and other assets	<u>10,020</u>	<u>8,803</u>
Total Assets	<u>\$ 304,203</u>	<u>\$ 333,836</u>
Liabilities and Shareholders' Deficit		
Current liabilities:		
Accounts payable	\$ 79,235	\$ 71,572
Accrued costs and other liabilities	52,018	72,897
Short-term debt	<u>5,209</u>	<u>27,979</u>
Total current liabilities	136,462	172,448
Long-term debt	197,144	198,280
Other long-term liabilities	10,874	8,653
Shareholders' deficit:		
Series B convertible preferred stock	1,308	469
Series A convertible preferred stock	2,459	872
Additional paid-in capital	140,808	142,086
Accumulated deficit	<u>(184,852)</u>	<u>(188,972)</u>
Total shareholders' deficit	<u>(40,277)</u>	<u>(45,545)</u>
Total Liabilities and Shareholders' Deficit	<u>\$ 304,203</u>	<u>\$ 333,836</u>

BLUESTEM BRANDS, INC.
Supplemental Financial Information
(unaudited — in thousands)

	13 Weeks Ended				Change
	May 2, 2014		May 3, 2013		
Sales by merchandise category:					
Home	\$ 81,119	45.6%	\$ 66,129	48.7%	22.7 %
Entertainment	69,201	38.9%	50,130	36.9%	38.0 %
Fashion	27,604	15.5%	19,614	14.4%	40.7 %
Total merchandise sales ^(a)	<u>177,924</u>	<u>100.0%</u>	<u>135,873</u>	<u>100.0%</u>	30.9 %
Returns and allowances	(10,602)		(8,249)		28.5 %
Commissions	3,929		3,107		26.5 %
Net sales	<u>\$ 171,251</u>		<u>\$ 130,731</u>		31.0 %

	13 Weeks Ended		
	May 2, 2014	May 3, 2013	Change
Net credit expense (income):			
Finance charge and fee income	\$ 5,322	\$ (69,058)	(107.7)%
(Benefit) provision for doubtful accounts	(7,373)	55,553	(113.3)%
Credit management costs	16,368	11,967	36.8 %
Portfolio profit sharing and servicing fee income	(27,023)	(18)	n/m
Net credit expense (income)	<u>\$ (12,706)</u>	<u>\$ (1,556)</u>	716.6 %

Serviced Portfolio Selected Credit Data:

Customer accounts receivable	\$ 1,007,869	\$ 819,037
Balances 30+ days delinquent ^(b)	\$ 164,638	\$ 136,148
Balances 30+ days delinquent as a percentage of total customer accounts receivable ^(c)	16.3 %	16.6 %
Average customer accounts receivable	\$ 1,027,858	\$ 843,253
Annualized finance charge and fee income as a percentage of average customer accounts receivable ^(d)	29.4 %	32.9 %
Net principal charge-offs	\$ 40,194	\$ 29,649
Annualized net principal charge-offs as a percentage of average customer accounts receivable ^(d)	15.6 %	14.1 %

(a) Total merchandise sales includes shipping and handling revenue and is net of sales discounts.

(b) Delinquent balances as of the customers' statement cycle dates prior to or on fiscal period end.

(c) Delinquent balances as of the customers' statement cycle dates prior to or on fiscal period end as a percentage of total customer accounts receivable as of the customers' statement cycle dates prior to or on fiscal period end.

(d) Finance charge and fee income and net principal charge-offs each as a percentage of average customer accounts receivable for the 13 weeks ended May 2, 2014 and May 3, 2013 have been annualized to 52-week periods for comparability.

BLUESTEM BRANDS, INC.
Non-GAAP Financial Measures
(unaudited — in thousands)

To supplement the consolidated financial statements of Bluestem Brands, Inc. and its subsidiaries which are presented in accordance with U.S. Generally Accepted Accounting Principles, or GAAP, we use the following non-GAAP measures:

Contribution Margin, as we present it, is defined as net sales less cost of sales, sales and marketing expenses and net credit expense (income). Contribution Margin represents the combined performance of merchandising, marketing and credit management activities.

Net income (loss) before loss from derivatives in our own equity, defined as GAAP net income (loss) adjusted for the non-cash loss from derivatives in our own equity. We no longer have derivatives in our own equity.

Adjusted EBITDA, as we present it, represents net income (loss) before interest expense, income tax expense (benefit), depreciation and amortization expense, stock-based compensation expense, dividend equivalent expense, loss from derivatives in our own equity, loss on early extinguishment of debt, gain on disposal of assets, acquisition transaction costs, specified litigation matters, and certain financing costs. Specified litigation matters are certain litigation contingencies that existed as of the November 7, 2014 acquisition of Bluestem by Capmark that are subject to limited indemnification by Bluestem's former shareholders.

Adjusted pro forma EBITDA, as we present it, represents net income (loss) assuming that the Santander Consumer USA Inc. ("SCUSA") credit financing arrangement had been in place and all revolving customer accounts receivable were sold to SCUSA prior to the 2013 fiscal year before interest expense, income tax expense (benefit), depreciation and amortization expense, stock-based compensation expense, dividend equivalent expense, loss from derivatives in our own equity, loss on early extinguishment of debt, gain on disposal of assets, acquisition transaction costs, specified litigation matters, and certain financing costs. In April 2013, the Company entered into a new strategic relationship with SCUSA, under which the Company would sell all newly originated Fingerhut and Gettington revolving credit receivables to SCUSA at par on the same business day as its purchase from WebBank and shares the profit on the receivables with SCUSA.

We provide these measures because we believe they are useful to investors in evaluating our operating performance (while giving affect to the SCUSA transaction) compared to other companies in our industry as it assists in analyzing and benchmarking the performance and value of our business. Non-GAAP measures should be considered along with the GAAP financial presentation and should not be considered in isolation or as a substitute for GAAP net income attributable to Bluestem Brands. In addition, our calculations of Contribution Margin, net income (loss) before loss from derivatives in our own equity, Adjusted EBITDA, and Adjusted pro forma EBITDA may not be comparable to the calculations of such measures by other companies.

The following table reconciles our Contribution Margin to the nearest GAAP performance measure, which is net income (loss):

	13 Weeks Ended	
	May 2, 2014	May 3, 2013
Contribution Margin:		
Net income (loss)	\$ 4,120	\$ (187,972)
Income tax expense (benefit)	2,305	(5,726)
Interest expense, net	4,636	8,512
Loss on early extinguishment of debt	-	3,541
Loss from derivatives in our own equity	-	177,289
General and administrative expenses	36,932	28,725
Contribution Margin	<u>\$ 47,993</u>	<u>\$ 24,369</u>

The following table reconciles our net income (loss) before loss from derivatives in our own equity to the nearest GAAP performance measure, which is net income (loss):

	13 Weeks Ended	
	May 2, 2014	May 3, 2013
Net income (loss) before loss from derivatives in our own equity:		
Net income (loss)	\$ 4,120	\$ (187,972)
Loss from derivatives in our own equity	-	177,289
Net income (loss) before loss from derivatives in our own equity	<u>\$ 4,120</u>	<u>\$ (10,683)</u>

BLUESTEM BRANDS, INC.*Non-GAAP Financial Measures***(unaudited — in thousands)***Adjusted EBITDA*

The following table reconciles our Adjusted EBITDA to the nearest GAAP performance measure, which is net income (loss):

	13 Weeks Ended	
	May 2, 2014	May 3, 2013
Adjusted EBITDA:		
Net income (loss)	\$ 4,120	\$ (187,972)
Interest expense	4,643	8,513
Income tax expense	2,305	(5,726)
Depreciation and amortization expense	3,663	3,223
Stock-based compensation expense	722	522
Dividend equivalent expense	3,160	-
Loss from derivatives in our own equity	-	177,289
Loss on early extinguishment of debt	-	3,541
Gain on disposal of assets	-	(76)
Acquisition transaction costs	1,549	-
Specified litigation matters	2,017	1,816
Certain financing costs	160	286
Adjusted EBITDA	<u>\$ 22,339</u>	<u>\$ 1,416</u>

BLUESTEM BRANDS, INC.*Non-GAAP Financial Measures*

(unaudited — in thousands)

Adjusted pro forma EBITDA

The following tables compare our Adjusted EBITDA to Adjusted pro forma EBITDA:

	13 weeks ended May 2, 2014		13 weeks ended May 3, 2013	
	Adjusted EBITDA	Adjusted pro forma EBITDA	Adjusted EBITDA	Adjusted pro forma EBITDA
Net sales ^(a)	\$ 171,251	\$ 171,251	\$ 130,731	\$ 130,731
Cost of sales	98,753	98,753	71,933	71,933
Gross profit ^(a)	72,498	72,498	58,798	58,798
Sales and marketing expenses ^(b)	37,211	37,211	35,985	36,137
Net credit expense (income):				
Finance charge and fee income ^(c)	5,322	(1,729)	(69,058)	(2,363)
(Benefit) provision for doubtful accounts ^(c)	(7,373)	3,265	55,553	6,889
Credit management costs	16,368	16,368	11,967	12,103
Servicing income ^(d)	(4,807)	(4,983)	(18)	(4,078)
Profit sharing ^(d)	(22,216)	(9,641)	-	(12,977)
Net credit expense (income)	(12,706)	3,280	(1,556)	(426)
General and administrative expenses	36,932	36,932	28,725	28,725
Loss from derivatives in our own equity	-	-	177,289	177,289
Loss on early extinguishment of debt	-	-	3,541	3,541
Interest expense, net	4,636	4,636	8,512	8,512
Income (loss) before income taxes ^(e)	6,425	(9,561)	(193,698)	(194,980)
Interest expense	4,643	4,643	8,513	8,513
Depreciation and amortization expense ^(f)	3,663	3,425	3,223	3,223
Stock-based compensation expense	722	722	522	522
Dividend equivalent expense	3,160	3,160	-	-
Loss from derivatives in our own equity	-	-	177,289	177,289
Loss on early extinguishment of debt	-	-	3,541	3,541
Gain on disposal of assets	-	-	(76)	(76)
Acquisition transaction costs	1,549	1,549	-	-
Specified litigation matters	2,017	2,017	1,816	1,816
Certain financing costs	160	160	286	286
Adjusted EBITDA	\$ 22,339	\$ 6,115	\$ 1,416	\$ 134
Adjusted EBITDA % of net sales	13.0%	3.6%	1.1%	0.1%

(a) No change in net sales or gross profit

(b) Sales and marketing expenses increase in the prior year due to the inclusion of SCUSA interchange fees

(c) Finance charge and fee income and (benefit) provision for doubtful accounts shifted to SCUSA for all revolving receivables. We retain finance charge and fee income and (benefit) provision for doubtful accounts for retained receivables (FreshStart and PayCheck Direct)

(d) We receive 2% servicing fee and profit share (based on Risk Adjusted Margin ("RAM")) from SCUSA

(e) Income (loss) before income taxes decrease from the shift of net credit revenue and provision to SCUSA

(f) Depreciation and amortization decrease due to elimination of amortization of deferred SCUSA transaction related expenses