

BLUESTEM BRANDS, INC.
Consolidated Statements of Operations and Selected Operating Data
(unaudited — in thousands, except average order size)

	13 Weeks Ended		
	August 1, 2014	August 2, 2013	Change ^(a)
Net sales	\$ 230,474	\$ 166,808	38.2 %
Cost of sales	132,853	94,423	40.7 %
Gross profit	97,621	72,385	34.9 %
Sales and marketing expenses	42,991	38,868	10.6 %
Net credit expense (income)	174	(4,553)	(103.8)%
General and administrative expenses	34,691	30,069	15.4 %
Loss on early extinguishment of debt	-	126	n/m
Interest expense, net ^(b)	4,364	5,361	(18.6)%
Income before income taxes	15,401	2,514	512.6 %
Income tax expense	5,510	928	493.8 %
Net income	<u>\$ 9,891</u>	<u>\$ 1,586</u>	523.6 %
Margins and Expenses as a Percentage of Net Sales:			
Gross profit rate	42.4 %	43.4 %	(104) bp
Contribution Margin ^(c)	\$ 54,456	\$ 38,070	43.0%
As a percentage of net sales	23.6 %	22.8 %	81 bp
General and administrative expenses	15.1 %	18.0 %	(297) bp
Adjusted EBITDA ^(c)	\$ 29,402	\$ 14,098	108.6%
As a percentage of net sales	12.8 %	8.5 %	431 bp
Adjusted pro forma EBITDA ^(c)	\$ 26,659	\$ 8,608	209.7%
As a percentage of net sales	11.6 %	5.2 %	641 bp
Selected Operating Data:			
Revolving new customer credit accounts ^(d)	153	122	25.5%
FreshStart new customer credit accounts ^(d)	47	39	21.0%
Active accounts ^(e)	1,519	1,382	9.9%
Average order size ^(f)	\$ 232	\$ 216	7.5%
Percentage of orders placed online ^(g)	63 %	59 %	463 bp

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

(b) Interest expense net of interest income.

(c) 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.

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

(e) 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.

(f) 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.

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

BLUESTEM BRANDS, INC.
Consolidated Statements of Operations and Selected Operating Data
(unaudited — in thousands, except average order size)

	26 Weeks Ended		
	August 1, 2014	August 2, 2013	Change ^(a)
Net sales	\$ 401,725	\$ 297,539	35.0 %
Cost of sales	231,606	166,356	39.2 %
Gross profit	170,119	131,183	29.7 %
Sales and marketing expenses	80,202	74,853	7.1 %
Net credit expense (income)	(12,532)	(6,109)	105.1 %
General and administrative expenses	71,623	58,794	21.8 %
Loss from derivatives in our own equity ^(b)	-	177,289	n/m
Loss on early extinguishment of debt	-	3,667	n/m
Interest expense, net ^(c)	9,000	13,873	(35.1)%
Income (loss) before income taxes	21,826	(191,184)	(111.4)%
Income tax expense (benefit)	7,815	(4,798)	(262.9)%
Net income (loss)	<u>\$ 14,011</u>	<u>\$ (186,386)</u>	(107.5)%
Margins and Expenses as a Percentage of Net Sales:			
Gross profit rate	42.3 %	44.1 %	(174) bp
Contribution Margin ^(d)	\$ 102,449	\$ 62,439	64.1%
As a percentage of net sales	25.5 %	21.0 %	452 bp
General and administrative expenses	17.8 %	19.8 %	(193) bp
Net income before loss from derivatives in our equity ^(d)	\$ 14,011	\$ (9,097)	(254.0%)
As a percentage of net sales	3.5 %	(3.1)%	655 bp
Adjusted EBITDA ^(d)	\$ 51,741	\$ 15,514	233.5%
As a percentage of net sales	12.9 %	5.2 %	767 bp
Adjusted pro forma EBITDA ^(d)	\$ 32,774	\$ 8,742	274.9%
As a percentage of net sales	8.2 %	2.9 %	522 bp
Selected Operating Data:			
Revolving new customer credit accounts ^(e)	291	242	20.2%
FreshStart new customer credit accounts ^(e)	96	102	(5.7%)
Active accounts ^(f)	1,519	1,382	9.9%
Average order size ^(g)	\$ 224	\$ 208	7.9%
Percentage of orders placed online ^(h)	63 %	57 %	522 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 gains or 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)

	August 1, 2014	January 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 94,780	\$ 132,388
Restricted cash	12,186	7,065
Customer accounts receivable — net of allowance for doubtful accounts of \$14,069 and \$37,101, respectively	28,873	36,406
Merchandise inventories	82,747	68,151
Promotional material inventories	15,196	15,362
Prepaid expenses and other assets	19,771	28,598
Total current assets	253,553	287,970
Property and equipment, net	43,424	37,063
Deferred charges and other assets	7,984	8,803
Total Assets	\$ 304,961	\$ 333,836
Liabilities and Shareholders' Deficit		
Current liabilities:		
Accounts payable	\$ 70,984	\$ 71,572
Accrued costs and other liabilities	64,388	72,897
Short-term debt	4,732	27,979
Total current liabilities	140,104	172,448
Long-term debt	182,837	198,280
Other long-term liabilities	11,638	8,653
Shareholders' deficit:		
Series B convertible preferred stock	2,166	469
Series A convertible preferred stock	4,050	872
Additional paid-in capital	139,127	142,086
Accumulated deficit	(174,961)	(188,972)
Total shareholders' deficit	(29,618)	(45,545)
Total Liabilities and Shareholders' Deficit	\$ 304,961	\$ 333,836

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

Sales by merchandise category:	13 Weeks Ended					26 Weeks Ended				
	August 1, 2014		August 2, 2013		Change	August 1, 2014		August 2, 2013		Change
Home	\$ 110,682	45.7%	\$ 81,485	47.0%	35.8 %	\$ 191,801	45.7%	\$ 147,614	47.8%	29.9 %
Entertainment	96,387	39.8%	67,725	39.1%	42.3 %	165,588	39.4%	117,855	38.1%	40.5 %
Fashion	34,891	14.4%	24,046	13.9%	45.1 %	62,495	14.9%	43,660	14.1%	43.1 %
Total merchandise sales ^(a)	241,960	100.0%	173,256	100.0%	39.7 %	419,884	100.0%	309,129	100.0%	35.8 %
Returns and allowances	(15,885)		(10,235)		55.2 %	(26,487)		(18,484)		43.3 %
Commissions	4,399		3,787		16.2 %	8,328		6,894		20.8 %
Net sales	\$ 230,474		\$ 166,808		38.2 %	\$ 401,725		\$ 297,539		35.0 %

Net credit expense (income):	13 Weeks Ended			26 Weeks Ended		
	August 1, 2014	August 2, 2013	Change	August 1, 2014	August 2, 2013	Change
Finance charge and fee income	\$ 1,949	\$ (36,548)	(105.3)%	\$ 7,271	\$ (105,606)	(106.9)%
(Benefit) provision for doubtful accounts	(1,225)	36,495	(103.4)%	(8,598)	92,048	(109.3)%
Credit management costs	17,677	11,514	53.5 %	34,045	23,481	45.0 %
Portfolio profit sharing and servicing fee income	(18,227)	(16,014)	13.8 %	(45,250)	(16,032)	182.2 %
Net credit expense (income)	\$ 174	\$ (4,553)	(103.8)%	\$ (12,532)	\$ (6,109)	105.1 %

Serviced Portfolio Selected Credit Data:	13 Weeks Ended			26 Weeks Ended		
	August 1, 2014	August 2, 2013	Change	August 1, 2014	August 2, 2013	Change
Customer accounts receivable	\$ 1,054,075	\$ 828,690		\$ 1,054,075	\$ 828,690	
Balances 30+ days delinquent ^(b)	\$ 177,916	\$ 146,949		\$ 177,916	\$ 146,949	
Balances 30+ days delinquent as a percentage of total customer accounts receivable ^(c)	16.9 %	17.7 %		16.9 %	17.7 %	
Average customer accounts receivable	\$ 1,052,744	\$ 840,954		\$ 1,040,301	\$ 842,104	
Annualized finance charge and fee income as a percentage of average customer accounts receivable ^(d)	29.8 %	29.6 %		29.6 %	31.2 %	
Net principal charge-offs	\$ 44,194	\$ 42,127		\$ 84,388	\$ 71,776	
Annualized net principal charge-offs as a percentage of average customer accounts receivable ^(d)	16.8 %	20.0 %		16.2 %	17.0 %	

(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 and 26 weeks ended August 1, 2014 and August 2, 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) loss 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) loss 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		26 Weeks Ended	
	August 1, 2014	August 2, 2013	August 1, 2014	August 2, 2013
Contribution Margin:				
Net income (loss)	\$ 9,891	\$ 1,586	\$ 14,011	\$ (186,386)
Income tax expense (benefit)	5,510	928	7,815	(4,798)
Interest expense, net	4,364	5,361	9,000	13,873
Loss on early extinguishment of debt	-	126	-	3,667
Loss from derivatives in our own equity	-	-	-	177,289
General and administrative expenses	34,691	30,069	71,623	58,794
Contribution Margin	<u>\$ 54,456</u>	<u>\$ 38,070</u>	<u>\$ 102,449</u>	<u>\$ 62,439</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		26 Weeks Ended	
	August 1, 2014	August 2, 2013	August 1, 2014	August 2, 2013
Net income (loss) before loss from derivatives in our own equity:				
Net income (loss)	\$ 9,891	\$ 1,586	\$ 14,011	\$ (186,386)
Loss from derivatives in our own equity	-	-	-	177,289
Net income (loss) before loss from derivatives in our own equity	<u>\$ 9,891</u>	<u>\$ 1,586</u>	<u>\$ 14,011</u>	<u>\$ (9,097)</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		26 Weeks Ended	
	August 1, 2014	August 2, 2013	August 1, 2014	August 2, 2013
Adjusted EBITDA:				
Net income (loss)	\$ 9,891	\$ 1,586	\$ 14,011	\$ (186,386)
Interest expense	4,370	5,366	9,013	13,879
Income tax expense (benefit)	5,510	928	7,815	(4,798)
Depreciation and amortization expense	3,648	3,375	7,311	6,598
Stock-based compensation expense	703	595	1,425	1,117
Dividend equivalent expense	2,976	-	6,136	-
Loss from derivatives in our own equity	-	-	-	177,289
Loss on early extinguishment of debt	-	126	-	3,667
(Gain) loss on disposal of assets	(1)	10	(1)	(66)
Acquisition transaction costs	1,335	-	2,884	-
Specified litigation matters	805	1,893	2,822	3,709
Certain financing costs	165	219	325	505
Adjusted EBITDA	<u>\$ 29,402</u>	<u>\$ 14,098</u>	<u>\$ 51,741</u>	<u>\$ 15,514</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 August 1, 2014		13 weeks ended August 2, 2013	
	Adjusted EBITDA	Adjusted pro forma EBITDA	Adjusted EBITDA	Adjusted pro forma EBITDA
Net sales ^(a)	\$ 230,474	\$ 230,474	\$ 166,808	\$ 166,808
Cost of sales	132,853	132,853	94,423	94,423
Gross profit ^(a)	97,621	97,621	72,385	72,385
Sales and marketing expenses	42,991	42,991	38,868	38,868
Net credit expense (income):				
Finance charge and fee income ^(b)	1,949	237	(36,548)	281
(Benefit) provision for doubtful accounts ^(b)	(1,225)	2,294	36,495	2,547
Credit management costs	17,677	17,677	11,514	11,356
Servicing income ^(c)	(5,006)	(5,104)	(1,374)	(4,084)
Profit sharing ^(c)	(13,221)	(12,427)	(14,640)	(9,236)
Net credit expense (income)	174	2,677	(4,553)	864
General and administrative expenses	34,691	34,691	30,069	30,069
Loss on early extinguishment of debt	-	-	126	126
Interest expense, net	4,364	4,364	5,361	5,361
Income (loss) before income taxes ^(d)	15,401	12,898	2,514	(2,903)
Interest expense	4,370	4,370	5,366	5,366
Depreciation and amortization expense ^(e)	3,648	3,408	3,375	3,302
Stock-based compensation expense	703	703	595	595
Dividend equivalent expense	2,976	2,976	-	-
Loss on early extinguishment of debt	-	-	126	126
(Gain) loss on disposal of assets	(1)	(1)	10	10
Acquisition transaction costs	1,335	1,335	-	-
Specified litigation matters	805	805	1,893	1,893
Certain financing costs	165	165	219	219
Adjusted EBITDA	\$ 29,402	\$ 26,659	\$ 14,098	\$ 8,608
Adjusted EBITDA % of net sales	12.8%	11.6%	8.5%	5.2%

(a) No change in net sales or gross profit

(b) 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)

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

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

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

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

(unaudited — in thousands)

Adjusted pro forma EBITDA

	26 weeks ended August 1, 2014		26 weeks ended August 2, 2013	
	Adjusted EBITDA	Adjusted pro forma EBITDA	Adjusted EBITDA	Adjusted pro forma EBITDA
Net sales ^(a)	\$ 401,725	\$ 401,725	\$ 297,539	\$ 297,539
Cost of sales	231,606	231,606	166,356	166,356
Gross profit ^(a)	170,119	170,119	131,183	131,183
Sales and marketing expenses ^(b)	80,202	80,202	74,853	75,005
Net credit expense (income):				
Finance charge and fee income ^(b)	7,271	(1,492)	(105,606)	(2,082)
(Benefit) provision for doubtful accounts ^(b)	(8,598)	5,559	92,048	9,436
Credit management costs	34,045	34,045	23,481	23,459
Servicing income ^(d)	(9,813)	(10,087)	(1,392)	(8,162)
Profit sharing ^(d)	(35,437)	(22,068)	(14,640)	(22,213)
Net credit expense (income)	(12,532)	5,957	(6,109)	438
General and administrative expenses	71,623	71,623	58,794	58,794
Loss from derivatives in our own equity	-	-	177,289	177,289
Loss on early extinguishment of debt	-	-	3,667	3,667
Interest expense, net	9,000	9,000	13,873	13,873
Income (loss) before income taxes ^(e)	21,826	3,337	(191,184)	(197,883)
Interest expense	9,013	9,013	13,879	13,879
Depreciation and amortization expense ^(f)	7,311	6,833	6,598	6,525
Stock-based compensation expense	1,425	1,425	1,117	1,117
Dividend equivalent expense	6,136	6,136	-	-
Loss from derivatives in our own equity	-	-	177,289	177,289
Loss on early extinguishment of debt	-	-	3,667	3,667
Gain on disposal of assets	(1)	(1)	(66)	(66)
Acquisition transaction costs	2,884	2,884	-	-
Specified litigation matters	2,822	2,822	3,709	3,709
Certain financing costs	325	325	505	505
Adjusted EBITDA	\$ 51,741	\$ 32,774	\$ 15,514	\$ 8,742
Adjusted EBITDA % of net sales	12.9%	8.2%	5.2%	2.9%

(a) No change in net sales, gross profit, or net selling margin

(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