

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

	13 Weeks Ended		
	October 31, 2014	November 1, 2013	Change ^(a)
Net sales	\$ 213,324	\$ 167,743	27.2 %
Cost of sales	124,407	99,587	24.9 %
Gross profit	88,917	68,156	30.5 %
Sales and marketing expenses	42,583	37,079	14.8 %
Net credit expense (income)	8,777	(26,359)	(133.3)%
General and administrative expenses	40,993	29,266	40.1 %
Loss on early extinguishment of debt	-	4,591	n/m
Interest expense, net ^(b)	4,248	2,618	62.3 %
(Loss) income before income taxes	(7,684)	20,961	(136.7)%
Income tax (benefit) expense	(3,295)	6,264	(152.6)%
Net (loss) income	\$ (4,389)	\$ 14,697	(129.9)%
Margins and Expenses as a Percentage of Net Sales:			
Gross profit rate	41.7 %	40.6 %	105 bp
Contribution Margin ^(c)	\$ 37,557	\$ 57,436	(34.6%)
As a percentage of net sales	17.6 %	34.2 %	(1,663) bp
General and administrative expenses	19.2 %	17.4 %	177 bp
Adjusted EBITDA ^(c)	\$ 11,518	\$ 33,630	(65.8%)
As a percentage of net sales	5.4 %	20.0 %	(1,465) bp
Adjusted pro forma EBITDA ^(c)	\$ 9,965	\$ 1,409	607.2%
As a percentage of net sales	4.7 %	0.8 %	383 bp
Selected Operating Data:			
Revolving new customer credit accounts ^(d)	152	132	15.6%
FreshStart new customer credit accounts ^(d)	51	39	30.9%
Active accounts ^(e)	1,534	1,362	12.6%
Average order size ^(f)	\$ 228	\$ 217	5.1%
Percentage of orders placed online ^(g)	64 %	58 %	529 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)

	39 Weeks Ended		
	October 31, 2014	November 1, 2013	Change ^(a)
Net sales	\$ 615,049	\$ 465,282	32.2 %
Cost of sales	356,013	265,943	33.9 %
Gross profit	259,036	199,339	29.9 %
Sales and marketing expenses	122,785	111,932	9.7 %
Net credit expense (income)	(3,755)	(32,468)	(88.4)%
General and administrative expenses	112,616	88,060	27.9 %
Loss from derivatives in our own equity ^(b)	-	177,289	n/m
Loss on early extinguishment of debt	-	8,258	n/m
Interest expense, net ^(c)	13,248	16,491	(19.7)%
Income (loss) before income taxes	14,142	(170,223)	(108.3)%
Income tax expense	4,520	1,466	208.3 %
Net income (loss)	<u>\$ 9,622</u>	<u>\$ (171,689)</u>	(105.6)%
Margins and Expenses as a Percentage of Net Sales:			
Gross profit rate	42.1 %	42.8 %	(73) bp
Contribution Margin ^(d)	\$ 140,006	\$ 119,875	16.8%
As a percentage of net sales	22.8 %	25.8 %	(300) bp
General and administrative expenses	18.3 %	18.9 %	(62) bp
Net income before loss from derivatives in our equity ^(d)	\$ 9,622	\$ 5,600	71.8%
As a percentage of net sales	1.6 %	1.2 %	36 bp
Adjusted EBITDA ^(d)	\$ 63,259	\$ 49,144	28.7%
As a percentage of net sales	10.3 %	10.6 %	(28) bp
Adjusted pro forma EBITDA ^(d)	\$ 42,739	\$ 10,152	321.0%
As a percentage of net sales	6.9 %	2.2 %	477 bp
Selected Operating Data:			
Revolving new customer credit accounts ^(e)	443	374	18.6%
FreshStart new customer credit accounts ^(e)	147	141	4.4%
Active accounts ^(f)	1,534	1,362	12.6%
Average order size ^(g)	\$ 225	\$ 211	6.8%
Percentage of orders placed online ^(h)	63 %	58 %	523 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)

	October 31, 2014	January 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 45,496	\$ 132,388
Restricted cash	13,085	7,065
Customer accounts receivable — net of allowance for doubtful accounts of \$11,870 and \$37,101, respectively	30,487	36,406
Merchandise inventories	157,786	68,151
Promotional material inventories	32,101	15,362
Prepaid expenses and other assets	27,938	28,598
Total current assets	306,893	287,970
Property and equipment, net	47,536	37,063
Other assets	7,401	8,803
Total Assets	\$ 361,830	\$ 333,836
Liabilities and Shareholders' Deficit		
Current liabilities:		
Accounts payable	\$ 121,057	\$ 71,572
Accrued costs and other liabilities	70,608	72,897
Short-term debt	6,443	27,979
Total current liabilities	198,108	172,448
Long-term debt	183,565	198,280
Other long-term liabilities	13,385	8,653
Shareholders' deficit:		
Series B convertible preferred stock	3,027	469
Series A convertible preferred stock	5,642	872
Additional paid-in capital	137,455	142,086
Accumulated deficit	(179,352)	(188,972)
Total shareholders' deficit	(33,228)	(45,545)
Total Liabilities and Shareholders' Deficit	\$ 361,830	\$ 333,836

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

	13 Weeks Ended					39 Weeks Ended				
	October 31, 2014		November 1, 2013		Change	October 31, 2014		November 1, 2013		Change
Sales by merchandise category:										
Home	\$ 93,529	41.8%	\$ 75,787	42.8%	23.4 %	\$ 285,330	44.3%	\$ 223,401	46.0%	27.7 %
Entertainment	94,497	42.3%	73,663	41.7%	28.3 %	260,085	40.5%	191,518	39.4%	35.8 %
Fashion	35,549	15.9%	27,443	15.5%	29.5 %	98,044	15.2%	71,103	14.6%	37.9 %
Total merchandise sales ^(a)	223,575	100.0%	176,893	100.0%	26.4 %	643,459	100.0%	486,022	100.0%	32.4 %
Returns and allowances	(14,612)		(12,572)		16.2 %	(41,099)		(31,056)		32.3 %
Commissions	4,361		3,422		27.4 %	12,689		10,316		23.0 %
Net sales	\$ 213,324		\$ 167,743		27.2 %	\$ 615,049		\$ 465,282		32.2 %

	13 Weeks Ended			39 Weeks Ended		
	October 31, 2014	November 1, 2013	Change	October 31, 2014	November 1, 2013	Change
Net credit expense (income):						
Finance charge and fee income	\$ 516	\$ (4,311)	(112.0)%	\$ 7,787	\$ (109,917)	(107.1)%
Provision for doubtful accounts	656	1,355	(51.6)%	(7,942)	93,403	(108.5)%
Credit management costs	16,316	12,405	31.5 %	50,361	35,886	40.3 %
Portfolio profit sharing and servicing fee income	(8,711)	(35,808)	(75.7)%	(53,961)	(51,840)	4.1 %
Net credit expense (income)	\$ 8,777	\$ (26,359)	(133.3)%	\$ (3,755)	\$ (32,468)	(88.4)%

Serviced Portfolio Selected Credit Data:

Customer accounts receivable	\$ 1,060,540	\$ 826,237		\$ 1,060,540	\$ 826,237	
Balances 30+ days delinquent ^(b)	\$ 188,434	\$ 153,639		\$ 188,434	\$ 153,639	
Balances 30+ days delinquent as a percentage of total customer accounts receivable ^(c)	17.8 %	18.6 %		17.8 %	18.6 %	
Average customer accounts receivable	\$ 1,063,677	\$ 837,738		\$ 1,048,093	\$ 840,648	
Annualized finance charge and fee income as a percentage of average customer accounts receivable ^(d)	28.2 %	28.1 %		29.1 %	30.2 %	
Net principal charge-offs	\$ 48,823	\$ 38,223		\$ 133,211	\$ 109,999	
Annualized net principal charge-offs as a percentage of average customer accounts receivable ^(d)	18.4 %	18.3 %		16.9 %	17.4 %	

(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 39 weeks ended October 31, 2014 and November 1, 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 (loss) income before loss from derivatives in our own equity, defined as GAAP net (loss) income 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 (loss) income before interest expense, income tax (benefit) expense, depreciation and amortization expense, stock-based compensation expense, dividend equivalent expense, loss from derivatives in our own equity, loss on early extinguishment of debt, loss (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 (loss) income 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 (benefit) expense, depreciation and amortization expense, stock-based compensation expense, dividend equivalent expense, loss from derivatives in our own equity, loss on early extinguishment of debt, loss (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 (loss) income 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 (loss) income:

	13 Weeks Ended		39 Weeks Ended	
	October 31, 2014	November 1, 2013	October 31, 2014	November 1, 2013
Contribution Margin:				
Net (loss) income	\$ (4,389)	\$ 14,697	\$ 9,622	\$ (171,689)
Income tax (benefit) expense	(3,295)	6,264	4,520	1,466
Interest expense, net	4,248	2,618	13,248	16,491
Loss on early extinguishment of debt	-	4,591	-	8,258
Loss from derivatives in our own equity	-	-	-	177,289
General and administrative expenses	40,993	29,266	112,616	88,060
Contribution Margin	<u>\$ 37,557</u>	<u>\$ 57,436</u>	<u>\$ 140,006</u>	<u>\$ 119,875</u>

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

	13 Weeks Ended		39 Weeks Ended	
	October 31, 2014	November 1, 2013	October 31, 2014	November 1, 2013
Net (loss) income before loss from derivatives in our own equity:				
Net (loss) income	\$ (4,389)	\$ 14,697	\$ 9,622	\$ (171,689)
Loss from derivatives in our own equity	-	-	-	177,289
Net (loss) income before loss from derivatives in our own equity	<u>\$ (4,389)</u>	<u>\$ 14,697</u>	<u>\$ 9,622</u>	<u>\$ 5,600</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 (loss) income:

	13 Weeks Ended		39 Weeks Ended	
	October 31, 2014	November 1, 2013	October 31, 2014	November 1, 2013
Adjusted EBITDA:				
Net (loss) income	\$ (4,389)	\$ 14,697	\$ 9,622	\$ (171,689)
Interest expense	4,250	2,628	13,263	16,507
Income tax (benefit) expense	(3,295)	6,264	4,520	1,466
Depreciation and amortization expense	3,631	3,613	10,942	10,211
Stock-based compensation expense	706	891	2,131	2,008
Dividend equivalent expense	2,917	-	9,053	-
Loss from derivatives in our own equity	-	-	-	177,289
Loss on early extinguishment of debt	-	4,591	-	8,258
Loss (gain) on disposal of assets	-	109	(1)	43
Acquisition transaction costs	6,772	-	9,656	-
Specified litigation matters	719	678	3,541	4,387
Certain financing costs	207	159	532	664
Adjusted EBITDA	<u>\$ 11,518</u>	<u>\$ 33,630</u>	<u>\$ 63,259</u>	<u>\$ 49,144</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 October 31, 2014		13 weeks ended November 1, 2013	
	Adjusted EBITDA	Adjusted pro forma EBITDA	Adjusted EBITDA	Adjusted pro forma EBITDA
Net sales ^(a)	\$ 213,324	\$ 213,324	\$ 167,743	\$ 167,743
Cost of sales	124,407	124,407	99,587	99,587
Gross profit ^(a)	88,917	88,917	68,156	68,156
Sales and marketing expenses	42,583	42,583	37,079	37,079
Net credit expense (income):				
Finance charge and fee income ^(b)	516	(308)	(4,311)	317
Provision for doubtful accounts ^(b)	656	2,578	1,355	1,682
Credit management costs	16,316	16,315	12,405	12,409
Servicing income ^(c)	(5,096)	(5,166)	(2,758)	(4,085)
Profit sharing ^(c)	(3,615)	(3,332)	(33,050)	(4,702)
Net credit expense (income)	8,777	10,087	(26,359)	5,621
General and administrative expenses	40,993	40,993	29,266	29,266
Loss on early extinguishment of debt	-	-	4,591	4,591
Interest expense, net	4,248	4,248	2,618	2,618
(Loss) income before income taxes ^(d)	(7,684)	(8,994)	20,961	(11,020)
Interest expense	4,250	4,250	2,628	2,628
Depreciation and amortization expense ^(e)	3,631	3,388	3,613	3,373
Stock-based compensation expense	706	706	891	891
Dividend equivalent expense	2,917	2,917	-	-
Loss on early extinguishment of debt	-	-	4,591	4,591
Loss on disposal of assets	-	-	109	109
Acquisition transaction costs	6,772	6,772	-	-
Specified litigation matters	719	719	678	678
Certain financing costs	207	207	159	159
Adjusted EBITDA	<u>\$ 11,518</u>	<u>\$ 9,965</u>	<u>\$ 33,630</u>	<u>\$ 1,409</u>
Adjusted EBITDA % of net sales	5.4%	4.7%	20.0%	0.8%

(a) No change in net sales or gross profit

(b) Finance charge and fee income and provision for doubtful accounts shifted to SCUSA for all revolving receivables. Bluestem retains finance charge and fee income and provision for doubtful accounts for retained receivables (FreshStart and PayCheck Direct)

(c) Bluestem receives a 2% servicing fee and profit sharing (based on Risk Adjusted Margin ("RAM")) from SCUSA

(d) (Loss) income 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

	39 weeks ended October 31, 2014		39 weeks ended November 1, 2013	
	Adjusted EBITDA	Adjusted pro forma EBITDA	Adjusted EBITDA	Adjusted pro forma EBITDA
Net sales ^(a)	\$ 615,049	\$ 615,049	\$ 465,282	\$ 465,282
Cost of sales	356,013	356,013	265,943	265,943
Gross profit ^(a)	259,036	259,036	199,339	199,339
Sales and marketing expenses ^(b)	122,785	122,785	111,932	112,084
Net credit expense (income):				
Finance charge and fee income ^(c)	7,787	(1,800)	(109,917)	(1,765)
(Benefit) provision for doubtful accounts ^(c)	(7,942)	8,137	93,403	11,118
Credit management costs	50,361	50,360	35,886	35,868
Servicing income ^(d)	(14,909)	(15,253)	(4,150)	(12,247)
Profit sharing ^(d)	(39,052)	(25,400)	(47,690)	(26,915)
Net credit expense (income)	(3,755)	16,044	(32,468)	6,059
General and administrative expenses	112,616	112,616	88,060	88,060
Loss from derivatives in our own equity	-	-	177,289	177,289
Loss on early extinguishment of debt	-	-	8,258	8,258
Interest expense, net	13,248	13,248	16,491	16,491
Income (loss) before income taxes ^(e)	14,142	(5,657)	(170,223)	(208,902)
Interest expense	13,263	13,263	16,507	16,507
Depreciation and amortization expense ^(f)	10,942	10,221	10,211	9,898
Stock-based compensation expense	2,131	2,131	2,008	2,008
Dividend equivalent expense	9,053	9,053	-	-
Loss from derivatives in our own equity	-	-	177,289	177,289
Loss on early extinguishment of debt	-	-	8,258	8,258
(Gain) loss on disposal of assets	(1)	(1)	43	43
Acquisition transaction costs	9,656	9,656	-	-
Specified litigation matters	3,541	3,541	4,387	4,387
Certain financing costs	532	532	664	664
Adjusted EBITDA	<u>\$ 63,259</u>	<u>\$ 42,739</u>	<u>\$ 49,144</u>	<u>\$ 10,152</u>
Adjusted EBITDA % of net sales	10.3%	6.9%	10.6%	2.2%

(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.

Bluestem retains finance charge and fee income and (benefit) provision for doubtful accounts for retained receivables (FreshStart and PayCheck Direct)

(d) Bluestem receives a 2% servicing fee and profit sharing (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