Bluestem Brands, Inc.

Consolidated Financial Statements as of
January 30, 2015 and January 31, 2014, and
for the twelve weeks ended January 30, 2015,
the forty weeks ended November 7, 2014, and the
fiscal year ended January 31, 2014, and
Independent Auditors' Report

BLUESTEM BRANDS, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Bluestem Brands, Inc.
Eden Prairie, Minnesota

We have audited the accompanying consolidated financial statements of Bluestem Brands, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of January 30, 2015 and January 31, 2014, and the related consolidated statements of comprehensive income, cash flows, and stockholders' equity for the twelve weeks ended January 30, 2015, the forty weeks ended November 7, 2014, and the year ended January 31, 2014, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

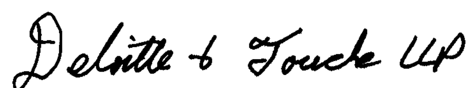
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bluestem Brands, Inc. and its subsidiaries as of January 30, 2015 and January 31, 2014, and the results of their operations and their cash flows for the twelve weeks ended January 30, 2015, the forty weeks ended November 7, 2014 and the year ended January 31, 2014 in accordance with accounting principles generally accepted in the United States of America.



May 25, 2015

Member of
Deloitte Touche Tohmatsu

BLUESTEM BRANDS, INC.

CONSOLIDATED BALANCE SHEETS
AS OF JANUARY 30, 2015 AND JANUARY 31, 2014
(In thousands, except share information)

	January 30, 2015 (Successor)	January 31, 2014 (Predecessor)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 59,222	$ 132,388
Restricted cash	13,425	7,065
Customer accounts receivable—net of allowance of $10,457 and $37,101, respectively	40,928	36,406
Merchandise inventories	96,431	68,151
Promotional material inventories	13,976	15,362
Deferred income taxes	14,914	5,847
Prepaid expenses and other assets	20,360	22,751
Total current assets	259,256	287,970
PROPERTY AND EQUIPMENT—Net	49,755	37,063
INTANGIBLE ASSETS—Net	377,892	-
GOODWILL	201,642	-
OTHER ASSETS	5,377	8,803
TOTAL ASSETS	$ 893,922	$ 333,836
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 82,037	$ 71,572
Current income taxes payable	18,567	18,876
Accrued costs and other liabilities	65,109	54,021
Short-term debt	19,116	27,979
Total current liabilities	184,829	172,448
LONG-TERM DEBT	278,169	198,280
DEFERRED INCOME TAXES	140,119	899
OTHER LONG-TERM LIABILITIES	5,187	7,754
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS' EQUITY:		
PREDECESSOR:		
Series B convertible preferred stock, par value $0.00001—753,523,962 shares authorized; 753,256,768 shares issued and outstanding at January 31, 2014	-	469
Series A convertible preferred stock, par value $0.00001—791,738,012 shares authorized; 794,738,012 shares issued and outstanding at January 31, 2014	-	872
Common stock, par value $0.00001—2,592,550,586 shares authorized; 6,416,291 and 3,878,288 shares issued and outstanding, respectively	-	-
SUCCESSOR:		
Common stock, par value $0.00001—100 shares authorized; 1 share issued and outstanding	-	-
Additional paid-in capital	269,602	142,086
Retained earnings	16,016	(188,972)
Total stockholders' equity	285,618	(45,545)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 893,922	$ 333,836

See notes to consolidated financial statements.

BLUESTEM BRANDS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE TWELVE WEEKS ENDED JANUARY 30, 2015, FORTY WEEKS ENDED NOVEMBER 7, 2014 AND THE FISCAL YEAR ENDED JANUARY 31, 2014
(In thousands)

	Twelve weeks ended January 30, 2015 (Successor)	Forty weeks ended November 7, 2014 (Predecessor)	Fiscal year ended January 31, 2014 (Predecessor)
Net sales	$ 432,392	$ 639,131	$ 838,937
Cost of sales	256,885	370,763	493,461
Gross profit	175,507	268,368	345,476
Sales and marketing expenses	69,128	127,667	170,530
Net credit expense (income)	18,011	(1,053)	(62,865)
General and administrative expenses	34,466	131,801	120,756
Amortization and depreciation not included in cost of sales	21,573	9,739	12,564
Loss from derivatives in our own equity (Note 1)	-	-	177,289
Loss on early extinguishment of debt (Note 6)	-	9,298	8,258
Interest expense, net	7,091	13,576	19,772
Income (loss) before income taxes	25,238	(22,660)	(100,828)
Income tax expense (benefit)	9,222	(7,662)	26,017
Net income (loss)	$ 16,016	$ (14,998)	$ (126,845)

See notes to consolidated financial statements.

BLUESTEM BRANDS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE TWELVE WEEKS ENDED JANUARY 30, 2015, FORTY WEEKS ENDED NOVEMBER 7, 2014 AND THE FISCAL YEAR ENDED JANUARY 31, 2014
(In thousands)

	Twelve weeks ended January 30, 2015 (Successor)	Forty weeks ended November 7, 2014 (Predecessor)	Fiscal year ended January 31, 2014 (Predecessor)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 16,016	$ (14,998)	$ (126,845)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	21,831	11,260	13,929
Amortization of deferred charges and original issue discount	899	1,842	5,569
Loss from derivatives in our own equity	-	-	177,289
Noncash component of loss on early extinguishment of debt	-	9,298	1,300
Provision for doubtful accounts	10,510	(5,958)	74,562
Provision for merchandise returns	11,455	18,731	22,955
Deferred income taxes	(4,077)	(1,336)	5,395
Stock-based compensation	836	28,232	2,666
Excess tax benefit from stock-based compensation	-	(5,159)	-
Other noncash items affecting income	11,285	20,609	26,862
Changes in operating assets and liabilities:			
Customer accounts receivable	(42,127)	(35,227)	140,386
Merchandise inventories	78,895	(99,907)	(10,529)
Promotional material inventories	22,066	(20,680)	(1,510)
Prepaid expenses and other current assets	(3,929)	5,021	(4,414)
Current income taxes payable	18,567	(24,384)	12,735
Accounts payable and other liabilities	(50,858)	81,849	(14,216)
Net cash provided by (used in) operating activities	91,369	(30,807)	326,134
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of accounts receivable	(430,600)	(661,362)	(761,266)
Proceeds from sale of accounts receivable	430,949	662,654	1,176,658
Acquisition of Bluestem Brands, Inc., net	(550,712)	-	-
Purchases of fixed assets—including internal-use software and website development	(5,351)	(18,869)	(19,847)
Decrease (increase) in restricted cash—net	736	(7,089)	15,110
Net cash (used in) provided by investing activities	(554,978)	(24,666)	410,655
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings on revolving credit facilities, net of financing fees	180,287	336,175	952,880
Repayments on revolving credit facilities	(182,676)	(335,809)	(1,410,644)
Repayment of Predecessor Term Loan	-	(225,000)	-
Repayment of debt due to affiliates	-	(400)	-
Borrowings on Successor Term Loan, net of financing fees	281,064	-	-
Settlement of selling shareholders' acquisition liabilities	(66,361)	-	-
Settlements pending	-	186,589	-
Cash equity contributions from parent	269,602	-	-
Borrowings on Predecessor Term Loan, net of financing fees	-	-	213,503
Predecessor common stock dividend paid, including related fees	-	-	(254,854)
Predecessor Preferred stock accrued dividend paid, including related fees	-	-	(108,290)
Issuance of Series A convertible Predecessor preferred stock	-	-	417
Excess tax benefit from stock-based compensation	-	5,159	-
Repurchase of restricted stock	-	(3,280)	-
Issuance of Predecessor common stock	-	566	2,238
Net cash provided by (used in) financing activities	481,916	(36,000)	(604,750)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,307	(91,473)	132,039
CASH AND CASH EQUIVALENTS—Beginning of period	40,915	132,388	349
CASH AND CASH EQUIVALENTS—End of period	$ 59,222	$ 40,915	$ 132,388

(Continued)

BLUESTEM BRANDS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE TWELVE WEEKS ENDED JANUARY 30, 2015, FORTY WEEKS ENDED NOVEMBER 7, 2014 AND THE FISCAL YEAR ENDED JANUARY 31, 2014
(In thousands)

	Twelve weeks ended January 30, 2015 (Successor)	Forty weeks ended November 7, 2014 (Predecessor)	Fiscal year ended January 31, 2014 (Predecessor)
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 7,320	$ 11,771	$ 14,747
Income and franchise taxes paid	338	18,815	9,189
SIGNIFICANT NON-CASH TRANSACTIONS:			
Capital lease obligation incurred	35	2,272	3,023
Series B convertible preferred stock accretion	-	2,624	4,267
Series A convertible preferred stock accretion	-	4,895	11,496

See notes to consolidated financial statements. (Concluded)

BLUESTEM BRANDS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE TWELVE WEEKS ENDED JANUARY 30, 2015, FORTY WEEKS ENDED NOVEMBER 7, 2014 AND THE YEAR ENDED JANUARY 31, 2014
(In thousands, except share information)

	Series B Convertible Preferred Stock		Series A Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Predecessor									
BALANCE—February 1, 2013	-	$ -	-	$ -	3,878,288	$ -	$ -	$ (50,595)	$ (50,595)
Issuance of restricted common stock					238,100				-
Exercise of common stock options					17,804		76		76
Exercise of common stock warrants (Note 8)					2,282,099		2,160		2,160
Exercise of preferred stock warrants (Note 8)			41,742,458				417		417
Stock-based compensation							2,666		2,666
Series B convertible preferred stock accretion		461					(625)	(3,642)	(3,806)
Series A convertible preferred stock accretion				864			(3,606)	(7,890)	(10,632)
Reclassification of convertible preferred stock from mezzanine equity	753,256,768	21,569	749,995,554	86,737			134,535		242,841
Reclassification of common stock warrants from derivative liabilities in our own equity							34,008		- 34,008
Reclassification of preferred stock warrants from derivative liabilities in our own equity							12,773		12,773
Reclassification of convertible preferred stock conversion feature from derivative liabilities in our own equity							216,500		- 216,500
Common stock dividend declared, including related costs							(256,818)		(256,818)
Preferred stock accrued dividend paid		(21,561)		(86,729)					(108,290)
Net loss								(126,845)	(126,845)
BALANCE—January 31, 2014	753,256,768	$ 469	791,738,012	$ 872	6,416,291	$ -	$ 142,086	$(188,972)	$ (45,545)
Exercise of common stock options					107,035		566		566
Stock-based compensation							28,232		28,232
Series B convertible preferred stock accretion		2,624					(2,624)		-
Series A convertible preferred stock accretion				4,895			(4,895)		-
Excess tax benefit from stock-based compensation							5,159		5,159
Repurchase of restricted stock					(238,100)		(3,280)		(3,280)
Net loss								(14,998)	(14,998)
BALANCE—November 7, 2014	753,256,768	$ 3,093	791,738,012	$ 5,767	6,285,226	$ -	$ 165,244	$(203,970)	$ (29,866)
Successor									
Equity contributions					1	$ -	269,602	$ -	269,602
Net income								16,016	16,016
BALANCE—January 30, 2015					1	$ -	$ 269,602	$ 16,016	$ 285,618

See notes to consolidated financial statements.

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business—Bluestem Brands, Inc. (the "Company") is a national multi-brand online retailer serving low to middle income consumers by offering products with customized payment plans through three brands: Fingerhut, Gettington.com and PayCheck Direct. Fingerhut generally targets consumers with FICO scores less than 670 and household income less than $50,000 and offers consumers a broad assortment of merchandise with the ability to pay via monthly payments and allowing access to a revolving credit line. Additionally, Fingerhut offers the FreshStart program, which provides the option of purchasing merchandise on installment credit terms after first making a down payment. Gettington.com targets consumers with a FICO score greater than 610 and household income of $55,000 to $100,000 and offers a broad assortment of merchandise and revolving credit line. PayCheck Direct is an employee benefit program that is offered directly through employers or organizations as a voluntary benefit to employees and members, which allows consumers to purchase products with the convenience of payment for their purchases over time through payroll deductions or automatic bank withdrawals. All three brands offer a large selection of name brand, private label, and nonbranded merchandise through Internet websites and catalogs to customers in the United States. The Company primarily sells consumer electronics, domestics, housewares, home furnishings, children's merchandise, and apparel. By combining its proprietary marketing and credit decision-making technologies, the Company is able to tailor merchandise and credit offers to prospective as well as existing customers.

WebBank ("Credit Issuer") is the originating bank for Fingerhut and Gettington.com customer revolving credit accounts and Fingerhut FreshStart installment credit accounts. The Company purchases all receivables resulting from the extension of credit to its customers by the Credit Issuer and assumes the servicing of the accounts. The credit account can only be used to purchase merchandise from Fingerhut, Gettington.com and from certain third parties that market their products and services to the Company's customers. See Note 3, *Serviced Credit Portfolio*. Over 95% of sales are on these revolving and installment credit accounts.

On April 19, 2013, the Company entered into a series of transactions with WebBank and Santander Consumer USA Inc. ("SCUSA") related to Fingerhut and Gettington.com customer accounts receivables. The following are the primary agreements executed by the Company related to these transactions and the counterparties to each transaction (collectively, the "A/R Program Agreements").

Agreement	Counterparty
Receivables Sale Agreement	WebBank
Standard Receivables Sale Agreement	SCUSA
Program Agreement	WebBank and SCUSA

The Company sells all new receivables originated in revolving credit accounts to SCUSA on the same day those receivables are purchased by the Company from WebBank. Furthermore, if the Fingerhut or Gettington.com customer whose purchase of goods triggered the origination of that new receivable also had an existing receivable balance on his or her revolving credit account, that existing balance is also

required to be sold to SCUSA. All new and existing receivables originated in revolving credit accounts are referred to as "Standard Receivables." All new and existing receivables generated in credit accounts other than revolving credit accounts, including Fingerhut FreshStart credit accounts and PayCheck Direct accounts, are referred to as "Nonstandard Receivables." The Company retains all Nonstandard Receivables purchased from WebBank. SCUSA bears risk of loss due to uncollectibility of the Standard Receivables purchased by SCUSA. The Company bears risk of loss due to uncollectibility on Nonstandard Receivables and any existing Standard Receivables not purchased by SCUSA.

The Company services the credit accounts and related receivables as WebBank's and/or SCUSA's agent. In consideration of the Company's servicing of the Standard Receivable portfolio owned by SCUSA, SCUSA pays a servicing fee to and shares a portion of the profits of the portfolio with the Company. See Note 3, *Serviced Credit Portfolio*.

On November 7, 2014, the Company merged with and into Northstar Merger Sub Inc. ("Merger Sub") pursuant to an Agreement and Plan of Merger, dated September 28, 2014, by and among Capmark Financial Group Inc. ("Capmark"), Northstar Holdings Inc. ("Holdings Inc."), Merger Sub and the Company, with the Company surviving the merger (the "Acquisition"). As a result of the Acquisition (as discussed in Note 2, *The Acquisition*, below), the Company is now a direct subsidiary of Holdings Inc., which is a direct subsidiary of Capmark.

The accompanying consolidated financial statements are presented as "Predecessor" or "Successor" to indicate whether they relate to the period preceding the Acquisition or the period succeeding the Acquisition, respectively. The Acquisition and the allocation of the purchase price have been recorded for accounting purposes as of November 7, 2014.

Purchase Accounting—The Acquisition of the Company was accounted for as a business combination. Under this method, the purchase price paid by the acquirer is allocated to the assets acquired and liabilities assumed as of the acquisition date based on their fair value. The Company engaged an outside appraisal firm to assist in determining the fair value of certain assets acquired and liabilities assumed and it used the appraisal for the final purchase price allocation. The excess of the purchase price over the fair value of the assets and liabilities assumed is recorded as goodwill. By the application of "push down" accounting, the Company's assets, liabilities and equity were adjusted to fair value on November 7, 2014. Determining the fair value of certain assets and liabilities assumed is judgmental in nature and often involves the use of significant estimates and assumptions. Estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and, as a result, actual results may differ from estimates. During the measurement period, which shall not exceed one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings. See Note 2, *The Acquisition*, for a discussion of the estimated fair values of assets and liabilities recorded in connection with Capmark's acquisition of the Company.

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

Fiscal Year—The Company's fiscal year is 52 or 53 weeks ending on the Friday closest to January 31. Fiscal years 2014 and 2013 included 52 weeks and ended on January 30, 2015 and January 31, 2014, respectively. References to years relate to fiscal years or fiscal year ends rather than calendar years.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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. Significant estimates in the consolidated financial statements include revenue recognition, the allowance for doubtful accounts, reserves for excess and obsolete merchandise inventories, allowances for merchandise returns and customer allowances, promotional material inventories, income taxes, and valuation of stock-based awards, common stock and derivatives in our own equity.

Cash and Cash Equivalents—Cash and cash equivalents include liquid investments with original maturities of three months or less. All cash and cash equivalents are carried at amounts that approximate fair value.

Restricted Cash—The Company has restricted depository accounts related to an agreement with its Credit Issuer to originate customer credit accounts. Under the agreement with its Credit Issuer, as amended, the Company is required to maintain a segregated deposit account with its Credit Issuer in an amount equivalent to a minimum of $2.0 million, plus 100% of the highest of the preceding calendar week's daily outstanding principal balance held by its Credit Issuer during the contractual holding period. At January 30, 2015 and January 31, 2014, restricted cash included $9.1 million and $2.7 million, respectively, related to the Credit Issuer's origination of customer revolving and installment credit accounts.

The Company has restricted accumulated customer cash receipts related to the A/R Program Agreements. Under the A/R Program Agreements, payments on customer accounts receivable received are accumulated in restricted accounts and, subsequently, are released to the Company and SCUSA. As of January 30, 2015 and January 31, 2014, $4.1 million and $4.4 million of accumulated customer cash receipts, respectively, was reported as a component of restricted cash in the Company's consolidated balance sheets.

Allowance for Doubtful Accounts—The Company maintains an allowance for doubtful accounts at a level intended to absorb estimated probable losses inherent in the Company-owned customer accounts receivable, including accrued finance charges and fees as of the balance sheet date. The Company uses its judgment to evaluate the adequacy of the allowance for doubtful accounts based on a variety of quantitative and qualitative risk considerations. Quantitative factors include, among other things, customer credit risk and aging of accounts receivable. Qualitative factors include, among other things, economic factors that have historically been leading indicators of future delinquency and losses such as national unemployment rates, changing trends in the financial obligations ratio published by the Federal Reserve, and changes in the consumer price index. The Company segments customer accounts receivable into vintage pools based on date of account origination. Each vintage is further segmented into pools based on delinquency status as of the balance sheet date and risk profile. Estimate of future losses are based on historical losses on receivables with a similar vintage, delinquency status, and risk profile, adjusted for current trends and changes in underwriting. Customer receivables are written off as of the statement cycle date following the passage of 180 days (120 days for FreshStart installment accounts) without receiving a qualifying payment. Accounts receivable relating to bankrupt or deceased account holders are written off as of the statement cycle date following the passage of 60 days after receipt of formal notification regardless of delinquency status. Recoveries of receivables previously written off are recorded when received.

Merchandise Inventories—Merchandise inventories are valued at the lower of weighted-average cost or market value. The Company writes down inventory considered obsolete based on management's best

estimate of the amount of inventory that is subject to obsolescence. The estimates are subject to change in the near term, depending on changes in economic conditions and other factors, which may affect the ending inventory valuation as well as gross margin. Merchandise inventories were $96.4 million and $68.2 million net of write-downs for excess and obsolete merchandise of $9.6 million and $8.4 million at January 30, 2015 and January 31, 2014, respectively. Cash discounts and trade rebates from vendors are recorded as a reduction to merchandise inventories.

Promotional Material Inventories—Promotional material inventories includes raw materials, work in process, and costs associated with catalog direct response advertising and premium (free gift) inventory. Production of catalog direct response advertising includes costs associated with photography, page design, development, separations, payroll and benefit costs for employees involved in the creation of catalogs, as well as costs of paper, printing, and postage. Catalog direct response advertising costs are deferred and amortized to sales and marketing expense over the period during which the sales are expected to occur, generally over three to five months following a mailing. Premiums are expensed when shipped to the customer along with the product order. Catalog direct response advertising expense was $39.4 million for the twelve weeks ended January 30, 2015, $73.1 million for the forty weeks ended November 7, 2014 and $111.5 million for the fiscal year ended January 31, 2014.

Promotional material inventories as of January 30, 2015 and January 31, 2014, consist of the following (in thousands):

	January 30, 2015 (Successor)	January 31, 2014 (Predecessor)
Premium inventory	$ 1,162	$ 1,143
Catalog advertising work in process	5,154	5,132
Deferred promotional costs	7,660	9,087
Promotional material inventories	$ 13,976	$ 15,362

Property and Equipment—Net—Property and equipment includes purchased and internally developed software, computer hardware, machinery and equipment used in the Company's distribution center, office furniture, property under capital lease, and leasehold improvements with estimated useful lives ranging from three to seven years. Property under capital lease is composed of computer hardware used for corporate data storage, software and equipment. Property and equipment is recorded at cost and is depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the estimated useful lives of the assets or the contractual term of the lease, with consideration of lease renewal options if renewal appears probable. Purchased and internally developed software are amortized over the estimated useful lives of the assets not to exceed seven years. The Company has pledged unencumbered property and equipment as additional collateral for the Successor Term Loan, with the Inventory Line of Credit in a secondary position. Prior to November 7, 2014, the Company had pledged unencumbered property and equipment as additional collateral for the Predecessor Term Loan, with the Inventory Line of Credit in a secondary position. See Note 5, *Financing*, for further information on the Successor Term Loan and Inventory Line of Credit.

Finite-lived Intangible Assets—In connection with the Acquisition, Successor finite-lived intangible assets, consisting of customer relationships, are amortized using the accelerated method over their estimated useful lives, currently estimated at six years. The Company considers the period of expected

cash flows and underlying data used to measure the fair value of the intangible assets when selecting a useful life.

Indefinite-lived Intangible Assets—Successor indefinite-lived intangible assets, consisting of trade names, are not subject to amortization. Rather, the Company assesses the recoverability of indefinite-lived intangible assets annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Fair values are established using a discounted cash flow method.

Goodwill—Business combinations typically result in the recording of goodwill and other intangible assets. The excess of purchase price over the fair value assigned to the tangible and intangible assets and liabilities assumed in the acquiree is recorded as goodwill. Goodwill is tested for impairment for all reporting units on an annual basis, or more frequently if events occur or circumstances change that would warrant such a review. When the fair value of a reporting unit falls below its carrying amount an impairment charge is recorded for the amount, by which the carrying amount of goodwill exceeds its implied fair value. Fair values are established using a discounted cash flow method.

Impairment of Long-Lived Assets—The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset, plus net proceeds expected from disposition of the asset (if any). When an impairment loss is recognized, the carrying amount of the asset is reduced to estimated fair value based on discounted cash flows, quoted market prices, or other valuation techniques. Assets to be disposed of are reported at the lower of the carrying amount of the asset or fair value less costs to sell. No impairment losses have been recognized.

Deferred Charges—Predecessor costs incurred to secure financing were capitalized and amortized as interest expense over the term of the related debt using the straight-line method, which approximates the effective interest method. Successor costs incurred to secure financing in connection with the Acquisition were capitalized and amortized as interest expense over the term of the related debt using the effective interest method. Transaction cost related to the A/R Program Agreements were capitalized and amortized as net credit expense (income) over the initial term of the agreements. Amortization of financing costs was $0.3 million for the twelve weeks ended January 30, 2015, $0.8 million for the forty weeks ended November 7, 2014 and $5.0 million for the fiscal year ended January 31, 2014. Amortization of transaction costs related to the A/R Program Agreements was $0.7 million for the forty weeks ended November 7, 2014 and $0.5 million for the fiscal year ended January 31, 2014.

Derivative Liabilities in Our Own Equity—Accounting Standards Codification (ASC) Topic 815-40, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*, required an analysis as to whether or not the Predecessor's common and preferred stock warrants and conversion features embedded in its Series A convertible preferred stock ("Series A Preferred Stock") and Series B convertible preferred stock ("Series B Preferred Stock") were indexed to its own equity, a condition that is required to attain equity accounting and classification. The Series A Preferred Stock and Series B Preferred Stock are collectively referred to as "Preferred Stock."

The Predecessor's Series A Preferred Stock and Series B Preferred Stock each contained an embedded conversion feature that contained nonstandard antidilution provisions. See Note 7, *Fair Value Measurements and Fair Value of Financial Instruments*, for further information. The embedded conversion feature was not considered to be clearly and closely related to the host instrument because the Preferred Stock was redeemable outside of the control of the Predecessor. Under ASC Topic 815-40,

the embedded conversion feature was required to be bifurcated and accounted for as a freestanding derivative.

The Predecessor also had derivative liabilities relating to certain of its common stock warrants, preferred stock warrants, and a contingent fee agreement ("Contingent Fee"). These derivative liabilities were recorded at their estimated fair value. Changes in fair value were reflected in the consolidated statement of operations as gains or losses from derivatives in our own equity. Effective December 6, 2013, the Predecessor had no derivative liabilities in our own equity. See Note 5, *Financing*, and Note 7, *Fair Value Measurements and Fair Value of Financial Instruments, for further information*.

Operating Leases—The Company rents office and distribution center space under operating leases which, in addition to the minimum lease payments, require payment of a proportionate share of the real estate taxes and certain building operating expenses.

Rent expense is recognized on a straight-line basis over the lease term, after consideration of rent escalations and rent holidays. The Company records any difference between the straight-line rent amounts and amounts payable under the leases as deferred rent, in other current liabilities or other long-term liabilities, as appropriate. The lease term for purposes of the calculation begins on the earlier of the lease commencement date or the date the Company takes possession of the property. Leasehold improvements that are funded by landlord incentives or allowances under an operating lease are recorded as deferred rent in accrued costs and other current liabilities or other long-term liabilities, as appropriate, and amortized as reductions to rent expense over the lease term. As of January 30, 2015, there was an immaterial amount of deferred rent included in accrued costs and other current liabilities in the consolidated balance sheets. As of January 31, 2014, deferred rent included in accrued costs and other current liabilities in the consolidated balance sheets was $0.5 million. Deferred rent included in other long-term liabilities in the consolidated balance sheets was $0.1 million and $4.9 million as of January 30, 2015 and January 31, 2014, respectively.

Capital Leases—Assets held under capital leases are included in property and equipment. Capital lease obligations are included in current and long-term debt, as appropriate. See Note 5, *Financing*.

Revenue Recognition—Net sales consists of sales of merchandise, shipping and handling revenue, and commissions earned from third parties that market their products to the Company's customers. Merchandise sales and shipping and handling revenue are recorded at the estimated time of delivery to the customer. Net sales is reported net of discounts and estimated sales returns, and excludes sales taxes.

Net sales for the twelve weeks ended January 30, 2015, forty weeks ended November 7, 2014 and the fiscal year ended January 31, 2014, consist of the following (in thousands):

	Twelve Weeks Ended January 30, 2015 (Successor)	Forty Weeks Ended November 7, 2014 (Predecessor)	Fiscal Year Ended January 30, 2015 (Predecessor)
Sales by merchandise category:			
Home	$ 145,334	$ 294,184	$ 351,389
Entertainment	225,163	272,136	387,413
Fashion	82,957	102,390	140,229
Total merchandise sales	453,454	668,710	879,031
Returns and allowances	(27,218)	(42,685)	(56,059)
Commissions	6,156	13,106	15,965
Net sales	$ 432,392	$ 639,131	$ 838,937

Cost of Sales—Cost of sales includes the cost of merchandise sold (net of vendor rebates, purchase discounts and estimated returns), shipping and handling costs, inbound freight costs, payroll and benefits for distribution center employees, depreciation of distribution center assets, and estimates of product obsolescence costs. Distribution center occupancy costs are not included in cost of sales.

Sales and Marketing Expenses—Sales and marketing expenses include television advertising, e-commerce advertising, catalog production and postage costs, premium (i.e., free gift with purchase) expense, interchange fee, order entry, and customer service costs. Television advertising costs are expensed the first time the advertising takes place. Catalog production and postage costs are deferred and amortized over the period during which the future benefits of the mailing are expected to be received.

Net Credit Expense (Income)—The Company recognizes finance charge and fee income on Company-owned customer accounts receivable according to the contractual provisions of its customer account agreements. Finance charge income is accrued on Company-owned accounts receivable until the account balance is paid off or charged off. A late fee is imposed if the customer does not pay at least the minimum payment by the payment due date. The Company ceases to charge a late fee when an account is 90 or more days past due. The Company’s estimate of uncollectible finance charge and fee income is included in the allowance for doubtful accounts.

The Company records a provision for doubtful accounts to maintain the allowance for doubtful accounts at a level intended to absorb probable losses in the Company-owned customer accounts receivable as of the consolidated balance sheet date.

Credit management costs related to both the Company-owned and SCUSA-owned customer accounts receivable includes statement and payment processing, collections, origination fees paid to the Credit Issuers, new account application and credit bureau processing costs, as well as direct customer service costs.

The Company receives a servicing fee and shares a portion of the profits, as defined in the A/R Program Agreements, of the SCUSA-owned portfolio of Standard Receivables. The SCUSA-owned portfolio profits are based on finance charge, fees and other revenues, less write-offs of uncollectable receivables,

net of recoveries, servicing fees, an agreed-upon cost of funds and a merchant fee, as applicable. Servicing fee income and portfolio profit sharing income is recognized according to the contractual provisions in the A/R Program Agreements.

Net credit expense (income) for the twelve weeks ended January 30, 2015, forty weeks ended November 7, 2014 and year ended January 31, 2014, is as follows (in thousands):

	Twelve Weeks Ended January 30, 2015 (Successor)	Forty Weeks Ended November 7, 2014 (Predecessor)	Fiscal Year Ended January 31, 2014 (Predecessor)
Finance charge and fee income	$ (3,436)	$ 7,848	$ (96,835)
Servicing fee income and portfolio profit sharing	(8,101)	(54,820)	(91,192)
Provision for doubtful accounts	10,510	(5,958)	74,562
Credit management costs	19,038	51,877	50,600
Net credit expense (income)	$ 18,011	$ (1,053)	$ (62,865)

General and Administrative Expenses—General and administrative expenses include payroll and benefit costs for corporate and administrative employees, including information technology, legal, human resources, finance, merchandising, credit supervision, sales and marketing management; occupancy costs of corporate and distribution center facilities; insurance; maintenance; and other overhead costs.

Transfer and Servicing of Financial Assets—A Standard Receivable eligible to be sold under the A/R Program Agreements, as discussed in Note 3, *Serviced Credit Portfolio*, qualifies as a sale under ASC Topic 860, *Transfers and Servicing,* and is recorded at the lower of cost or fair value at the date of eligibility. At that time, any reduction in the Standard Receivable's value is reflected as a charge to provision for doubtful accounts expense with a corresponding addition in the allowance for doubtful accounts. The Standard Receivable is then reclassified as held-for-sale and the Company records a charge-off for any reduction below par on the Standard Receivable with a corresponding reduction in the allowance for doubtful accounts. The Company derecognizes the Standard Receivable upon the sale and any servicing asset or liability is recognized at fair value. During the years ended January 30, 2015 and January 31, 2014, compensation received for the services approximated adequate compensation and, therefore, there was no servicing asset or liability. For the twelve weeks ended January 30, 2015 and the forty weeks ended November 7, 2014, the Company did not record charges to the provision for doubtful accounts or charge-offs related to the sale of Standard Receivables as all Standard Receivables were sold at par value. For the year ended January 31, 2014, the Company recorded $29.2 million charge to provision for doubtful accounts and recorded $72.2 million of charge-offs related to the sale of Standard Receivables.

Stock-Based Compensation—Stock-based compensation expense is recognized in an amount equal to the fair value on the date of the grant. Compensation expense is recognized over the period the employees are required to provide services in exchange for the stock-based awards. See Note 8, *Stock-Based Compensation*, for a discussion of the Company's stock-based compensation plans.

Comprehensive Income—During the twelve weeks ended January 30, 2015, forty weeks ended November 7, 2014 and the fiscal year ended January 31, 2014, there were no other comprehensive income. Accordingly, net income equals comprehensive income for all periods presented.

2. THE ACQUISITION

The Acquisition was completed on November 7, 2014, and was financed by:

- Borrowings of $300 million under the Successor Term Loan agreement. See Note 5, *Financing*
- $269 million of equity investments from Capmark

The Acquisition occurred simultaneously with:

- The closing of the financing transactions and equity investments described previously
- Payoff of former $225 million Predecessor Term Loan
- Amendment to the Company's Inventory Line of Credit
- Payoff of debt due to affiliates

The Acquisition was accounted for in accordance with the provisions of ASC Topic 805, *Business Combinations*, whereby the purchase price paid to effect the Acquisition has been allocated to state the acquired assets and liabilities at fair value. The components of the preliminary purchase price allocation are as follows (in thousands):

Total purchase price	$ 552,484
Current assets	$ 320,910
Property and equipment	47,511
Intangible assets	396,200
Other assets	3,065
Total identifiable assets acquired	767,686
Current liabilities	259,323
Long-term debt	3,594
Other liabilities	153,927
Total liabilities assumed	416,844
Net identifiable assets acquired	350,842
Goodwill	201,642
Net assets acquired	$ 552,484

The fair value of the acquired intangible assets of $396.2 million includes customer relationships and trade names of $176.2 million and $220 million, respectively. Fair value of the customer relationships was determined by using a discounted cash flow analysis. Significant estimates included the determination of expected cash flows. Fair value of the trade names was determined by using the relief from royalty method. Significant estimates included the determination of expected revenue and estimated royalty rate. See Note 4, *Long-Lived Assets and Goodwill*, for further information.

The goodwill of $201.6 million is primarily attributable to Fingerhut's assembled workforce and its proprietary marketing and credit decision-making tools and management know how. None of the goodwill is expected to be deductible for income tax purposes. As of January 30, 2015, there were no

changes in the recognized amounts of goodwill resulting from the Acquisition. See Note 4, *Long-Lived Assets and Goodwill*, for further information.

As of January 30, 2015, we are in the process of finalizing the purchase price allocation related to the Acquisition. The preliminary purchase price allocation is subject to a working capital adjustment and may require further adjustments, but is not expected to result in material changes to the estimated fair value of net assets acquired and liabilities assumed.

Pro forma results—The following summary presents unaudited pro forma consolidated results of operations for the years ended January 30, 2015 and January 31, 2014, as if the Acquisition had occurred on February 2, 2013. The following unaudited pro forma financial information does not necessarily reflect the actual results that would have occurred (in thousands):

	January 30, 2015	January 31, 2014
Consolidated pro forma revenue	$ 1,071,523	$ 838,937
Consolidated pro forma net income (loss)	27,386	(6,751)

Pro forma adjustments for the year ended January 30, 2015, consist primarily of the following: (1) recognition of $23.3 million of amortization expense as a result of finite-lived intangible assets, and (2) recognition of $7.4 million of interest expense, partially offset by (3) the reversal of $28.7 million of dividend equivalent expense, (4) the reversal of $11.2 million of transaction costs incurred in connection with the Acquisition, (5) the reversal of loss on extinguishment of debt of $9.3 million (6) the reversal of $6.7 million related to stock-based compensation expense, and (7) the reversal of $0.9 million related to rent expense.

Pro forma adjustments for the year ended January 31, 2014, consist primarily of the following: (1) the reversal of $177.3 million of loss on derivatives in our equity and (2) the reversal of $12.7 million of dividend equivalent expense, (3) the reversal of $1.2 million related to rent expense, partially offset by (4) recognition of $45.9 million of amortization expense as a result of finite-lived intangible assets (5) recognition of $24.9 million of interest expense, and (6) recognition of $0.3 million of transaction costs incurred in connection with the Acquisition.

3. SERVICED CREDIT PORTFOLIO

The Company markets revolving credit accounts and installment credit accounts to qualifying customers identified by the Company. The Credit Issuer extends credit directly to Fingerhut and Gettington.com customers. The credit accounts may only be used to purchase goods and services from Fingerhut, Gettington.com, and certain third parties that market their goods and services to the Company's customers. The Company is obligated to purchase and assume ownership of the receivables after a contractual holding period by the Credit Issuer, generally one business day. The purchase price of the receivables from the Credit Issuer is par value, and the Company pays applicable interchange fees, origination fees, and other products fees along with applicable customer finance charges earned by the Credit Issuer during the contractual hold period.

The Company is obligated to sell to SCUSA all new Standard Receivables on the same day those receivables are purchased by the Company from the Credit Issuer. Furthermore, if the Fingerhut or Gettington.com customer whose purchase of goods triggered the origination of that new receivable also had an existing receivable balance not previously sold to SCUSA, that existing balance is also required to be sold to SCUSA. Company retains all Nonstandard Receivables purchased from the Credit Issuer.

SCUSA bears risk of loss due to uncollectibility of the Standard Receivables purchased by SCUSA. The Company bears risk of loss due to uncollectibility on Nonstandard Receivables and any existing Standard Receivables not purchased by SCUSA.

The Company is responsible for servicing all accounts issued by the Credit Issuer whether the related receivables are owned by the Company or SCUSA ("Serviced Credit Portfolio") including account transaction authorization, preparation and mailing of account statements, undertaking collections, providing customer service and other services as are ordinary and customary in the servicing of revolving credit accounts and installment credit accounts.

Fingerhut revolving credit is typically accepted on customary revolving credit terms and offers the customer the option of paying the entire balance during a "grace period" of at least 24 days without incurring finance charges. Alternatively, customers may make scheduled minimum payments and incur finance charges on the revolving balance. Depending on the dollar value of the account balance, minimum payments range from $6.99 to $69.99 for balances up to $1,399, or 5% of the account balance for balances greater than $1,399. For balances of $6.99 or less, the minimum payment is the outstanding balance. The Company also offers qualifying customers credit on deferred payment billing terms. Generally, the deferral periods are between 30 and 150 days. Finance charges are assessed on the deferred payment purchase from the date of the sale, regardless if the purchase is paid in full by the end of the deferred payment.

The Company's Fingerhut FreshStart credit product is primarily marketed as a counter offer to customers who have applied but were declined a revolving credit account. Fingerhut FreshStart provides the credit applicant the alternative of purchasing merchandise on installment credit terms. Once approved and after a $30 down payment has been received, Fingerhut FreshStart applicants are allowed a one-time purchase of Fingerhut merchandise up to their credit limit. The remaining balance is repaid by monthly installments. If all payments are made on time and for the full amount, the customer credit account is graduated to Fingerhut's customary revolving credit account.

Gettington.com revolving credit is accepted on customary revolving credit terms and offers the customer the option of paying the entire balance during a "grace period" of at least 24 days without incurring finance charges. Alternatively, customers may make scheduled minimum payments and incur finance charges on the revolving balance. Minimum payments depend on whether the customer has chosen the Fast Option or the Easy Option. The Fast Option calculates the minimum payment in four equal monthly installments at the time of purchase, which includes related interest charges. The Easy Option minimum payment amount is determined by the purchases and balances on the Easy Option plan. The minimum payment is calculated on the original purchase as either $20 or 5.5% of the beginning account balance, whichever is greater. The Easy Option payment is recalculated after each additional purchase.

PayCheck Direct installment receivables are issued by the Company to consumers who are members and employees of participating organizations and employers in the program. Customers make installment payments through payroll deductions or automatic bank withdrawals based on their company or organization's payroll frequency over the course of one year or less. No interest is charged on these installment receivables.

Serviced Credit Portfolio metrics as of January 30, 2015 and January 31, 2014 are as follows (in thousands):

	January 30, 2015 (Successor)		
	Revolving [a]	FreshStart [b]	PayCheck Direct [c]
Balance active accounts	$ 1,878	$ 184	$ 25
Average balance outstanding	$ 686	$ 127	$ 723
Customer accounts receivable [d]	$ 1,287,526	$ 23,346	$ 17,921
Balances 30+ days delinquent [e]	$ 189,092	$ 4,805	$ 1,109
Balances 30+ days delinquent as a percentage of total customer accounts receivable [f]	14.7 %	20.6 %	6.2 %

	January 31, 2014 (Predecessor)		
	Revolving [a]	FreshStart [b]	PayCheck Direct [c]
Balance active accounts	$ 1,719	$ 135	$ 5
Average balance outstanding	$ 606	$ 112	$ 736
Customer accounts receivable [d]	$ 1,042,258	$ 15,060	$ 3,826
Balances 30+ days delinquent [e]	$ 151,843	$ 3,487	$ 243
Balances 30+ days delinquent as a percentage of total customer accounts receivable [f]	14.6 %	23.2 %	6.4 %

(a) Revolving serviced portfolio includes Fingerhut and Gettington.com revolving credit accounts.

(b) FreshStart serviced portfolio is Fingerhut's installment accounts.

(c) PayCheck Direct serviced portfolio is installment receivables issued to consumers who are members and employees of participating organizations and employers in the PayCheck Direct program.

(d) Customer accounts receivable excludes impact from purchase accounting fair value adjustment.

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

(f) 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.

Company-owned customer accounts receivable—Company-owned customer accounts receivable primarily consists of FreshStart installment accounts receivable, PayCheck Direct accounts receivable, revolving accounts receivable and other accounts receivable. FreshStart installment, PayCheck Direct and other accounts receivable are not sold to SCUSA, as defined by the AR Program Agreement. The revolving accounts receivable owned by the Company are generally accounts which have not had a new sale origination since the SCUSA arrangement in April 2013 or are in certain status, such as qualified hardship, bankruptcy, deceased, and re-aged. The Company-owned revolving accounts receivable will run-off over time as payments are made or the account is charged-off. Other accounts receivable represents in-transit payments related to third-party credit card and debit transactions that are not related to or have not yet posted to a customer revolving or installment account.

Customer accounts receivable as of January 30, 2015 and January 31, 2014, are as follows (in thousands):

	January 30, 2015 (Successor)	January 31, 2014 (Predecessor)
FreshStart installment accounts receivable	$ 19,706	$ 14,924
PayCheck Direct installment accounts receivable	16,494	3,823
Revolving accounts receivable	9,241	50,257
Other accounts receivable	5,944	4,503
Customer accounts receivable	51,385	73,507
Less allowance for doubtful accounts	(10,457)	(37,101)
Customer accounts receivable—net	$ 40,928	$ 36,406

Finance charge and fee income is recognized on Company-owned customer accounts receivable according to the contractual provisions of the credit account agreements. The Company maintains an allowance for doubtful accounts at a level intended to absorb estimated probable losses inherent in Company-owned customer accounts receivable, including accrued finance charges and fees as of the balance sheet date. The provision for doubtful accounts is included in retail net credit expense (income) in the consolidated statements of comprehensive income. Upon charge off, any unpaid principal is applied to the allowance for doubtful accounts and any accrued but unpaid finance charges and fees are netted against finance charge and fee income with an offsetting equivalent reversal of the allowance for doubtful accounts through the provision for doubtful accounts.

Changes in the allowance for doubtful accounts for the twelve weeks ended January 30, 2015, forty weeks ended November 7, 2014 and year ended January 31, 2014, are as follows (in thousands):

	Twelve Weeks Ended January 30, 2015 (Successor)	Forty Weeks Ended November 7, 2014 (Predecessor)	Fiscal Year Ended January 31, 2014 (Predecessor)
Allowance for doubtful accounts—beginning of period	$ -	$ 37,101	$ 164,449
Provision for doubtful accounts	10,510	(5,958)	74,562
Principal charge-offs [(a)]	(53)	(22,558)	(224,397)
Recoveries	-	4,314	22,487
Allowance for doubtful accounts—end of period	$ 10,457	$ 12,899	$ 37,101

(a) For the fiscal year ended January 31, 2014, charge-offs include $72.2 million related to the sale of accounts receivable under the terms of the A/R Program Agreements.

The Company estimates the allowance for doubtful accounts by segmenting customer accounts receivable by time since origination. The time since origination of customer accounts and their related accounts receivable balance as of January 30, 2015 and January 31, 2014, are as follows (in thousands):

	January 30, 2015 (Successor)	January 31, 2014 (Predecessor)
Time since origination, as segmented in our estimate of the allowance for doubtful accounts:		
0–3 months	$ 31,070	$ 10,318
4–6 months	9,383	5,131
7–9 months	2,531	2,362
10–12 months	268	2,810
13–15 months	1,373	5,163
16–18 months	344	2,231
19+ months	2,599	32,737
Impaired [a]	3,817	12,755
Period-end customer accounts receivable	$ 51,385	$ 73,507

[a] Includes qualified hardship, bankrupt, deceased, and re-aged customer accounts.

SCUSA-owned customer accounts receivable—On April 19, 2013, the Company entered into the A/R Program Agreements with WebBank and SCUSA related to revolving Fingerhut and Gettington.com customer accounts receivables. On July 2, 2014, the Company entered into an amendment to include a two-year renewal option at the sole discretion of the Company at the end of the seven-year original term of the agreement. If the two-year renewal option is exercised by the Company, the agreements will automatically renew for two successive two-year periods.

Under the A/R Program Agreements, the Credit Issuer originates, the Company markets revolving credit accounts, and the Company sells all new Standard Receivables to SCUSA, and if the Fingerhut or Gettington.com customer whose purchase of goods triggered the origination of that new receivable also had an existing receivable balance on his or her revolving credit account, that existing balance is also required to be sold to SCUSA. All Standard Receivables sold are purchased at par value. SCUSA reimburses the Company for the fees paid to the Credit Issuer except for the applicable interchange fees.

For the twelve weeks ended January 30, 2015 and the forty weeks ended November 7, 2014, the Company purchased $423.8 million and $677.4 million, respectively, of new Standard Receivables under the A/R Program Agreements. For the twelve weeks ended January 30, 2015 and for the forty weeks ended November 7, 2014, the Company sold $424.1 million and $678.7 million, respectively, new and existing Standard Receivables at par value under the A/R Program Agreements. No charge was recorded to provision for doubtful accounts as the Standard Receivables value approximates net realizable value. For the fiscal year ended January 31, 2014, the Company purchased $763.2 million new Standard Receivables under the A/R Program Agreements. For the fiscal year ended January 31, 2014, the Company sold $1,250.8 million new and existing Standard Receivables and recorded a net charge to provision for doubtful accounts expense of $29.2 million to reduce the Standard Receivables value to net realizable value. The Standard Receivables were sold for $1,178.6 million, which approximated the carrying value of the Standard Receivables, and the Company recorded a charge-off of $72.2 million.

In consideration of the Company's servicing of the Standard Receivable portfolio owned by SCUSA, SCUSA pays a servicing fee to and shares a portion of the profits of the portfolio with the Company. The portfolio profits are based on finance charge, fees and other revenues, less write-offs of uncollectable receivables, net of recoveries, servicing fees, an agreed-upon cost of funds and in certain circumstances a merchant fee. Upon transfer, any servicing asset or liability is initially recognized at fair value. The compensation received for the twelve weeks ended January 30, 2015, the forty weeks ended November 7, 2014 and the year ended January 30, 2014, approximates adequate compensation for the services, and as such, there is no servicing asset or liability as of January 30, 2015 or January 31, 2014.

The Company is subject to the following financial covenants under the Program Agreement:

- *Minimum Net Liquidity*—The Company must maintain net liquidity of at least $40 million measured at each fiscal month end as the sum of (i) unrestricted cash and cash equivalents, and (ii) availability of cash under any credit facility maintained by the Company or any of its subsidiaries.

- *Leverage Ratio*—The Company must maintain a leverage ratio of less than or equal to 5.0 to 1.0 measured at each fiscal quarter end as (a) Total Debt outstanding minus cash and cash equivalents to (b) consolidated adjusted EBITDA (for the most-recently ended four fiscal quarters). Under the Program Agreement, consolidated adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization and, among other items, includes the add back of the loss from derivatives in our own equity and loss on early extinguishment of debt.

- *Fixed Charge Ratio*—The Company must maintain a fixed charge ratio equal to or greater than 1.10x measured at each fiscal quarter end for the most recently ended four fiscal quarters, as (i) consolidated adjusted EBITDA, minus capital expenditures made during such period (excluding the portion thereof funded with long-term debt financing provided by third parties) to (ii) consolidated fixed charges.

Failure to comply with these covenants is an event of default, subject to certain grace periods or waivers. As of January 30, 2015, the Company was in compliance with all financial covenants.

In executing the transactions described above, the Company incurred approximately $6.7 million of direct and incremental expenses, including broker, legal, consulting and accounting expenses. These costs were deferred and amortized to net credit expense (income) over the seven-year initial term of the agreements. The deferred charges were not assumed at Acquisition.

4. LONG-LIVED ASSETS AND GOODWILL

Property and equipment—Net—As of January 30, 2015 and January 31, 2014, property and equipment—net consists of the following (in thousands):

	January 30, 2015 (Successor)	January 31, 2014 (Predecessor)
Software	$ 39,711	$ 70,282
Computer hardware	3,920	5,982
Machinery, equipment, and furniture	2,724	4,312
Property under capital lease	4,637	3,251
Leasehold improvements	2,580	6,482
	53,572	90,309
Less accumulated depreciation and amortization	(3,817)	(53,246)
Property and equipment—net	$ 49,755	$ 37,063

Total depreciation of fixed assets and internal-use software and website development amortization expense was $3.5 million for the twelve weeks ended January 30, 2015, $10.5 million for the forty weeks ended November 7, 2014 and $13.4 for the year ended January 31, 2014. Depreciation and amortization expense excluding amounts in cost of sales was $3.3 million for the twelve weeks ended January 30, 2015, $9.7 million for the forty weeks ended November 7, 2014, and $12.6 million for the fiscal year ended January 31, 2014. The remaining expense was reported in cost of sales. Routine maintenance and repair costs, reported in general and administrative expenses, were $1.4 million for the twelve weeks ended January 30, 2015, $3.7 million for the forty weeks ended November 7, 2014 and $5.1 million for the fiscal year ended January 31, 2014.

Intangible Assets—The following table summarizes the components of intangible assets (in thousands):

	Twelve Weeks Ended January 30, 2015 (Successor)		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:			
Customer relationships	$ 176,200	$ (18,308)	$ 157,892
Total finite-lived intangible assets	176,200	(18,308)	157,892
Indefinite-lived intangible assets:			
Tradenames	220,000	-	220,000
Total indefinite-lived intangible assets	220,000	-	220,000
Total intangible assets—net	$ 396,200	$ (18,308)	$ 377,892

Amortization expense of finite-lived intangible assets was $18.3 million for the twelve weeks ended January 30, 2015. Total amortization of all finite-lived intangible assets recorded in connection with the Acquisition for the remainder of their useful life is estimated as follows (in thousands):

Fiscal Years	
2015	$ 48,731
2016	36,158
2017	27,370
2018	20,365
2019	14,683
Thereafter	10,585
Total	$ 157,892

Goodwill—The changes in the carrying amount of goodwill for the fiscal year ended January 30, 2015, are as follows (in thousands):

	Fingerhut
Balance as of January 31, 2014	$ -
Acquisition of Bluestem Brands, Inc.	201,642
Balance as of January 30, 2015	$ 201,642

5. FINANCING

Outstanding financing agreements as of January 30, 2015 and January 31, 2014, are as follows (in thousands):

	January 30, 2015 (Successor)	January 31, 2014 (Predecessor)
Short-term debt:		
Successor Term Loan—net of discount of $2,300 at January 30, 2015	$ 13,642	$ -
Predecessor Term Loan—net of discount of $1,457 at January 31, 2014	-	23,543
Inventory Line of Credit	3,748	2,763
Capital lease obligation	1,672	1,088
Other notes payable	54	585
Short-term debt	$ 19,116	$ 27,979
Long-term debt:		
Successor Term Loan—net of discount of $9,133 at January 30, 2015	$ 274,925	$ -
Predecessor Term Loan—net of discount of $4,992 at January 31, 2014	-	195,008
Debt due to affiliates	-	400
Capital lease obligation	3,072	2,641
Other notes payable	172	231
Long-term debt	$ 278,169	$ 198,280

Interest Expense—net for the twelve weeks ended January 30, 2015, forty weeks ended November 7, 2014 and the fiscal year ended January 31, 2014, is as follows (in thousands):

	Twelve Weeks Ended January 30, 2015 (Successor)	Forty Weeks Ended November 7, 2014 (Predecessor)	Fiscal Year Ended January 31, 2014 (Predecessor)
Interest on debt	$ 6,156	$ 11,589	$ 14,549
Interest on capital lease obligation	38	160	173
Amortization of deferred charges	333	796	4,994
Amortization of original issue discount	567	1,046	82
Interest income	(3)	(15)	(26)
Interest expense—net	$ 7,091	$ 13,576	$ 19,772

Successor Term Loan—On November 7, 2014, the Company entered into a $300 million long-term debt facility with a syndication of investors ("Successor Term Loan"), which matures on November 7, 2020. The Successor Term Loan was issued with an original issue discount totaling $12.0 million. Direct loan origination fees of $6.9 million were capitalized as deferred charges. Both the original issue discount and the deferred charges are amortized under the effective interest method as interest expense

over the term of the loan. Proceeds from the Successor Term Loan were used to finance the Acquisition. See Note 2, *The Acquisition*.

The Company is required to repay the outstanding principal balance of the Successor Term Loan in quarterly installments of $3.8 million; however, the quarterly installments may be reduced by the excess cash flow mandatory prepayment described below, with the balance due at maturity. In addition, the Company is obligated to make mandatory prepayments of principal on an annual basis equal to:

- 50% of annual excess cash flow (as defined in the Successor Term Loan) during the first period, subject to a range of 0% to 75% based upon specified leverage ratio targets for the following periods; and

- net cash proceeds from (1) certain asset sales, (2) certain debt offerings, and (3) certain insurance condemnation proceeds.

For the fiscal year ended January 30, 2015, the Company generated excess cash flow resulting in a mandatory prepayment of approximately $15.9 million. As of January 30, 2015, the mandatory prepayment is included within current portion of long-term debt in our consolidated balance sheet.

Outstanding balances under the Successor Term Loan, at the option of the Company, can be classified on a monthly or quarterly basis as either Alternative Base Rate or Eurocurrency Rate borrowings. Alternative Base Rate borrowings bear an interest rate of 6.5% per annum plus adjustments amounting to a minimum additional rate of 2% per annum. Eurocurrency Rate borrowings bear at an interest rate of 7.5% per annum plus adjustments amounting to a minimum additional rate of 1% per annum. The interest rate adjustment amounts required under the two different types of borrowings may exceed the 2% and 1% floors respectively, depending on changes in the Federal Funds Rate, the Prime Rate, or the LIBOR rate. Interest payments are due quarterly on Alternative Base Rate borrowings, and monthly on Eurocurrency Rate borrowings.

The Successor Term Loan is secured by a first lien on unencumbered property and equipment and a second lien on the Company's inventory and accounts receivable not otherwise pledged or sold. The Company has restrictions on the amount of dividend declared and is subject to the following financial covenants under the Successor Term Loan:

- *Minimum Liquidity*— The Company must maintain liquidity of at least $40 million measured at each fiscal quarter end as the sum of (i) unrestricted cash and cash equivalents, plus (ii) undrawn committed availability under any credit facility maintained by the Company.

- *Total Leverage Ratio*— The Company must maintain a total leverage ratio (total net debt outstanding to adjusted EBITDA, as defined within the Successor Term Loan Agreement) of no greater than 5:1 measured at each fiscal quarter-end, dropping to 4.75:1 for fiscal quarters ending in 2016, and 4.5:1 for fiscal quarters ending in 2017, and thereafter. Under the Successor Term Loan agreement, EBITDA is defined as earnings before interest, tax, depreciation and amortization and, plus various other add-back items generally representing non-operating or non-recurring items.

Failure to comply with these covenants is an event of default, subject to certain cure rights. As of January 30, 2015, the Company was in compliance with all financial covenants.

As of January 30, 2015, the outstanding balance of the Successor Term Loan was $288.6 million.

Inventory Line of Credit—On November 7, 2014, the Company entered into an amendment (the "November 2014 Amendment") that increased the total facility size to $80 million, subject to borrowing base calculations, lowered the rate at which interest accrues, added incremental facilities, and extended the maturity date to November 7, 2019. The November 2014 Amendment permits the Company to increase commitments under the Inventory Line of Credit by an amount not to exceed $20 million. However, the lenders are under no obligation to provide any such additional commitments, and any increase in commitments or incremental term loans will be subject to certain conditions. If the Company were to request any such additional commitments to the existing lenders or new lenders were to agree to provide such commitments, the size of the Inventory Line of Credit could be increased to $100 million, but the Company's ability to borrow would still be limited by the amount of the borrowing base. The cash proceeds of any incremental commitments may be used for working capital and general corporate purposes. There were no origination fees deferred in conjunction with the November 2014 Amendment.

The Company has a line of credit, as amended, that is secured by inventory and a second lien on other unencumbered assets of the Company (the "Inventory Line of Credit"). On December 6, 2013, the Company entered into an amendment (the "December 2013 Amendment") that allowed the execution of the Predecessor Term Loan and conformed certain attributes of its covenant to the Predecessor Term Loan. In conjunction with the December 2013 Amendment, the Company deferred $0.2 million of origination fees. These fees are amortized on a straight-line basis (which approximates the effective interest method) as interest expense over the term of the Inventory Line of Credit.

Borrowing capacity under the Inventory Line of Credit is calculated as the lower of 85% of the liquidation value from the latest inventory appraisal, or 65% of eligible inventory, in either case less any reserves.

Daily outstanding balances on the Inventory Line of Credit will, at the Company's request, be classified as either LIBOR Loans, or Adjusted Base Rate Loans (both as defined in the Inventory Line of Credit Agreement), subject to available balances. The rate of interest payable by the Company in respect of loans outstanding under the Inventory Line of Credit is (i) with respect to LIBOR Loans, the Adjusted LIBOR Rate (as defined) for the interest period elected, plus an applicable margin; or (ii) with respect to Adjusted Base Rate Loans, the highest of the applicable margin plus (i) Prime Rate (as defined), (ii) the Federal Funds Rate plus 0.50% or (iii) one month LIBOR plus 1%. The applicable margin is up to 1% with respect to Adjusted Base Rate Loans and up to 2% with respect to LIBOR Loans. The applicable margin is subject to adjustment based on the historical excess availability under the Inventory Line of Credit.

The Inventory Line of Credit agreement requires the payment of an unused commitment fee of 0.375% through November 7, 2015, and is afterwards subject to adjustment based on the historical average utilization under the Inventory Line of Credit.

Effective November 7, 2014, the Company has restrictions on the amount of dividend declared and is subject to a Minimum Net Liquidity in which the Company must maintain net liquidity of at least $40 million measured at each fiscal month end as the sum of (i) unrestricted cash and cash equivalents, and (ii) availability of cash under any credit facility maintained by the Company or any of its subsidiaries. In the event that the SCUSA Agreement is terminated, the Company will be required to comply with a minimum liquidity covenant on terms to be mutually agreed with the lender.

From April 19, 2013 through November 7, 2014, the Company was subject to a leverage ratio covenant. Prior to April 19, 2013, the Company was also subject to certain tangible net worth, last twelve months adjusted EBITDA margin and minimum adjusted EBITDA covenants. Failure to comply with these

covenants was an event of default, subject to certain grace periods or waivers. As of January 30, 2015 and January 31, 2014, the Company was in compliance with all financial covenants.

As of January 30, 2015 and January 31, 2014, outstanding borrowings on the Inventory Line of Credit were $3.7 million and $2.8 million, respectively. As of January 30, 2015 and January 31, 2014, $43.1 million and $29.7 million, respectively, were available under the Inventory Line of Credit. The Company had $0.5 million and $0.3 million of outstanding letters of credit as of January 30, 2015 and January 31, 2014, respectively.

Predecessor Term Loan—On December 6, 2013, the Company entered into a $225 million long-term debt facility with a syndicate of banks ("Predecessor Term Loan") maturing December 6, 2018. The Predecessor Term Loan was issued with an original issue discount totaling $6.7 million. The discount was amortized under the effective interest method as interest expense over the term of the Predecessor Term Loan. Direct loan origination fees of $4.8 million were capitalized as deferred charges. These fees were amortized on a straight-line basis (which approximates the effective interest method) as interest expense over the term of the Predecessor Term Loan. Proceeds from the Predecessor Term Loan were used to pay dividends. See Note 6, *Stockholders' Equity*.

Outstanding balances under the Predecessor Term Loan were, at the Company's request, classified as either LIBOR Loans or Base Rate Loans. The rate of interest payable by the Company in respect of loans outstanding under the Predecessor Term Loan was (a) with respect to LIBOR Loans, LIBOR plus 6.5% for the interest period elected with LIBOR not to be below 1%; or (b) with respect to Base Rate Loans, the highest of 5.5% plus (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.50% or (iii) one month LIBOR plus 1%.

On November 7, 2014, the Predecessor Term Loan was paid off in conjunction with the Acquisition. The $5.4 million unamortized original issue discount and $3.9 million deferred charges were written off and reported as a loss on early extinguishment of debt during the forty weeks ended November 7, 2014.

Prior to November 7, 2014, the Company was subject to a minimum net liquidity, fixed charge coverage, and leverage ratio financial covenants and were evaluated for compliance on a monthly or quarterly basis. Failure to comply with these covenants was an event of default, subject to certain grace periods or waivers. As of January 31, 2014, and through November 7, 2014, the Company was in compliance with all financial covenants.

Debt Due to Affiliates—The Company had an obligation of $0.4 million as of January 31, 2014, that is payable after, or in connection with, a transaction or series of transactions in which the holders of Series A Preferred Stock receive consideration with a value in excess of 250% of the total amount invested by such holders in the equity securities of the Company. In connection with the Acquisition, the Company repaid the outstanding balance in full.

Capital Lease Obligation—As of January 30, 2015 and January 31, 2014, capital lease obligations were $4.7 million and $3.7 million, respectively, with interest rate ranging from 2.4% and 4.7% per annum for the years ended January 30, 2015 and January 31, 2014, respectively.

Other Notes Payable—As of January 30, 2015 and January 31, 2014, the Company has $0.2 million and $0.8 million of other notes payable, respectively, with interest rates ranging from 3% to 9% per annum for both years ended January 30, 2015 and January 31, 2014. Included within other notes payable is a note payable to the landlord of the Company's corporate headquarters building that is being repaid over the term of the lease. See Note 11, *Commitments and Contingencies*.

Other Predecessor Financing—In 2013, the Company had three other Predecessor financing arrangements as follows:

- *A/R Loan*—The Company had $511 million Loan and Security Agreement with Wells Fargo Bank National Association and Gemini Securitization Corp., LLC (an affiliate of Deutsche Bank AG) maturing April 18, 2015 ("A/R Loan"). In the third quarter of 2013, the A/R Loan was paid off and the remaining $4.5 million of unamortized deferred financing fees were written off and reported as a loss on early extinguishment of debt.

- *A/R Credit Facility*—The Company had a $415 million A/R Credit Facility. In the first quarter of 2013, the A/R Credit Facility was paid off. The Company recorded a $3.6 million loss on early extinguishment of debt related to applicable prepayment penalties and the write-off of unamortized deferred charges.

- *Senior Subordinated Secured Notes*—The Company had a Senior Subordinated Secured Notes in an aggregate principal amount of $30 million. In the third quarter of 2013, the Senior Subordinated Secured Notes was paid off and the remaining $0.2 million of unamortized deferred financing fees were written off and reported a loss on early extinguishment of debt. In connection with the issuance of Senior Subordinated Secured Notes, warrants were issued to purchase 41,742,458 shares of the Company's Series A Preferred Stock. The fair value of derivative liabilities in our own equity was estimated as of each balance sheet date with changes in fair value recorded as a gain or loss from derivatives in our own equity. See Note 7, *Fair Value Measurements and Fair Value of Financial Instruments—Warrants*.

The Company was subject to certain financial covenants under each of the other predecessor financing arrangements. Failure to comply with these covenants was an event of default, subject to certain grace periods or waivers. The Company was in compliance with all financial covenants through the periods required to be measured under these financing arrangements.

Loss on Early Extinguishment of Debt—The $9.3 million loss on early extinguishment of debt recognized during the forty weeks ended November 7, 2014, was a result of the advance payoff of the Predecessor Term Loan in connection with the Acquisition, which included $5.4 million and $3.9 million related to unamortized original issue discount and deferred financing fees on the Predecessor Term Loan, respectively. The $8.3 million loss on early extinguishment of debt recognized during 2013 was a result of the advance payoff of debt, which included $1.5 million, $4.5 million and $0.2 million related to unamortized deferred financing fees on the A/R Credit Facility, A/R Loan and Senior Subordinated Secured Notes, respectively, and $2.1 million prepayment penalty related to the payoff of the A/R Credit Facility.

The future maturities of long-term debt for subsequent years as of January 30, 2015, are as follows (in thousands):

Fiscal Years	
2015	$ 19,116
2016	14,552
2017	14,079
2018	13,442
2019	13,327
Thereafter	222,769
	$ 297,285

6. STOCKHOLDERS' EQUITY

Successor Equity and Incentive Plan—On November 7, 2014, in conjunction with the Acquisition, the Company merged with and into Merger Sub with the Company surviving the merger. As a result of the Acquisition, Holdings Inc., which is a direct subsidiary of Capmark, owns one share of common stock with a $0.00001 par value in the Company. As of January 30, 2015, the Company had 100 shares of common stock authorized and one share issued and outstanding. The Capmark Board of Directors ("Capmark Board") approved the 2014 Equity Incentive Plan, which allowed Capmark to grant stock options, stock appreciation rights, restricted stock, restricted stock units, or stock awards that are payable in common stock of Capmark to the Company's officers and key employees.

Predecessor Recapitalization—On December 6, 2013, the Predecessor Company recapitalized its equity through a series of transactions ("Predecessor Recapitalization"), as follows:

- The Predecessor Company's board of directors ("Predecessor Board") amended the Fourth Amended and Restated Certificate of Incorporation of the Predecessor Company ("Fifth Amendment") to eliminate the liquidation preference and redemption rights of the Series B Predecessor Preferred Stock and Series A Predecessor Preferred Stockholders.

- The Company declared payment on Series B Predecessor Preferred Stock and Series A Predecessor Preferred Stock accrued but unpaid dividends.

- The Company declared an $11 common stock dividend, which included the participation rights of Predecessor preferred stockholders and Predecessor restricted stock award holders.

- The Company declared an $11 common stock dividend equivalent to unexpired and unexercised Predecessor stock option holders. See Note 8, *Stock-Based Compensation*.

- The holders of the Predecessor common stock warrants and Series A Predecessor Preferred Stock warrants exercised the warrants. See Note 7, *Fair Value Measurements and Fair Value of Financial Instruments*.

- The Company amended the contingent fee, in which among other items, terminated the contingent fee on the Predecessor common stock dividend payment date. See Note 7, *Fair Value Measurements and Fair Value of Financial Instruments*.

- The Company entered into the $225 million Predecessor Term Loan which was subsequently repaid as part of the Acquisition. Proceeds from the Predecessor Term Loan were used to pay the dividends declared. See Note 5, *Financing*.

On December 13, 2013, the Company paid a common stock dividend to its Predecessor common stock holders, Predecessor preferred stock holders and Predecessor restricted stock award holders for their participation rights in a common stock dividend totaling $254.9 million, including related fees. In addition, the Company paid certain Predecessor restricted stock award holders $0.7 million for the year ended January 31, 2014.

The elimination of liquidation preference and redemption rights and declaration of payment on the Predecessor preferred stock dividend accrued but unpaid are further described below.

Predecessor Equity and Incentive Plan—At January 31, 2014, the Company had 4,137,812,560 shares of authorized capital stock, of which 2,592,550,586 shares were designated as Predecessor common stock, and 1,545,261,974 shares designated as Predecessor preferred stock, $0.00001 par value per share, of which 791,738,012 shares were designated as Series A Predecessor Preferred Stock and 753,523,962 shares were designated as Series B Predecessor Preferred Stock. In connection with the Acquisition, the Predecessor common stock, Series A Predecessor Preferred Stock, and Series B Predecessor Preferred Stock were canceled and converted into a right to receive a portion of the purchase price consideration.

The Company had 8,830,488 authorized shares of Predecessor common stock for the grant of nonqualified stock options and restricted stock awards to employees under the 2003, 2005, 2008, and 2011 Predecessor Equity Incentive Plans (the "Predecessor Equity Incentive Plans"). As of January 31, 2014, there were 2,129,836 shares of the Company's Predecessor common stock available for future grants pursuant to the 2011 Predecessor Equity Incentive Plan, which includes shares that remained available for future awards under its 2008 Predecessor Equity Incentive Plan. In connection with the Acquisition, Predecessor nonqualified stock options vested immediately. In-the-money nonqualified stock options were canceled in exchange for cash settlement and out-of-the-money nonqualified stock options were canceled without settlement. All restrictions on the restricted stock awards under the Predecessor Equity Incentive Plans lapsed. See Note 8, *Stock-based Compensation*.

The Series B Predecessor Preferred Stock and Series A Predecessor Preferred Stock included, but were not limited to, the following:

Dividends—Holders of the Series B Predecessor Preferred Stock were entitled to receive, when declared by the Predecessor Board, cumulative cash dividends at an annual rate of 6% on the Series B Predecessor Preferred Stock purchase price, prior and in preference to, any declaration or payment of any dividend to the holders of shares of Series A Predecessor Preferred Stock and Predecessor common stockholders. Dividends on the Series B Predecessor Preferred Stock were cumulative and accrued daily but compounded annually on each anniversary after the date of original issuance of each share of Series B Predecessor Preferred Stock, whether or not earned or declared, and whether or not there are earnings or profits, surplus, or other funds or assets of the Company legally available for the payment of dividends. As part of the Predecessor Recapitalization, $21.6 million of accrued Series B Predecessor Preferred Stock dividends was paid on December 13, 2013. In connection with the Acquisition, all accrued Series B Predecessor Preferred Stock dividends were paid.

Holders of the Series A Predecessor Preferred Stock were entitled to receive, when declared by the Predecessor Board, cumulative cash dividends at an annual rate of 8% on the Series A Predecessor Preferred Stock purchase price, prior and in preference to, any declaration or payment of any dividend to

the holders of shares of Predecessor common stock. Dividends on the Series A Predecessor Preferred Stock were cumulative and accrued daily, but compounded annually on each anniversary after the date of original issuance of each share of Series A Predecessor Preferred Stock, whether or not earned or declared, and whether or not there are earnings or profits, surplus, or other funds or assets of the Company legally available for the payment of dividends. As part of the Predecessor Recapitalization, $86.7 million of accrued Series A Predecessor Preferred Stock dividends was paid on December 13, 2013. In connection with the Acquisition, all accrued Series A Predecessor Preferred Stock dividends were paid.

Prior to December 6, 2013, dividends were reflected as an addition to mezzanine equity in the consolidated balance sheets. Effective December 6, 2013, dividends were reflected as an addition to Series A Predecessor Preferred Stock and Series B Predecessor Preferred Stock in stockholders' deficit. The Company recorded the accretion as a reduction to additional paid-in capital to the extent available, or increase accumulated deficit.

In the event that the Board declared a dividend payable on the then-outstanding shares of Predecessor common stock (other than a stock dividend on the Predecessor common stock payable solely in the form of additional shares of Predecessor common stock), the holders of Predecessor Preferred Stock were entitled, in addition to any cumulative dividends to which they may have been entitled to receive, the amount of dividends per share of such Predecessor Preferred Stock that was payable on the number of whole shares of the Predecessor common stock into which each share of such Predecessor Preferred Stock held by each holder would have been converted. As part of the Predecessor Recapitalization, $87.7 million and $92.2 million of additional dividends, including related fees, were paid to Series B Predecessor Preferred Stock and Series A Predecessor Preferred Stockholders, respectively, for their participant rights in the Predecessor common stock dividend on December 13, 2013.

Redemption of Preferred Stock—Prior to December 6, 2013, in the event that a qualified public offering had not been consummated on or prior to February 28, 2014, and upon the request of holders of 66% of the outstanding Series B Preferred Stock, the Series B Preferred Stock had the right to be redeemed for cash. In the event redemption of the Series B Preferred Stock was requested, holders of 50% or more of the Series A Preferred Stock could also request redemption of the Series A Preferred Stock. The redemption price calculation for both the Series B Preferred Stock and the Series A Preferred Stock was based on the greater of (i) the purchase price for such shares, plus unpaid dividends, and (ii) the fair market value of such shares. In the event funds were insufficient to effect redemption of both classes of Preferred Stock, funds were to be utilized first to redeem Series B Preferred Stock and any remaining funds would be made available for the holders of the Series A Preferred Stock. Effective December 6, 2013, the redemption right was eliminated as part of the Predecessor Recapitalization under the Fifth Amendment. See Note 7, *Fair Value Measurements and Fair Value of Financial Instruments*.

7. FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting standards define fair value, outline a framework for measuring fair value, and detail the required disclosures about fair value measurements. Under these standards, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. Standards establish a hierarchy in determining the fair market value of an asset or liability. The fair value hierarchy has three levels of inputs, both observable and unobservable. Standards require the utilization of the highest possible level of input to determine fair value.

Level 1 inputs include quoted market prices in an active market for identical assets or liabilities.

Level 2 inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data.

Level 3 inputs are unobservable and corroborated by little or no market data.

The Company determined the fair value of its derivative liabilities using Level 3 inputs.

Conversion Feature—Holders of the Predecessor Preferred Stock had the option to convert shares of Preferred Stock into common stock, initially upon issuance on a one-to-one basis, subject to certain adjustments, including, but not limited to, accrued and unpaid dividends on the Predecessor Preferred Stock. Prior to December 6, 2013, the conversion feature was considered a derivative liability under ASC Topic 815, *Derivatives and Hedging*. Changes in the fair value of this derivative liability were included in gain or loss from derivatives in our own equity in the consolidated statement of operations.

As of December 6, 2013, as a result of the elimination of the redemption rights, the conversion feature was no longer considered a derivative liability. As such, $112.1 million and $104.4 million derivative liability related to these Series B Predecessor Preferred Stock and Series A Predecessor Preferred Stock conversion feature, respectively, were reclassified from liabilities to stockholders' deficit.

Warrants—The Company issued warrants to purchase 41,742,458 shares of Series A Predecessor Preferred Stock with an exercise price of $0.01 per share and 2,282,099 shares of Predecessor common stock with an exercise price of $0.95 per share to certain lenders. The warrants contained a provision that allowed the holders to cash settle the award once a qualifying contingent event occurred. Most of these events relate to a sale or liquidation of the Company. As a result, the Company was required to account for the warrants as derivatives with changes in fair value being recorded as a gain or loss from derivatives in our own equity.

On December 6, 2013, all outstanding warrants to purchase shares of Series A Predecessor Preferred Stock issued and Predecessor common stock issued were exercised. Upon exercise, the $12.8 million and $34.0 million derivative liability related to these Series A Predecessor Preferred Stock and common stock warrants, respectively, were reclassified from liabilities to stockholders' deficit.

Contingent Fee—The Company had a Contingent Fee whereby it agreed to pay certain lenders a fee contingent upon the occurrence of a defined liquidation, sale, or change of control transaction. The Contingent Fee was considered a derivative liability under ASC Topic 815. Changes in the fair value of this derivative liability were included in gain or loss from derivatives in our own equity in the consolidated statement of operations. As of December 6, 2013, the contingent fee was terminated.

There were no liabilities measured at fair value on a recurring basis for the twelve week period ended January 30, 2015 or the forty week period ended November 7, 2014. The changes in Level 3 liabilities measured at fair value on a recurring basis for the fiscal year ended January 31, 2014, are as follows (in thousands):

	Fair Value of Derivative Liabilities
Balance February 1, 2013	$ 85,992
Change in fair value of Predecessor common stock warrants	19,213
Change in fair value of Predecessor preferred warrants	5,176
Change in fair value of conversion feature in Predecessor preferred stock	153,600
Change in fair value of Contingent Fee	(700)
Reclassification of Predecessor common stock warrants to stockholders' deficit	(34,008)
Reclassification of Predecessor preferred stock warrants to stockholders' deficit	(12,773)
Reclassification of conversion feature in Predecessor preferred stock to stockholders' deficit	(216,500)
Balance January 31, 2014	$ -

8. STOCK-BASED COMPENSATION

Successor—The Company compensates officers and key employees with stock-based compensation under the 2014 Equity Incentive Plan approved by Capmark and administered under the supervision of the Capmark Board.

Successor Stock Options—During the twelve weeks ended January 30, 2015, 18,827,761 stock options were granted under the 2014 Equity Incentive Plan and vest to recipients upon both the passage of time and the Company's attainment of specified performance measurements, subject to continued service with the Company. The time based portion of the awards generally vest proportionally over a five year period from the grant date and all options awarded under the plan expire after ten years. A summary of successor stock option activity for the twelve weeks ended January 30, 2015, is as follows:

	Performance Based Stock Options			Time Based Stock Options		
	Successor Stock Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)	Successor Stock Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)
Outstanding — November 7, 2014	-	$ -	-	-	$ -	-
Granted	11,296,658	$ 4.62	9.8	7,531,103	$ 4.62	9.8
Forfeited	-	-		-	-	
Exercised	-	-		-	-	
Outstanding — January 30, 2015	11,296,658	$ 4.62	9.8	7,531,103	$ 4.62	9.8
Exercisable — January 30, 2015	-	$ -	-	-	$ -	-

Other information pertaining to Successor options for the twelve weeks ended January 30, 2015, is as follows (in thousands, except per share amounts):

	Twelve Weeks Ended January 30, 2015 (Successor)
Weighted-average grant date per share fair value of stock options granted	$ 1.06
Cash received from the exercise of stock options	-
Stock-based compensation expense	836

At January 30, 2015, there was approximately $18.2 million of unrecognized stock option compensation expense related to nonvested stock options that is expected to be recognized over a weighted-average period of approximately 9.8 years.

Predecessor—The Company compensated officers, directors, and key employees with stock-based compensation under the Predecessor Equity Incentive Plans approved by Predecessor stockholders in 2003, 2005, 2008 and 2011 and administered under the supervision of the Board. The Company had 8,830,488 authorized shares of Predecessor common stock for the grant of nonqualified stock options and restricted stock awards to employees.

As part of the Predecessor Recapitalization, the Company declared an $11 common stock dividend equivalent to unexpired and unexercised Predecessor stock option holders for a total of $41.0 million. The dividend equivalents were paid upon vesting of the Predecessor stock options. During 2013, $10.5 million dividends were paid on vested Predecessor stock options. A dividend equivalent declared in connection to an equity restructuring is considered a modification to the stock option. The post-modification fair values of both vested and unvested Predecessor options outstanding were in excess of the pre-modification fair values of $41.0 million. The Company recorded $10.5 million stock

compensation on vested Predecessor options outstanding for the excess in post-modification fair values over pre-modification fair values for the year ended January 31, 2014. The unvested options' excess of post-modification fair values over pre-modification fair values of $30.5 million were amortized over the remaining requisite period of the options.

In connection with the Acquisition, all Predecessor in-the-money stock options vested immediately and cancelled in exchange for the right to receive a portion of the purchase price consideration. All out-of-the-money options canceled without settlement. All outstanding dividend equivalents were paid in connection with the Acquisition. All restrictions on the restricted stock awards under the Predecessor Equity Incentive Plans lapsed. There is no excess in the amount paid to settle the in-the-money awards over the settlement-date fair value of the awards. The acceleration of vesting on the stock options and restricted stock awards are not considered a modification to the stock option and restricted stock awards. Upon acceleration of vesting, the Company recorded $24.9 million and $1.2 million stock compensation on the stock option and restricted stock awards, respectively, in the forty weeks ended November 7, 2014.

Predecessor Stock Options—A summary of Predecessor stock option activity for the forty weeks ended November 7, 2014 and the fiscal year ended January 31, 2014, is as follows:

	Predecessor Stock Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)
Outstanding—February 1, 2013	1,966,345	$ 6.20	8.1
Granted	1,955,100	7.99	
Forfeited	(173,251)	9.63	
Exercised	(17,804)	4.28	
Outstanding—January 31, 2014	3,730,390	6.99	8.1
Granted	250,000	13.06	
Forfeited	(38,098)	8.30	
Exercised	(107,035)	5.29	
Canceled	(3,835,257)	7.42	
Outstanding—November 7, 2014	-	-	-
Exercisable—November 7, 2014	-	-	-

Other information pertaining to Predecessor options for the forty weeks ended November 7, 2014 and for the fiscal year ended January 31, 2014, is as follows (in thousands, except per share amounts):

	Forty Weeks Ended November 7, 2014 (Predecessor)	Fiscal Year Ended January 31, 2014 (Predecessor)
Weighted-average grant date per share fair value of Predecessor stock options granted	$ 13.06	$ 13.51
Cash received from the exercise of Predecessor stock options	566	76
Stock-based compensation expense	35,363	15,065

Predecessor Restricted Stock Awards—A summary of Predecessor restricted stock activity for the forty weeks ended November 7, 2014 and the fiscal year ended January 31, 2014, is as follows:

	Predecessor Restricted Stock	Weighted-Average Grant Date Fair Value
Outstanding—February 1, 2013	260,936	$ 1.19
Granted	238,100	7.42
Forfeited	-	
Vested	(213,076)	0.56
Outstanding—January 31, 2014	285,960	$ 6.84
Vested	(285,960)	6.84
Outstanding—November 7, 2014	-	$ -

Determining Fair Value—A third party valuation adviser is utilized to assist management in determining the fair value of options granted using the BSM option-pricing model based on the grant price and assumptions regarding the expected term, expected volatility, dividends, and risk-free interest rates. A description of significant assumptions used to estimate the expected volatility, expected term, risk-free interest rate, and forfeiture rate is as follows:

- *Expected Volatility*—Expected volatility was determined based on historical volatility of stock prices of a public company peer group.

- *Expected Term*—Expected term represents the period that stock-based awards are expected to be outstanding and was determined based on historical experience and anticipated future exercise patterns, considering the contractual terms of unexercised stock-based awards.

- *Risk-Free Interest Rate*—The risk-free interest rate was based on the implied yield currently available on U.S. Treasury zero-coupon issues with a term equal to the expected term.

- *Forfeiture Rate*—Historical data was used to estimate forfeitures.

The assumptions used to calculate the fair value of awards granted during the twelve weeks ended January 30, 2015, forty weeks ended November 7, 2014 and for the fiscal year ended January 31, 2014, using the BSM option-pricing model are as follows:

	Twelve Weeks Ended January 30, 2015 (Successor)	Forty Weeks Ended November 7, 2014 (Predecessor)	Fiscal Year Ended January 31, 2014 (Predecessor)
Expected volatility	35.0 %	45.0 %	27.7 %
Expected term (years)	6.5	6.3	6.5
Risk-free interest rate	2.0 %	2.1 %	1.2 %
Forfeiture rate	5.0 %	5.0 %	5.0 %
Expected dividend yield	-	-	-

9. INCOME TAXES

Income taxes are accounted for using the balance sheet approach under ASC Topic 740, *Income Taxes*. We pay income taxes based on statutes, regulations, and case law of the various jurisdictions in which we operate. Significant estimates and judgment are required for current tax liabilities, assessing deferred taxes, valuation allowances, and tax reserves. The benefits of deferred taxes and uncertain tax positions are recognized if we believe it is more likely than not that our position will be sustained based on its technical merit. Deferred tax assets and liabilities are measured using enacted tax laws and rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established for any portion of deferred tax assets that are not considered more likely than not to be realized. We recognize interest and penalty expense related to unrecognized tax benefits in our tax provision.

The tax effects of temporary differences that give rise to deferred income taxes as of January 30, 2015 and January 31, 2014, were as follows (in thousands):

	January 30, 2015 (Successor)	January 31, 2014 (Predecessor)
Accrued compensation	$ 6,522	$ 1,300
Allowance for doubtful accounts	6,596	6,697
Inventory	5,663	3,934
Net other deferred assets	5,414	4,314
Deferred tax asset—net	24,195	16,245
Trade names	(79,948)	267
Customer relationships	(57,167)	-
Depreciation and amortization expense	(5,503)	(2,513)
Deferred advertising	(2,783)	(3,244)
Finance charge income not currently taxable	(1,841)	(4,051)
Net other deferred liabilities	(2,158)	(1,736)
Deferred tax liability—net	(149,400)	(11,277)
Total deferred taxes	$ (125,205)	$ 4,968
Reflected as:		
Current assets	$ 14,914	$ 5,847
Noncurrent liabilities	(140,119)	(879)
	$ (125,205)	$ 4,968

The provision for income taxes for the twelve weeks ended January 30, 2015, forty weeks ended November 7, 2014 and the fiscal year ended January 31, 2014, is as follows (in thousands):

	Twelve Weeks Ended January 30, 2015 (Successor)	Forty Weeks Ended November 7, 2014 (Predecessor)	Fiscal Year Ended January 31, 2014 (Predecessor)
Current:			
Federal	$ 18,372	$ (6,369)	$ 20,043
State	823	(318)	579
Total current provision	19,195	(6,687)	20,622
Deferred:			
Federal	(9,625)	(785)	5,488
State	(348)	(190)	(93)
Total deferred (benefit) provision	(9,973)	(975)	5,395
Total provision (benefit)	$ 9,222	$ (7,662)	$ 26,017

The Company is a wholly owned subsidiary of Holdings Inc., which is a subsidiary of Capmark. However, these financial statements and related tax footnote are prepared on a stand-alone basis and do not include the impact of the Company's consolidation with Capmark. As such, the change in deferred taxes is not reconciled due to the tax effect of the Acquisition.

A reconciliation of our effective income tax rate compared to the statutory federal income tax rate for the twelve weeks ended January 30, 2015, forty weeks ended November 7, 2014 and the fiscal year ended January 31, 2014, is as follows:

	Twelve Weeks Ended January 30, 2015 (Successor)	Forty Weeks Ended November 7, 2014 (Predecessor)	Fiscal Year Ended January 31, 2014 (Predecessor)
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
Transaction costs	0.3	(6.3)	-
Uncertain tax positions	-	2.3	-
Prior year income and equity compensation	-	1.8	-
State income taxes—net of federal benefit	1.2	1.2	(0.3)
Loss from derivatives in our own equity	-	-	(61.5)
Other—net	-	(0.2)	1.0
Effective income tax rate	36.5 %	33.8 %	(25.8)%

Our effective income tax rate for the twelve weeks ended January 30, 2015, forty weeks ended November 7, 2014 and the fiscal year ended January 31, 2014, was 36.5%, 33.8%, and (25.8%), respectively. Our effective tax rate is affected by recurring items, such as state income taxes and various permanent items, such as nondeductible stock costs. It also may be affected by discrete items that are evaluated each year based on uncertain tax positions.

We file income tax returns in the U.S. federal jurisdiction and various states. In the normal course of business, the Company is subject to examination by federal and state taxing authorities. Generally, we are open for federal and state exam for the 2010-2014 tax years. We are currently under exam by the Internal Revenue Service for 2012 and in Minnesota for the 2010-2013 tax years.

Unrecognized Tax Benefits—Our liability for unrecognized tax benefits was $1.0 million including interest of $0.1 million, net of tax benefit, at January 30, 2015. A reconciliation of the beginning and ending amounts of unrecognized tax benefits for 2014 (including both successor and predecessor periods) and 2013 was as follows (in thousands):

	January 30, 2015 (Successor)	November 7, 2014 (Predecessor)	January 31, 2014 (Predecessor)
Balance at beginning of fiscal period	$949	$ 1,452	$ 2,463
Gross amount of decreases for prior period tax positions	-	(503)	(1,011)
Gross amount of increases for current period tax positions	-	-	-
Balance at ending of fiscal period	$949	$ 949	$ 1,452

We recognize interest (not included in the “Federal and State Tax” above) as components of income tax expense. No penalties related to income tax matters have been recognized in the consolidated statements of operations. We do not anticipate any material changes in unrecognized tax benefits over the next twelve months.

10. EMPLOYEE BENEFIT PLANS

The Bluestem 401(k) Retirement Savings Plan (the “Bluestem 401(k) Plan”) is open to eligible employees who have attained age 21. Employees covered by a collective bargaining agreement are not eligible for participation. The Bluestem 401(k) Plan allows for employee pretax contributions up to the Internal Revenue Code contribution limit. The first 3% of employee contributions are matched by the Company at a rate of 100%, and the next 2% of employee contributions are matched by the Company at a rate of 50%, up to a total maximum company matching contribution of $10,400. Employees are 100% vested in their pretax contributions at all times and are fully vested in the employer matching contribution when made. Contributions are expensed as incurred and were $0.6 million, $1.7 million and $1.6 million for the twelve weeks ended January 30, 2015, the forty weeks ended November 7, 2014 and the year ended January 31, 2014, respectively.

During the years ended January 30, 2015 and January 31, 2014, the Company participated in a multiemployer retirement plan, Unite Here National Retirement Plan (the “Retirement Plan”). The Retirement Plan is open to eligible union employees at the Company’s St. Cloud, Minnesota, distribution center. The eligibility for participation in the Retirement Plan is completion of 1,000 hours of service. The participants earn a right to benefits after attaining five years of vesting service. The union collective bargaining agreement expires March 31, 2017, and sets forth terms of the Company’s participation. The Company’s contributions were $0.1 million, $0.2 million and $0.2 million for the twelve weeks ended January 30, 2015, forty weeks ended November 7, 2014 and for the fiscal year ended January 31, 2014, respectively.

11. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments—The Company has operating lease commitments for equipment and facilities that expire on various dates through 2024. Rental expense was $1.6 million, $4.6 million and $6.6 million for the twelve weeks ended January 30, 2015, the forty weeks ended November 7, 2014 and

the year ended January 31, 2014, respectively, and is included in general and administrative expenses in the consolidated statements of operations.

Distribution Center—The Company leases its St. Cloud, Minnesota, distribution center under a lease effective February 1, 2009, with an initial term of 180 months, payments beginning February 1, 2009, and increasing at 2.5% per annum. The Company is responsible for all operating expenses. The Company has an option to accelerate the termination of the lease that can be exercised between January 31, 2022 through January 31, 2024, by providing written notice to the landlord and incurring a termination fee. The termination fee is determined based on a formula, including monthly minimum and additional rentals, operating expenses, and the recapture of the remaining unamortized portion of the tenant allowances and real estate broker commissions paid by the landlord. The Company also has an option to extend the lease for two consecutive five-year terms.

Headquarters Building—The Company leases the corporate headquarters building under a lease effective June 1, 2008, with an initial term of 124 months, including a four-month rent holiday, with payments beginning October 1, 2008, and increasing at 2% per annum. The Company is responsible for all operating expenses. The Company has the option to terminate the lease agreement effective May 31, 2016, by providing written notice to the landlord by May 31, 2015 and paying a termination fee of $3 million to the landlord. In addition, the Company has the option to extend the lease for two consecutive five-year terms.

The aggregate minimum rental commitments under operating leases and future maturities of capital leases for subsequent years as of January 30, 2015, are as follows (in thousands):

Fiscal Years	Operating	Capital
2015	$ 4,916	$ 1,788
2016	4,947	1,742
2017	4,992	1,058
2018	4,557	296
2019	3,607	99
Thereafter	14,749	-
Total future minimum lease payments	37,768	4,983
Less: Amount representing interest		(242)
Present value of future minimum lease payments		$ 4,741

Certain of the Company's leases contain predetermined rent increases over the lease term. These rent increases are included in the above minimum rental commitments table in the year in which the rent increase occurs.

Legal Proceedings—The Company is periodically involved in legal proceedings arising in the ordinary course of business including, among others, claims relating to collection activities. The Company is well positioned to defend against such claims but, due to the general uncertainty of litigation could, in the future, enter into settlements of claims or incur judgments that could have a material adverse effect on its results of operations in any particular period. Any losses that could occur in connection with these matters are provided for in the consolidated financial statements if the liability is probable and estimable in accordance with GAAP. Legal costs for these matters are expensed as incurred. The Predecessor stockholders are responsible for certain specified litigation matters defined in the Acquisition agreement.

The Company entered into an agreement to settle certain claims relating to allegations that the Company failed to comply with certain requirements of the Telephone Consumer Protection Act. The Company has recorded a $4.5 million liability related to the settlement as of January 30, 2015. The Company has recorded a $1.2 million indemnification receivable from a third-party collection company related to the settlement. However, on May 14, 2015 the magistrate judge assigned to review the settlement recommended against accepting it based on the belief that the class of proposed plaintiffs do not meet the requirements set forth in the federal rules for certifying a class action. As a result, the parties to the litigation cannot settle the matter as originally agreed. It is not possible, at this time, to determine the outcome of the matter or the likelihood of any potential additional liability from the matter except that a significant portion of any potential loss would be borne by the former stockholders of the Company per the terms of the merger agreement between Holdings Inc. and the Company. At the present time, any potential loss from other existing or threatened legal claims against the Company are not probable or estimable.