Bluestem Group Inc.
Report as of and for the 13- and 26-weeks ended
July 31, 2015 and August 1, 2014
This report is issued September 28, 2015

BLUESTEM GROUP INC.

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BLUESTEM GROUP INC.
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FORWARD-LOOKING STATEMENTS

This report as of and for the 13- and 26-weeks ended July 31, 2015 and August 1, 2014 ("Quarterly Report") contains statements that are "forward-looking statements". Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. All statements contained herein that are not clearly historical in nature are forward-looking. In some cases, you can identify these statements by use of forward-looking words, such as "may," "will," "should," "anticipate," "estimate," "expect," "plan," "believe," "predict," "potential," "project," "intend," "could," or similar expressions. In particular, statements regarding Bluestem Group Inc. and its consolidated subsidiaries' plans, strategies, prospects, and expectations regarding its business are forward-looking statements. You should be aware that these statements and any other forward-looking statements in this document only reflect Bluestem Group Inc. and its consolidated subsidiaries' beliefs, assumptions, and expectations and are not guarantees of performance. These statements involve risks, uncertainties, and assumptions. Many of these risks, uncertainties, and assumptions are beyond Bluestem Group Inc. and its consolidated subsidiaries' control and may cause actual results and performance to differ materially from Bluestem Group Inc. and its consolidated subsidiaries' expectations. Important factors that could cause actual results to be materially different from Bluestem Group Inc. and its consolidated subsidiaries' expectations include the risks and uncertainties set forth in "Risk Factors" in the Bluestem Group Inc. and its consolidated subsidiaries' report as of and for the years ended January 30, 2015 and January 31, 2014 (the "Annual Report") (available at www.bluestemgroup.com) as updated by the "Risk Factors" section in this Quarterly Report.

Accordingly, you should not place undue reliance on the forward-looking statements contained in this Quarterly Report. These forward-looking statements are made only as of the date of this Quarterly Report. Bluestem Group Inc. and its consolidated subsidiaries undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

BUSINESS

As used in this report:

- "BGI," "we," "us," "our," or "the Company" refers to Bluestem Group Inc. with its consolidated subsidiaries
- "Bluestem" refers to Bluestem Brands, Inc., an indirect subsidiary of Bluestem Group Inc. which consists of the Bluestem Legacy Portfolio of retail brands and the Orchard portfolio of retail brands
- "Bluestem Legacy Portfolio" refers to the consolidated Fingerhut, Gettington and PayCheck Direct retail brands
- "Orchard Portfolio", or "Orchard" refers to the consolidated Appleseed's, Bedford Fair, Blair, Draper's & Damon's, Gold Violin, Haband, LinenSource, Norm Thompson, Old Pueblo Traders, Sahalie, Solutions, Tog Shop, and WinterSilks retail brands
- "Commercial Real Estate" refers to the commercial real estate finance operations of BGI

The Company

Bluestem Group Inc. is a holding company whose businesses include Bluestem Brands, a multi-brand, online retailer of a broad selection of name-brand and private label general merchandise serving low- to middle-income consumers through 16 retail brands that include: Appleseed's, Bedford Fair, Blair, Draper's & Damon's, Fingerhut, Gettington, Gold Violin, Haband, LinenSource, Norm Thompson, Old Pueblo Traders, PayCheck Direct, Sahalie, Solutions, Tog Shop and Wintersilks. Complementing each brand is a large selection of merchandise with payment options that provide customers with the flexibility of paying over time. Bluestem Group Inc. also includes the Commercial Real Estate related companies which are focused on managing the commercial real estate-related business and existing assets, including monetizing the asset when appropriate.

On March 5, 2014, the Company entered into an agreement with Centerbridge Capital Partners II, L.P. and certain of its affiliates ("Centerbridge") for a strategic investment in the Company by Centerbridge ("Investment Agreement"), subject to certain terms and conditions. On May 8, 2014, following receipt of stockholder approval, the Company, as contemplated by the Investment Agreement, (i) filed Amended and Restated Articles of Incorporation and amended and restated its Bylaws, (ii) issued to Centerbridge $5.0 million of convertible preferred stock and warrants to purchase up to 43 million shares of common stock ("Warrants") and (iii) entered into an agreement under which Centerbridge committed to purchase up to $100 million of floating-rate subordinated payment-in-kind notes, subject to certain terms and conditions. Funds made available to the Company by Centerbridge would be used, together with the Company's own resources, to finance one or more acquisitions over a period of two years from closing, which may be extended for an additional year ("Investment Period"). As discussed below, funds made available to the Company by Centerbridge were used to finance the acquisition of Bluestem.

On November 7, 2014, a subsidiary of BGI acquired all of the outstanding common shares and voting interests of Bluestem for $565 million in cash, subject to various pre-closing and post-closing adjustments. The Company funded the purchase price and associated transactional expenses with approximately $136 million of cash on hand, $136 million of proceeds from the exercise of Warrants by Centerbridge pursuant to the terms of the Investment Agreement, and a $300 million term loan facility issued by Bluestem (the "Initial Term Loan"). Certain members of Bluestem's management team also provided capital for the transaction through the purchase of the Company's common stock. In addition, Bluestem closed on an amendment and restatement of its $80 million asset-based lending facility.

On July 10, 2015, Bluestem Brands, Inc. acquired all of the outstanding common shares and voting interests of Orchard Brands Corporation, which operates the Orchard Portfolio, for $410 million in cash, subject to customary purchase price adjustments. The Company funded the purchase price and associated transactional expenses with a combination of $104 million of cash on hand, $270 million of proceeds from a term loan facility issued by Bluestem, and $25 million of borrowings under Bluestem's asset-based line of credit.

On June 17, 2015, the Company's stockholders approved a change in its name from Capmark Financial Group Inc. to Bluestem Group Inc. and the Company filed an amendment to its Amended and Restated Articles of Incorporation to change its name to Bluestem Group Inc.

See Note 4, *Business Combinations,* of our Notes to condensed consolidated financial statements for pro forma information and further discussion of the Bluestem and Orchard Brand Corporation acquisitions.

MANAGEMENT'S COMMENTARY ON RESULTS OF OPERATIONS, LIQUIDITY AND CAPITAL RESOURCES

The Company's "Management's Commentary on Results of Operations, Liquidity and Capital Resources" is organized as follows:

- *Overview and Basis of Presentation:* This section provides a discussion of the presentation of the Company's consolidated results and the presentation of its segment results.
- *Results of Operations:* This section presents the Company's consolidated results of operations, segment results, a detailed analysis of each segment's results of operations, and a discussion of information that the Company believes is meaningful to an understanding of its results of operations.
- *Liquidity and Capital Resources:* This section provides an analysis of the Company's liquidity and cash flows.

Overview and Basis of Presentation

Bluestem Group Inc. is a holding company whose businesses include Bluestem Brands, a multi-brand, online retailer of a broad selection of name-brand and private label general merchandise serving low- to middle-income consumers through 16 retail brands that include: Appleseed's, Bedford Fair, Blair, Draper's & Damon's, Fingerhut, Gettington, Gold Violin, Haband, LinenSource, Norm Thompson, Old Pueblo Traders, PayCheck Direct, Sahalie, Solutions, Tog Shop and Wintersilks. Complementing each brand is a large selection of merchandise with payment options that provide customers with the flexibility of paying over time. Bluestem Group Inc. also includes the Commercial Real Estate related companies which are focused on managing the commercial real estate-related business and existing assets, including monetizing the asset when appropriate.

We review and present our consolidated business results based on the organizational structure we use to evaluate performance and make decisions on allocating resources and assessing performance. Our consolidated business results are being presented in three reportable segments (referred to herein as "segments") Fingerhut, Orchard and Commercial Real Estate.

On December 18, 2014, the Company changed its fiscal year from December 31 to the Friday closest to January 31 of the following year to conform to the fiscal year of the Bluestem. Bluestem operates on a fiscal calendar widely used by the retail industry that result in fiscal years consisting of a 52- or 53-week period ending on the Friday closest to January 31 of the following year. The previously unaudited results for the Company for the 13- and 26-weeks ended June 30, 2014 were restated for the new fiscal quarter.

Fingerhut

Fingerhut is a national multi-brand online retailer servicing low income consumers by offering products with customized payment plans and through revolving credit lines or installment loans. Fingerhut offers a large selection of name-brand, private label, and non-branded merchandise through internet websites and catalogs to customers in the United States. It primarily sells consumer electronics, domestics, housewares, home furnishings, children's merchandise, and apparel. By combining our proprietary marketing and credit decision-making technologies, the Company is able to tailor merchandise and credit offers to prospective as well as existing customers.

Important drivers of Fingerhut's business performance include growth in new customer credit accounts, existing customer repurchase rates, the mark-up and mix of merchandise sold to customers, access to liquidity to finance customer purchases, and the overall performance and credit quality of the customer accounts receivable portfolio.

While numerous retailers sell merchandise via the internet and catalogs focusing on low-to-middle income customers, Fingerhut has created a differentiated business model by utilizing direct-marketing expertise to integrate proprietary credit offerings with broad general merchandise offerings. The majority of sales are on revolving customer credit accounts, originated through WebBank ("Credit Issuer"), reflecting Fingerhut's ability to combine a relevant merchandise offering with an attractive consumer credit product aligned with the consumer's ability to pay. Fingerhut also offers the FreshStart program, which provides the option of purchasing merchandise on installment credit terms after first making a down payment.

Orchard

Orchard is a national multi-channel direct marketer offering apparel, accessories, and home products for women and men principally in the boomer and senior demographic, generally considered ages 50 and older. Orchard offers its product assortments through various platforms including catalogs, mailers, internet websites, mobile, and in retail and outlet stores. The products are offered under the brands Appleseed's, Bedford Fair, Blair, Draper's & Damon's, Gold Violin, Haband, LinenSource, Norm Thompson, Old Pueblo Traders, Sahalie, Solutions, Tog Shop, and WinterSilks. Orchard designs its marketing programs using its extensive proprietary database of customer information of over 32 million households.

Important drivers of Orchard's business performance include average order size, growth in new customers, existing customer repurchase rates, and promotional strategy.

Orchard has an extensive proprietary database of customer information for over 32 million households, including customer demographics and purchasing history. Customer interest is routinely monitored and this database is updated and refined accordingly. Orchard is able to design its marketing programs using this source of information. Marketing strategies are designed to grow lifetime value with its customers by using the strength of its brand portfolio to meet more of its customer's needs. Multiple Orchard brand relationships are fostered through circulation strategies, the design of its web universal cart, and its use across all brands of a third-party private label credit platform.

Commercial Real Estate

Commercial Real Estate is focused on managing its existing commercial real estate-related business and existing assets, including monetizing the assets when appropriate.

Other

As a result of not meeting the quantitative threshold requirements, two smaller operating segments within the Bluestem Legacy Portfolio, Gettington and PayCheck Direct, have been included within Other. Gettington targets middle income consumers and offers merchandise selections and payment plans similar to Fingerhut. 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 paying for their purchases over time through payroll deductions or automatic bank withdrawals.

Corporate

Corporate includes expenses for the Bluestem Legacy Portfolio and Commercial Real Estate. These expenses primarily consist of unallocated payroll and benefit costs for corporate and administrative employees, including information technology, legal, human resources, finance, merchandising, supervision of credit servicing, executive, and sales and marketing management; professional fees for investment and acquisition transactions, legal, accounting, and other service providers; occupancy costs of corporate and distribution center facilities; insurance; maintenance; and other overhead costs.

This Quarterly Report should be read in conjunction with the Annual Report.

Results of Operations

Consolidated Results of Operations

The following table provides consolidated results of operations for the Company (in thousands), except share and per share data:

	13-Weeks Ended		26-Weeks Ended	
	July 31, 2015 [(a)]	August 1, 2014	July 31, 2015 [(a)]	August 1, 2014
Net sales and revenue				
Net retail sales	$ 301,375	$ -	$ 507,550	$ -
Commercial real estate revenue				
Net interest income	379	1,673	1,177	3,671
Net gains on investments available for sale	166	11,986	274	13,776
Other noninterest income	2,344	4,128	7,585	5,873
Total net sales and revenue	**304,264**	**17,787**	**516,586**	**23,320**
Costs and expenses				
Retail cost of goods sold	169,535	-	289,795	-
Retail sales and marketing expenses	65,070	-	107,787	-
Retail net credit expense	9,809	-	16,108	-
Commercial real estate operating expenses	605	1,788	1,282	3,208
General and administrative expenses	49,969	5,537	87,717	13,657
Amortization and depreciation not included in retail cost of goods sold	14,758	21	26,809	54
(Gain) loss from derivatives in our own equity	(411)	-	7,814	-
Total costs and expenses	**309,335**	**7,346**	**537,312**	**16,919**
Operating (loss) income	(5,071)	10,441	(20,726)	6,401
Retail interest expense	8,754	-	16,274	-
(Loss) income from continuing operations before income tax expense	**(13,825)**	**10,441**	**(37,000)**	**6,401**
Income tax (benefit) expense	(27)	209	317	499
(Loss) income from continuing operations after income tax expense	**(13,798)**	**10,232**	**(37,317)**	**5,902**
Loss from discontinued operations, net of tax	-	(2,505)	-	(4,753)
Net (loss) income	**(13,798)**	**7,727**	**(37,317)**	**1,149**
Net gain attributable to noncontrolling interests	-	3,125	-	5,267
Net (loss) income attributable to Bluestem Group Inc.	**$ (13,798)**	**$ 10,852**	**$ (37,317)**	**$ 6,416**
Other comprehensive income (loss)				
Net change in unrealized gains and losses on investment securities	362	(483)	147	(416)
Comprehensive (loss) income attributable to Bluestem Group Inc.	**$ (13,436)**	**$ 10,369**	**$ (37,170)**	**$ 6,000**
Basic and Diluted Loss Per Share - Common Stockholders				
Basic and diluted (loss) income per share - continuing operations	$ (0.10)	$ 0.13	$ (0.27)	$ 0.11
Basic and diluted (loss) income per share attributable to Bluestem Group Inc.	$ (0.10)	$ 0.11	$ (0.27)	$ 0.06
Basic weighted average shares outstanding	136,140,955	99,803,233	136,132,962	99,803,233
Diluted weighted average shares outstanding	136,140,955	101,072,344	136,132,962	100,448,306

[(a)] Orchard Portfolio results are included for the period from July 10, 2015 through July 31, 2015.

Results of Operations by Segment:

The following tables provide selected financial information by segment (in thousands):

	13-Weeks Ended July 31, 2015					
	Fingerhut	Orchard [a]	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue						
Net retail sales……	$ 223,680	$ 48,441	$ -	$ 29,254	$ -	$ 301,375
Commercial real estate revenue						
Net interest income……	-	-	379	-	-	379
Net gains on investments available for sale……	-	-	166	-	-	166
Other noninterest income……	-	-	2,344	-	-	2,344
Total net sales and revenue……	**223,680**	**48,441**	**2,889**	**29,254**	**-**	**304,264**
Costs and expenses						
Retail cost of goods sold……	125,810	22,350	-	21,375	-	169,535
Retail sales and marketing expenses……	42,916	17,607	-	4,547	-	65,070
Retail net credit expense……	8,556	-	-	1,253	-	9,809
Commercial real estate operating expenses……	-	-	605	-	-	605
General and administrative expenses……	-	6,120		-	43,849	49,969
Amortization and depreciation not included in retail cost of goods sold……	-	748	-	-	14,010	14,758
Gain from derivatives in our own equity……	-	-	-	-	(411)	(411)
Total costs and expenses……	**177,282**	**46,825**	**605**	**27,175**	**57,448**	**309,335**
Operating income (loss)……	**$ 46,398**	**$ 1,616**	**$ 2,284**	**$ 2,079**	**$ (57,448)**	**$ (5,071)**

	13-Weeks Ended August 1, 2014					
	Fingerhut	Orchard	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue						
Commercial real estate revenue						
Net interest income……	$ -	$ -	$ 1,673	$ -	$ -	$ 1,673
Net gains on investments available for sale……	-	-	11,986	-	-	11,986
Other noninterest income……	-	-	4,128	-	-	4,128
Total net sales and revenue……	**-**	**-**	**17,787**	**-**	**-**	**17,787**
Costs and expenses						
Commercial real estate operating expenses……	-	-	1,788	-	-	1,788
General and administrative expenses……	-	-	-	-	5,537	5,537
Amortization and depreciation not included in retail cost of goods sold……	-	-	-	-	21	21
Total costs and expenses……	**-**	**-**	**1,788**	**-**	**5,558**	**7,346**
Operating income (loss)……	**$ -**	**$ -**	**$ 15,999**	**$ -**	**$ (5,558)**	**$ 10,441**

[a] Orchard Portfolio results are included for the period from July 10, 2015 through July 31, 2015.

	26-Weeks Ended July 31, 2015					
	Fingerhut	Orchard [(a)]	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue						
Net retail sales	$ 407,455	$ 48,441	$ -	$ 51,654	$ -	$ 507,550
Commercial real estate revenue						
Net interest income	-	-	1,177	-	-	1,177
Net gains on investments available for sale	-	-	274	-	-	274
Other noninterest income	-	-	7,585	-	-	7,585
Total net sales and revenue	**407,455**	**48,441**	**9,036**	**51,654**	**-**	**516,586**
Costs and expenses						
Retail cost of goods sold	229,370	22,350	-	38,075	-	289,795
Retail sales and marketing expenses	81,585	17,607	-	8,595	-	107,787
Retail net credit expense	14,241	-	-	1,867	-	16,108
Commercial real estate operating expenses	-	-	1,282	-	-	1,282
General and administrative expenses	-	6,120	-	-	81,597	87,717
Amortization and depreciation not included in retail cost of goods sold	-	748	-	-	26,061	26,809
Loss from derivatives in our own equity	-	-	-	-	7,814	7,814
Total costs and expenses	**325,196**	**46,825**	**1,282**	**48,537**	**115,472**	**537,312**
Operating income (loss)	**$ 82,259**	**$ 1,616**	**$ 7,754**	**$ 3,117**	**$ (115,472)**	**$ (20,726)**

	26-Weeks Ended August 1, 2014					
	Fingerhut	Orchard	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue						
Commercial real estate revenue						
Net interest income	$ -	$ -	$ 3,671	$ -	$ -	$ 3,671
Net gains on investments available for sale	-	-	13,776	-	-	13,776
Other noninterest income	-	-	5,873	-	-	5,873
Total net sales and revenue	**-**	**-**	**23,320**	**-**	**-**	**23,320**
Costs and expenses						
Commercial real estate operating expenses	-	-	3,208	-	-	3,208
General and administrative expenses	-	-	-	-	13,657	13,657
Amortization and depreciation not included in retail cost of goods sold	-	-	-	-	54	54
Total costs and expenses	**-**	**-**	**3,208**	**-**	**13,711**	**16,919**
Operating income (loss)	**$ -**	**$ -**	**$ 20,112**	**$ -**	**$ (13,711)**	**$ 6,401**

[(a)] Orchard Portfolio results are included for the period from July 10, 2015 through July 31, 2015.

Fingerhut

The results of Fingerhut's operations have been included in the condensed consolidated financial statements since the acquisition date of November 7, 2014.

Fingerhut's net retail sales, retail costs of goods sold, and retail gross profit are summarized below (in thousands):

	13-Weeks Ended July 31, 2015	26-Weeks Ended July 31, 2015
Sales by category:		
Home	$ 111,752	$ 203,419
Entertainment	88,504	159,135
Fashion	35,464	65,762
Total sales	235,720	428,316
Returns and allowances	(16,834)	(29,376)
Commissions and other revenue	4,794	8,515
Net retail sales	223,680	407,455
Retail cost of goods sold	125,810	229,370
Retail gross profit	$ 97,870	$ 178,085
Retail gross profit percentage	43.8%	43.7%

Net Retail Sales:

Net retail sales of Fingerhut consist of sales of merchandise, shipping and handling revenue, and commissions earned from third parties that market their products to our customers. Merchandise sales and shipping and handling revenue are recorded at the estimated time of delivery to the customer. Merchandise sales are reported net of discounts and estimated sales returns, and exclude sales taxes.

For the 13-weeks ended July 31, 2015, Fingerhut's net retail sales were $223.7 million. Fingerhut filled 1.0 million orders with an average order size of $235 and added approximately 186 thousand new revolving customers and approximately 50 thousand new Freshstart customers. The $223.7 million net retail sales for the 13-weeks ended July 31, 2015 were a result of sales to both new and existing customers.

For the 26-weeks ended July 31, 2015, Fingerhut's net retail sales were $407.5 million. Fingerhut filled 1.9 million orders with an average order size of $228 and added approximately 376 thousand new revolving customers and approximately 110 thousand new Freshstart customers. The $407.5 million net retail sales for the 26-weeks ended July 31, 2015 were a result of sales to both new and existing customers.

Sales to existing customers were driven by our ability to retain customers through use of TV advertising, assortment expansion, catalog mailings and credit line account management strategies. New customer accounts acquired were driven by broader visibility of our website through catalog mailings, TV advertising and assortment expansion.

Retail Cost of Goods Sold:

Retail cost of goods sold of Fingerhut 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. For the 13- and 26-weeks ended July 31, 2015, Fingerhut's retail cost of sales was $125.8 million and $229.4 million, respectively.

***Retail Sales and Marketing Expenses*:**

The following table presents retail sales and marketing expenses of Fingerhut, by category (in thousands):

	13-Weeks Ended July 31, 2015	26-Weeks Ended July 31, 2015
Catalog direct mail	$ 24,185	$ 45,495
TV and digital marketing	14,318	27,628
Order entry and customer service	3,312	6,411
Premium (free gift with purchase) and other	1,101	2,051
Total retail sales and marketing expenses	$ 42,916	$ 81,585

For the 13- and 26-weeks ended July 31, 2015, retail sales and marketing expenses of $42.9 million and $81.6 million, respectively, were included in our total operating expenses. Fingerhut's retail sales and marketing expenses primarily consisted of catalog circulation costs and TV advertising to drive visibility of our website.

***Retail Net Credit Expense*:**
The following table presents retail net credit expense of Fingerhut, by category (in thousands):

	13-Weeks Ended July 31, 2015	26-Weeks Ended July 31, 2015
Finance charge and fee income	$ (216)	$ (4,205)
Provision for doubtful accounts	1,336	5,929
Credit management costs	16,908	34,847
Servicing fee income and portfolio profit sharing	(9,472)	(22,330)
Retail net credit expense	$ 8,556	$ 14,241

Retail net credit expense includes finance charge and fee income and provision for doubtful accounts on Company-owned accounts receivable, servicing fee income and portfolio profit sharing from Santander Consumer USA Inc. ("SCUSA") owned accounts receivable, and credit management costs on all customer accounts receivable whether owned by the Company or SCUSA. Finance charge and fee income is accrued on Company-owned accounts receivable until the account balance is paid or charged off. A late fee is imposed if the customer does not pay at least the minimum payment by the payment due date. We record a provision for doubtful accounts to maintain the allowance for doubtful accounts at a level intended to absorb probable losses in customer accounts receivable owned by the Company as of the balance sheet date. SCUSA bears risk of loss due to uncollectibility of the Standard Receivables, as defined in the Liquidity and Capital Resources section, purchased by SCUSA. The Company bears risk of loss due to uncollectibility on Nonstandard Receivables, as defined in the Liquidity and Capital Resources section, and any existing Standard Receivables not purchased by SCUSA.

As of July 31, 2015, total customer accounts receivable was $1.3 billion, of which $43.8 million was Company-owned accounts receivable. Credit management costs related to both the Company-owned and SCUSA-owned customer accounts receivable include statement and payment processing, collections, origination fees paid to the Credit Issuer, new account application, and credit bureau processing costs, as well as direct customer service costs. The Company receives a servicing fee and shares in a portion of the profits as compensation for servicing customer accounts receivable owned by SCUSA. For the 13- and 26-weeks ended July 31, 2015, Fingerhut's retail net credit expense was $8.6 million and $14.2 million, respectively.

Effective September 1, 2015, Bluestem and SCUSA amended certain terms of the Standard Receivables Sales Agreement. Among other things, the amendments include changes to the annual profit sharing splits between the Bluestem and SCUSA and modifications to SCUSA's exclusivity rights, which permit Bluestem, at Bluestem's option, to purchase from SCUSA on a one-time basis up to 9.99% of the SCUSA-owned accounts receivable and/or to retain up to 20% of Standard Receivables on newly originated revolving credit accounts that otherwise would be sold to SCUSA. See Liquidity and Capital Resources – *Transfers and Servicing of Financial Assets – Customer Accounts Receivable* for further information.

Orchard
The results of Orchard have been included in the condensed consolidated financial statements since the acquisition date of July 10, 2015 through July 31, 2015.

Orchard's net retail sales, retail cost of goods sold, and retail gross profit are summarized below (in thousands):

	July 31, 2015
Sales by category:	
Home	$ 5,727
Fashion	47,118
Total sales	52,845
Returns and allowances	(7,711)
Commissions and other revenue	3,307
Net retail sales	48,441
Retail cost of goods sold	22,349
Retail gross profit	$ 26,092
Retail gross profit percentage	53.9%

Net Retail Sales:
Net retail sales of Orchard consist of sales of merchandise, shipping and handling revenue, and commissions earned from third-party marketing programs, shipping returns fee income, and credit card fees. Merchandise sales and shipping and handling revenue are recorded at the estimated time of delivery to the customer. Merchandise sales are reported net of discounts and estimated sales returns, and excludes sales taxes. From the acquisition date through July 31, 2015, Orchard's net retail sales were $48.4 million**.** Orchard filled 708 thousand orders during the period from July 10, 2015 through July 31, 2015, with an average order size of $75 and added approximately 94 thousand gross new customers, continuing the growth of the gross house file to approximately 8 million active customers. From the acquisition date through July 31, 2015, Orchard filled $2.9 million back orders from the Spring/Summer season.

Retail Cost of Goods Sold:
Retail cost of goods sold of Orchard 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 facilities and assets, and estimates of product obsolescence costs. Orchard's retail cost of sales was $22.3 million.

***Retail Sales and Marketing Expenses*:**
The following table presents retail sales and marketing expenses of Orchard, by category (in thousands):

		July 31, 2015
Catalog direct mail	$	13,190
Order entry and customer service		1,532
Digital marketing		928
Retail store		915
Premium (free gift with purchase) and other		1,042
Total retail sales and marketing expenses	$	17,607

Retail sales and marketing expenses of $17.6 million were included in our total operating expenses. Orchard's retail sales and marketing expenses primarily consisted of catalog and mailer circulation costs.

General and Administrative Expenses:
General and administrative expenses of Orchard were as follows (in thousands).

		July 31, 2015
Compensation and benefits	$	4,220
Professional fees		351
Rents and occupancy costs		584
Other		1,713
Total general and administrative expenses	$	6,868

Compensation and benefit costs include salaries, wages, benefits, and expenses for severance and retention programs. For the period from July 10, 2015 through July 31, 2015, salaries, wages, and benefit costs were $4.2 million, including $0.2 million of expense for severance and retention programs.

Professional fees of $0.4 million were included in general and administrative expenses for the period from July 10, 2015 through July 31, 2015 and consisted of costs for third-party legal and other professional services.

Rents and occupancy costs include expenses associated with corporate and customer service facilities, maintenance, and other overhead costs. For the period from July 10, 2015 through July 31, 2015, rents and occupancy costs were $0.6 million, and relate primarily to the various office and retail leases as well as the customer service center.

Other general and administrative expenses for the period from July 10, 2015 through July 31, 2015 were $1.7 million, and included $0.7 million of amortization and depreciation expense.

Commercial Real Estate

Commercial Real Estate Revenue:
Total commercial real estate revenue is summarized below (in thousands):

	13-Weeks Ended		26-Weeks Ended	
	July 31, 2015	August 1, 2014	July 31, 2015	August 1, 2014
Net interest income	$ 379	$ 1,673	$ 1,177	$ 3,671
Net gains on investments available for sale	166	11,986	274	13,776
Other noninterest income	2,344	4,128	7,585	5,873
Total commercial real estate revenue	$ 2,889	$ 17,787	$ 9,036	$ 23,320

Net Interest Income:
The following table presents net interest income, by category (in thousands):

	13-Weeks Ended		26-Weeks Ended	
	July 31, 2015	August 1, 2014	July 31, 2015	August 1, 2014
Interest income	$ 700	$ 2,123	$ 1,923	$ 4,566
Interest expense	(321)	(450)	(746)	(895)
Net interest income	$ 379	$ 1,673	$ 1,177	$ 3,671

During the 13-weeks ended July 31, 2015, interest income was driven primarily by $0.2 million of interest on investment securities classified as available-for-sale and $0.1 million of deferred interest receivable recognized on loans held-for-sale. Interest income also included $0.3 million of interest on loans held-for-sale that are no longer owned by the Company, but continue to be recognized on our balance sheet because the transfers of these loans to a third party did not qualify as a sale and, therefore, were accounted for as financings. During the 13-weeks ended July 31, 2015, interest expense was driven primarily by $0.3 million of related interest on secured borrowings for transactions that were accounted for as financings.

During the 13-weeks ended August 1, 2014, interest income was driven primarily by $0.9 million of interest on investment securities classified as available-for-sale and $0.6 million of deferred interest receivable recognized on loans held-for-sale. Interest income also included $0.5 million of interest on loans held-for-sale that are no longer owned by the Company, but continue to be recognized on our balance sheet because the transfers of these loans to a third party did not qualify as a sale and, therefore, were accounted for as financings. During the 13-weeks ended August 1, 2014, interest expense was driven by $0.5 million of related interest on secured borrowings for transactions that were accounted for as financings.

During the 26-weeks ended July 31, 2015, interest income was driven primarily by $0.7 million of interest on investment securities classified as available-for-sale and $0.4 million of deferred interest receivable recognized on loans held-for-sale. Interest income also included $0.7 million of interest on loans held-for-sale that are no longer owned by the Company, but continue to be recognized on our balance sheet because the transfers of these loans to a third party did not qualify as a sale and, therefore, were accounted for as financings. During the 26-weeks ended July 31, 2015, interest expense was driven primarily by $0.7 million of related interest on secured borrowings for transactions that were accounted for as financings.

During the 26-weeks ended August 1, 2014, interest income was driven primarily by $1.8 million of interest on investment securities classified as available-for-sale and $1.7 million of deferred interest receivable recognized on loans held-for-sale. Interest income also included $0.9 million of interest on loans held-for-sale that are no longer owned by the Company, but continue to be recognized on our balance sheet because the transfers of these loans to a third party did not qualify as a sale and, therefore, were accounted for as financings. During the 26-weeks ended August 1, 2014, interest expense was driven primarily by $0.9 million of related interest on secured borrowings for transactions that were accounted for as financings.

Net Gains on Investments Available-for-Sale:
During the 13-weeks ended August 1, 2014, net gains on investments available-for-sale primarily included a realized gain related to the payment of interest shortfalls on several tranches of a commercial mortgage backed security classified as available-for-sale.

During the 26-weeks ended August 1, 2014, net gains on investments available-for-sale primarily included a realized gain related to the payment of interest shortfalls on several tranches of a commercial mortgage backed security and a realized gain related to the redemption of an interest in a collateralized debt obligation, both classified as available-for-sale.

Net gains on investments available-for-sale were immaterial for the 13- and 26-weeks ended July 31, 2015.

Other Noninterest Income:

The following table presents other noninterest income, by category (in thousands):

	13-Weeks Ended		26-Weeks Ended	
	July 31, 2015	August 1, 2014	July 31, 2015	August 1, 2014
Net gains on loans	$ 1,454	$ 488	$ 5,851	$ 475
Other gains (losses), net	20	(417)	(35)	1,357
Equity in income of joint ventures and partnerships	866	3,256	1,279	3,168
Net real estate investment and other income	4	801	490	873
Other noninterest income	$ 2,344	$ 4,128	$ 7,585	$ 5,873

For the 13-weeks ended July 31, 2015, other noninterest income consisted primarily of net gains on loans which included $1.5 million of realized gains on the disposition of loans held-for-sale. Other noninterest income for the 13-weeks ended July 31, 2015, also included $0.9 million equity in income of joint ventures and partnerships primarily due to $0.7 million of gains on equity investments in real estate funds resulting primarily from increases in the fair value of assets held by real estate investment funds and joint ventures.

For the 13-weeks ended August 1, 2014, other noninterest income consisted primarily of equity in income of joint ventures and partnerships due to $1.1 million of gains on equity investments in real estate funds resulting primarily from increases in the fair value of assets held by real estate investment funds and joint ventures and $2.1 million of gains on other equity investments.

For the 26-weeks ended July 31, 2015, other noninterest income consisted primarily of the net gains on loans which included $2.9 million of realized gains on loans held-for-sale related to certain partnerships associated with the Company’s former new market tax credit (“NMTC”) program that met the derecognition criteria. Net gains on loans for the 26-weeks ended July 31, 2015, also included $2.9 million of realized gains on the disposition of loans held-for-sale. Other noninterest income for the 26-weeks ended July 31, 2015, also included $1.3 million of equity in income of joint ventures and partnerships primarily due to $1.2 million of gains on equity investments in real estate funds resulting primarily from increases in the fair value of assets held by real estate investment funds and joint ventures.

For the 26-weeks ended August 1, 2014, other noninterest income consisted primarily of equity in income of joint ventures and partnerships due to $1.1 million of gains on equity investments in real estate funds resulting primarily from increases in the fair value of assets held by real estate investment funds and joint ventures, and $2.0 million of gains on other equity investments. Other gains (losses), net for the 26-weeks ended August 1, 2014 included $1.4 million of net gains recognized on commercial real estate accounts and other receivables related to the collection of an asset that was previously fully reserved.

Commercial Real Estate Operating Expenses:

The following table presents the Commercial Real Estate operating expenses by category (in thousands):

	13-Weeks Ended		26-Weeks Ended	
	July 31, 2015	August 1, 2014	July 31, 2015	August 1, 2014
Professional fees	$ 240	$ 1,221	$ 525	$ 2,122
Compensation and benefits	365	567	757	1,086
Commercial real estate operating expenses	$ 605	$ 1,788	$ 1,282	$ 3,208

Professional fees for the 13- and 26-weeks ended July 31, 2015 and August 1, 2014 consisted of fees for litigation and asset transactions. Compensation and benefits for the 13-and 26-weeks ended July 31, 2015 and August 1, 2014 consisted of salary and benefits costs for asset management-related personnel and incentive compensation for retention programs.

Other

The results of Other's operations have been included in the condensed consolidated financial statements since the acquisition date of November 7, 2014.

Other's net retail sales, retail costs of goods sold, and retail gross profit are summarized below (in thousands):

	13-Weeks Ended July 31, 2015	26-Weeks Ended July 31, 2015
Sales by category:		
Home	$ 14,354	$ 24,404
Entertainment	13,357	24,083
Fashion	3,163	5,861
Total sales	30,874	54,348
Returns and allowances	(2,011)	(3,417)
Commissions	391	723
Net retail sales	29,254	51,654
Retail cost of goods sold	21,375	38,075
Retail gross profit	$ 7,879	$ 13,579
Retail gross profit percentage	26.9%	26.3%

Net Retail Sales:
For the 13- and 26-weeks ended July 31, 2015, Other's net retail sales were $29.3 million and $51.7 million, respectively, which primarily consisted of Gettington's net retail sales.

Retail Cost of Goods Sold:
Retail cost of goods sold of Other 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. For the 13- and 26-weeks ended July 31, 2015, Other's retail cost of goods sold was $21.4 million and $38.1 million, respectively, and consisted primarily of Gettington's cost of goods sold.

Retail Sales and Marketing Expenses:
The following table presents retail sales and marketing expenses of Other, by category (in thousands):

	13-Weeks Ended July 31, 2015	26-Weeks Ended July 31, 2015
Catalog direct mail	$ 2,777	$ 5,509
TV and digital marketing	831	1,485
Order entry and customer service	381	681
Sales commissions and other	558	920
Total retail sales and marketing expenses	$ 4,547	$ 8,595

For the 13- and 26-weeks ended July 31, 2015, Other's retail sales and marketing expenses were $4.5 million and $8.6 million, respectively, and primarily consisted of Gettington's costs and expenses.

Retail Net Credit Expense:
The following table presents retail net credit expense of Other, by category (in thousands):

	13-Weeks Ended July 31, 2015	26-Weeks Ended July 31, 2015
Finance charge and fee income	$ 14	$ 23
Provision for doubtful accounts	554	1,228
Credit management costs	1,200	2,355
Servicing fee income and portfolio profit sharing	(515)	(1,739)
Retail net credit expense	$ 1,253	$ 1,867

For the 13- and 26-weeks ended July 31, 2015, Other's retail net credit expense was $1.3 million and $1.9 million, respectively, and primarily consisted of Gettington.com costs and expenses.

Corporate

Corporate includes expenses for the Bluestem Legacy Portfolio and Commercial Real Estate. Corporate activities consist of general and administrative expenses, amortization and depreciation not included in retail cost of goods sold, and gain or loss from derivatives in our own equity.

General and Administrative Expenses:
General and administrative expenses of Fingerhut, Commercial Real Estate, and Other are summarized below (in thousands).

	13-Weeks Ended		26-Weeks Ended	
	July 31, 2015	August 1, 2014	July 31, 2015	August 1, 2014
Compensation and benefits	$ 23,671	$ 2,069	$ 47,262	$ 4,160
Professional fees	12,919	2,379	20,955	7,330
Rents and occupancy costs	3,928	476	8,012	1,053
Other	3,331	613	5,368	1,114
Total general and administrative expenses	$ 43,849	$ 5,537	$ 81,597	$ 13,657

Compensation and benefit costs include salaries, wages, benefits, and incentive-based compensation. For the 13-weeks ended July 31, 2015, salaries, wages, and benefit costs were $18.4 million**,** including $0.4 million of expense for retention programs. The incentive-based compensation expense of $5.3 million for the 13-weeks ended July 31, 2015 included $0.9 million for stock-based compensation. For the 13-weeks ended August 1, 2014, salaries, wages and benefit costs were $1.1 million. The incentive-based compensation expense of $0.9 million included $0.5 million for stock-based compensation expense for the 13-weeks ended August 1, 2014.

Professional fees included in general and administrative expenses for the 13-weeks ended July 31, 2015 included $6.3 million of costs associated with the Company's acquisition of Orchard Brands Corporation, see Note 4, *Business Combinations*, of our Notes to condensed consolidated financial statements for further discussion. Professional fees for this period also included information technology expenses of $1.6 million, third-party audit, tax, and legal expenses of $0.8 million, and credit and collection consulting expenses of $1.0 million. Professional fees included in general and administrative expenses for the 13-weeks ended August 1, 2014, consist primarily of $1.9 million of costs associated with the Investment Agreement.

For the 26-weeks ended July 31, 2015, salaries, wages, and benefit costs were $37.0 million, including $0.8 million of expense for retention programs. The incentive-based compensation expense of $10.3 million for the 26-weeks ended July 31, 2015 included $1.9 million for stock-based compensation. For the 26-weeks ended August 1, 2014, salaries, wages and benefit costs were $2.5 million. The incentive-based compensation expense of $1.7 million included $0.9 million for stock-based compensation expense for the 26-weeks ended August 1, 2014.

Professional fees included in general and administrative expenses for the 26-weeks ended July 31, 2015 included $7.9 million of costs associated with the Company's acquisition of the Orchard Brands Corporation, see Note 4, *Business Combinations*, of our Notes to condensed consolidated financial statements for further discussion. Professional fees for this period also included information technology expenses of $3.5 million, third-party audit, tax, and legal expenses of $2.1 million, and credit and collection consulting expenses of $2.0 million. Professional fees included in general and administrative expenses for the 26-weeks ended August 1, 2014, consist primarily of $5.4 million of costs associated with the Investment Agreement and $0.3 million of costs associated with bankruptcy-related matters.

Rents and occupancy costs include expenses associated with corporate and Bluestem distribution facilities, maintenance, and other overhead costs. For the 13- and 26-weeks ended July 31, 2015, rents and occupancy costs were $3.9 million and $8.0 million, respectively, and relate primarily to corporate and distribution center expenses associated with the Bluestem Legacy Portfolio.

Amortization and Depreciation not Included in Retail Costs of Goods Sold:
Amortization and depreciation not included in retail cost of goods sold includes amortization of our customer relationships intangible asset and depreciation of our property and equipment including purchased and internally developed software, computer hardware, machinery, and equipment; office furniture; property under capital lease; and leasehold improvements. For the 13- and 26-weeks ended July 31, 2015, Corporate's amortization and depreciation not included in retail cost of goods sold was $14.0 million and $26.1 million, respectively, and primarily consisted of $10.1 million and $17.8 million, respectively, of amortization of our customer relationships intangible asset acquired in connection with the Bluestem acquisition. We are amortizing the Bluestem customer relationship intangible asset over a six-year life using the accelerated amortization method to match the pattern in which the economic benefits of the asset are expected to be consumed.

Gain/Loss from Derivatives in Our Own Equity:
Gain/loss from derivatives in our own equity reflects the recognition and subsequent changes in the estimated fair value of the outstanding Warrants that meet the definition of a derivative. As of July 31, 2015, Warrants to acquire 9.1 million shares of common stock remain outstanding. The derivative liability is recorded at the estimated fair value of the Warrants. Changes in fair value of the derivative liability are reflected in the Condensed Consolidated Statements of Comprehensive Income as gains or losses from derivatives in our own equity. For the 13-weeks ended July 31, 2015, a gain of $0.4 million was recorded primarily due to a decrease in the over-the-counter trading price of the Company's common stock as compared to the first quarter ending May 1, 2015. For the 26-weeks ended July 31, 2015, a loss of $7.8 million was recorded primarily due to an increase in the over-the-counter trading price of the Company's common stock as compared to the year ending January 30, 2015. As of July 31, 2015, the derivative liability in our own equity was $23.2 million.

Retail Interest Expense
Retail interest expense (net of interest income) was $8.8 million and $16.3 million for the 13- and 26-weeks ended July 31, 2015, respectively, and was primarily the result of the term loan facility issued in conjunction with the acquisition of Bluestem and subsequently modified for the Orchard Brands Corporation acquisition and the asset-based line of credit. Weighted-average borrowings outstanding as of July 31, 2015, were $322.9 million with a weighted-average interest rate of 8.36%.

Income Tax Expense
For the 13- and 26-weeks ended July 31, 2015, $0.03 million of tax benefit and $0.3 million of tax expense, respectively, was recognized on $13.8 million and $37.0 million, respectively, of loss from continuing operations before income taxes. The income tax expense was primarily related to adjustments to foreign and state taxes and other adjustments, partially offset by a release of our deferred tax asset valuation allowance. Based on the Company's historical and cumulative tax losses, a tax benefit for the year-to-date losses for the 13- and 26-weeks ended July 31, 2015 was not recognized. For the 13- and 26-weeks ended August 1, 2014, $0.2 million and $0.5 million, respectively, of tax expense was recognized on $10.4 million and $6.4 million, respectively, of income from continuing operations before income taxes. The tax expense was primarily related to state taxes after offsetting income with loss carryforwards.

Liquidity and Capital Resources

Our retail operations require a significant amount of capital to fund operations and to grow. With a majority of Bluestem's retail sales occurring on revolving customer credit accounts, cash flows from Bluestem's retail operations are dependent on the sale of our customer accounts receivable to SCUSA. We sell all of Fingerhut and Getttington related revolving customer accounts receivable to SCUSA on the day we purchase the customer accounts receivable from our Credit Issuer. Ensuring adequate liquidity is, and will continue to be, at the forefront of our business objectives. Our cash requirements relate to purchases of inventory, carrying of non-standard customer accounts receivables, bank and private label credit card receivables, third party program receivables, purchases and production of promotional materials, debt service, cash collateral account requirements, investments in our management information systems and other infrastructure, and other general working capital needs. The Bluestem Legacy Portfolio's cash requirements are seasonal, with peak needs arising in September through November as we experience higher levels of sales and customer accounts receivable, and amounts become due for holiday season inventory purchases and marketing efforts. The Orchard Portfolio's cash requirements are seasonal in nature due to the purchase and receipt of inventory in advance of the Spring and Fall seasons.

Cash flows from our commercial real estate business are dependent, in part, on our ability to monetize assets, as well as on the changes in the values of our real estate-related assets, which impact the levels of net gains or losses and interest income that we recognize. The gains or losses realized on sales of assets and the interest income generated on interest-earning assets are subject to various factors. These factors include changes in the interest rate environment, commercial real estate prices, the level of supply and demand for commercial real estate and real estate-related investments, and the condition of local and national economies.

Our primary sources of liquidity are (1) proceeds from sale of customer receivables to SCUSA, (2) cash on hand, (3) cash flows from operations, (4) funds available under our asset backed line of credit, (5) distributions received from our real estate related equity investments, and (6) collections on and sales of other assets in our portfolio. As of July 31, 2015, we had $175.1 million in total cash and cash equivalents (including restricted cash) on hand. We believe our sources of liquidity will be sufficient to meet our liquidity needs over the next 12 months, including our working capital, capital expenditure, debt service, and other cash requirements.

In prior years, the Company has made cash distributions to its stockholders. We do not anticipate making distributions to stockholders in the near term. The terms of the Investment Agreement with Centerbridge prohibit future distributions to stockholders by the Company during the Investment Period.

Sources and Uses of Cash

The following table represents a comparison of the net cash provided by operating activities, investing activities, and financing activities for the 26-weeks ended July 31, 2015 and August 1, 2014 (in thousands):

	26-Weeks Ended	
	July 31, 2015	**August 1, 2014**
Continuing Operations		
Net cash provided by operating activities………………………………………………..…	$ 42,156	$ 9,584
Net cash (used in) provided by investing activities…..………………………………………	$ (347,456)	$ 51,441
Net cash provided by (used in) financing activities……………………………………...…	$ 214,687	$ (8,678)

Operating Activities - Net cash provided by operating activities for the 26-weeks ended July 31, 2015 was $42.2 million and consisted of a net loss from continuing operations of $37.3 million offset by $68.2 million of non-cash items. The non-cash items consist of the amortization and depreciation expense, loss on derivatives in our own equity, provision for doubtful accounts, provision for retail merchandise returns, and stock based compensation, partially offset by net gains on the sale of loans held for sale. The net change in working capital accounts provided cash of $11.2 million consisting of a $22.6 million increase in customer accounts and other receivables and $33.5 million of proceeds from sales of/payments from loans held for sale.

Net cash provided by operating activities for the 26-weeks ended August 1, 2014 was $9.6 million and consisted of net income from continuing operations of $5.9 million offset by a non-cash adjustment of $15.6 million for net gains. The net change in working capital accounts provided cash of $19.4 million primarily due to $11.4 million of proceeds from sales of/payments from loans held for sale and a $4.5 million decrease in customer and other receivables, net.

Investing Activities - Net cash used in investing activities for the 26-weeks ended July 31, 2015 was $347.5 million. This activity consisted primarily of $475.2 million of proceeds from sale of customer accounts receivables and $57.5 million of proceeds from capital distributions received from equity investments, offset by $475.0 million of purchases of customer accounts receivables, the $392.2 million purchase of the Orchard Brands Corporation and $15.2 million of expenditures for property and equipment.

Net cash provided by investing activities for the 26-weeks ended August 1, 2014 was $51.4 million. This activity consisted primarily of proceeds from capital distributions received from equity investments, repayments received on investment securities classified as available-for-sale and net proceeds received upon the sale of property and equipment.

Financing Activities - Net cash provided by financing activities for the 26-weeks ended July 31, 2015 was $214.7 million and consisted primarily of the issuance of $280.0 million of incremental loans under the Term Loan (as defined below in *"Debt and Financing Arrangements"* section). Net proceeds of $269.5 million were used to finance, in part, the acquisition of the Orchard Brands Corporation in July 2015. In addition, during the 26-weeks ended July 31, 2015, Bluestem made payments of $20.8 million on its outstanding Initial Term Loan balances and certain NMTC partnerships met the derecognition criteria resulting in a $31.2 million decrease in collateralized borrowings. Collateralized borrowings include amounts related to loans held-for-sale associated with the Company's former NMTC program that are no longer owned by the Company, but continue to be recognized on our balance sheet because the transfers of these loans to third parties did not qualify as a sale and, therefore, were accounted for as financings. In addition, proceeds of $192.3 million were received under the Company's asset backed line of credit, offset by payments of $194.9 million.

Net cash used in financing activities for the 26-weeks ended August 1, 2014 was $8.7 million and consisted of a $13.7 million decrease in collateralized borrowings resulting from the derecognition of certain NMTC partnerships which met the derecognition criteria, partially offset by $5.0 million of proceeds received upon the issuance preferred stock.

Transfers and Servicing of Financial Assets — Customer Accounts Receivable

Bluestem is a party to a series of transactions with Credit Issuer and SCUSA related to revolving Fingerhut and Gettington customer accounts receivable. The following are the primary agreements executed by Bluestem related to these transactions and the counterparties to each transaction (collectively, the "A/R Program Agreements").

Agreement	**Counterparty**
Receivables Sales Agreement	Credit Issuer
Standard Receivables Sales Agreement	SCUSA
Program Agreement	Credit Issuer and SCUSA

Except as described below, Bluestem is obligated to sell all new receivables originated under revolving credit accounts to SCUSA on the same day those receivables are purchased by Bluestem from Credit Issuer. All receivables originated in revolving credit accounts are referred to as "Standard Receivables." All receivables generated in accounts other than revolving credit accounts, including Fingerhut FreshStart credit accounts and PayCheck Direct accounts, are referred to as "Nonstandard Receivables." Bluestem retains all Nonstandard Receivables purchased from Credit Issuer. SCUSA bears risk of loss due to uncollectibility of the Standard Receivables purchased by SCUSA. Bluestem bears risk of loss due to uncollectibility on Nonstandard Receivables and any existing Standard Receivables not purchased by SCUSA. See Note 6, *Serviced Credit Portfolio*, of our Notes to condensed consolidated financial statements for more information on SCUSA-owned and Bluestem-owned accounts receivable.

Effective September 1, 2015, Bluestem and SCUSA amended certain terms of the Standard Receivables Sales Agreement. Among other things, the amendments include changes to the annual profit sharing splits between the Bluestem and SCUSA and modifications to SCUSA's exclusivity rights, which permit Bluestem, at Bluestem's option, to purchase from SCUSA on a one-time basis up to 9.99% of the SCUSA-owned accounts receivable and/or to retain up to 20% of Standard Receivables on newly originated revolving credit accounts that otherwise would be sold to SCUSA.

Debt and Financing Arrangements

Information regarding debt and financing arrangements is included in Management's Commentary on Financial Condition and Results of Operations – "Liquidity and Capital Resources" of our Annual Report and is updated as follows:

Term Loan

On November 7, 2014, Bluestem entered into the $300 million Initial Term Loan with a syndication of investors which matures on November 7, 2020. The Initial 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 being amortized under the straight-line method, which approximates the effective interest method, as interest expense over the term of the loan. The deferred charges and original issue discount were recorded as a deduction from the carrying amount of the Initial Term Loan on the Company's Condensed Consolidated Balance Sheets. Proceeds from the Initial Term Loan were used to finance the purchase of Bluestem. See Note 4, *Business Combinations,* for further information.

On July 10, 2015, Bluestem entered into the First Amendment and Incremental Agreement to the Term Loan and borrowed an additional $280 million (the "Incremental Loans" and, together with the "Initial Term Loan", the "Term Loan"). There were no changes to the payment terms, interest rate or financial covenants in connection with the Incremental Loans except the Orchard Brands Corporation's results are now included in the calculation of minimum liquidity and total leverage ratio. The Incremental Loans were issued with an original issue discount totaling $2.8 million and were accounted for as a debt modification. As a result, new lender fees of $7.7 million were recorded as deferred charges and $0.1 million of third-party fees were expensed. Both the original issue discount and the deferred charges are being amortized under the straight-line method, which approximates the effective interest method, as interest expense over the remaining term of the loan. The deferred charges and original issue discount were recorded as a deduction from the carrying amount of the Term Loan on the Company's Condensed Consolidated Balance Sheets. Proceeds from the Incremental Loans were used to finance the purchase of Orchard Brands Corporation. See Note 4, *Business Combinations*, of our Notes to condensed consolidated financial statements for further information.

Outstanding borrowings under the Term Loan, at the option of Bluestem, 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 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 London InterBank Offered Rate. Interest payments are due quarterly on Alternative Base Rate borrowings, and monthly on Eurocurrency Rate borrowings.

The Term Loan is secured by a first lien on unencumbered Bluestem property and equipment and a second lien on Bluestem's inventory and customer accounts receivable not otherwise pledged or sold. Bluestem is subject to a minimum liquidity financial covenant under the Term Loan. Failure to comply with these financial covenants is an event of default, subject to certain cure rights. As of July 31, 2015, the Company was in compliance with all these financial covenants. As of July 31, 2015, the outstanding balance of the Term Loan and Incremental Loans was $559.3 million. See Note 10, *Collateralized Borrowing and Other Financing*, of our Notes to consolidated financial statements for additional information on our secured borrowing.

Asset Backed Line of Credit

Bluestem has an Asset Backed Line of Credit, as amended on July 10, 2015, that is secured by a first lien on inventory, and non-customer accounts receivables and a second lien on other unencumbered assets of Bluestem (the "Asset Backed Line of Credit"). The Asset Backed Line of Credit has a maturity date of July 10, 2020, and a total facility size of $200 million, subject to borrowing capacity. Borrowing capacity is calculated as the lower of 90% of the liquidation value from the latest inventory appraisal or 65% of eligible inventory, plus between 85% and 90% of other eligible receivables (depending on the type of receivable), in each case less any reserves plus the lesser of $20 million and the applicable portion of Bluestem's eligible inventory in transit.

The July 10, 2015 amendment permits Bluestem to increase commitments under the Asset Backed Line of Credit by an amount not to exceed $50 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 Bluestem was to request any such additional commitments and the existing lenders or new lenders were to agree to provide such commitments, the size of the Asset Backed Line of Credit could be increased to $250 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. Lender and third party costs of $2.7 million associated with the July 2015 amendment were deferred and will be amortized over the remaining term.

Bluestem is subject to minimum net liquidity financial covenants under the Asset Backed Line of Credit, which are based on Bluestem's stand-alone financial results. As of July 31, 2015 the Company was in compliance with all provisions of the Asset Backed Line of Credit Agreement. See Note 10, *Collateralized Borrowing and Other Financing*, of our Notes to consolidated financial statements for additional information on our Asset Backed Line of Credit.

As of July 31, 2015, outstanding borrowings on the Asset Backed Line of Credit were $4.7 million and $103.7 million was available under the Asset Backed Line of Credit. The Company also had $ 4.1 million of outstanding letters of credit, the majority of which relate to its inventory purchasing activities as of July 31, 2015.

Contractual Obligations and Commitments

A summary of future contractual obligations and commitments is included in Management's Commentary on Financial Condition and Results of Operations – "Liquidity and Capital Resources" of our Annual Report and is updated as follows:

	Payments due by Period (in thousands)				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**
Term Loan (1)………………………………………..………	$ 529,923	$ 19,745	$ 48,833	$ 48,938	$ 412,407
Estimated Term Loan interest payments (1)…………………	220,071	23,871	89,891	78,701	27,608
Revolving line of credit……………………………………...…	4,695	4,695	-	-	-
Commitments to provide equity to equity method investees………..……………………………………	15,025	7,176	7,849	-	-
Other notes payable……………………………...……………	47	28	19	-	-
Capital and operating lease obligations…………………………	61,188	8,443	22,681	13,145	16,919
Inventory purchase commitments (2)…………………………	145,180	135,723	9,457	-	-
Total………………………………………………………	$ 976,129	$ 199,681	$ 178,730	$ 140,784	$ 456,934

(1) The Term Loan is subject to mandatory prepayments of annual excess cash flow. The obligations outlined above for principal and interest payments on the Term Loan only reflect excess cash flow prepayments currently due.
(2) The Orchard Portfolio enters into a number of cancelable and non-cancelable inventory purchase commitments. See Note 15, *Commitments and Contingent Liabilities*, of our Notes to condensed consolidated financial statements for further discussion.

Risk Factors

Due to the acquisition of the Orchard Brands Corporation, we have updated our risk factors as previously disclosed in the Annual Report as follows:

In July 2015, we completed our acquisition of the Orchard Brands Corporation for approximately $410 million, subject to various pre-closing and post-closing adjustments. Our acquisition of the Orchard Brands Corporation presents certain risks to our business, including:

- we may not realize the anticipated benefits of the acquisition or be able to integrate the Orchard Brands Corporation businesses successfully;
- integrating the Orchard Brands Corporation could distract our management from the ongoing operation of our other businesses;
- a substantial portion of the purchase price for the acquisition will be allocated to goodwill and other identifiable intangible assets, which could result in impairment charges that could reduce our earnings;
- we have substantial indebtedness following the acquisition and our ability to invest in our businesses and execute our growth plan could be limited by our need to service this indebtedness and comply with restrictive covenants in our loan agreements;
- the acquisition and integration of the Orchard Brands Corporation may involve unexpected costs, liabilities or delays; and
- disruptions from the acquisition may harm relationships with key employees or business partners.

BLUESTEM GROUP INC.
Condensed Consolidated Balance Sheets
(in thousands, except share data)
(Unaudited)

	July 31, 2015 (Unaudited)		January 30, 2015	
ASSETS				
Current assets:				
Cash and cash equivalents	$	163,517	$	254,207
Restricted cash		11,605		13,586
Customer accounts receivable, net of allowance of $10,152 and $10,457		46,731		40,928
Commercial real estate accounts and other receivables		19,375		19,270
Retail merchandise inventories		225,571		96,431
Other current assets		70,372		33,647
Total current assets		537,171		458,069
Loans held-for-sale		50,251		78,080
Equity investments		58,523		114,736
Property and equipment, net		98,799		49,755
Intangibles, net		360,056		377,892
Goodwill		506,649		201,642
Other assets		10,957		21,107
Total Assets	**$**	**1,622,406**	**$**	**1,301,281**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	181,101	$	82,037
Accrued costs and other liabilities		124,153		92,823
Short-term debt		31,179		17,764
Total current liabilities		336,433		192,624
Long-term debt		558,311		354,116
Deferred income taxes		94,772		79,949
Other long-term liabilities		13,371		20,037
Total liabilities		1,002,887		646,726
Stockholders' equity:				
Series A participating convertible preferred stock, $0.01 par value, $5,000 stated value; shares authorized —10,000,000 at July 31, 2015 and January 30, 2015; shares issued and outstanding — 1,000 at July 31, 2015 and January 30, 2015		4,913		4,856
Common stock, $0.01 par value, shares authorized — 350,000,000 at July 31, 2015 and January 30, 2015; shares issued — 136,577,382 and 136,374,593 at July 31, 2015 and January 30, 2015, respectively; shares outstanding 136,555,963 and 136,374,593 at July 31, 2015 and January 30, 2015, respectively		1,366		1,364
Treasury stock, at cost, 21,419 and no shares at July 31, 2015 and January 30, 2015, respectively		(131)		-
Additional paid-in capital		358,960		356,697
Retained earnings		253,400		290,774
Accumulated other comprehensive income, net of tax		1,011		864
Total stockholders' equity		619,519		654,555
Total Liabilities and Stockholders' Equity	**$**	**1,622,406**	**$**	**1,301,281**

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements

BLUESTEM GROUP INC.
Condensed Consolidated Statements of Comprehensive Income
(in thousands, except shares and per share amounts)
(Unaudited)

	13-Weeks Ended		26-Weeks Ended	
	July 31, 2015	August 1, 2014	July 31, 2015	August 1, 2014
Net sales and revenue				
Net retail sales	$ 301,375	$ -	$ 507,550	$ -
Commercial real estate revenue				
Net interest income	379	1,673	1,177	3,671
Net gains on investments available for sale	166	11,986	274	13,776
Other noninterest income	2,344	4,128	7,585	5,873
Total net sales and revenue	**304,264**	**17,787**	**516,586**	**23,320**
Costs and expenses				
Retail cost of goods sold	169,535	-	289,795	-
Retail sales and marketing expenses	65,070	-	107,787	-
Retail net credit expense	9,809	-	16,108	-
Commercial real estate operating expenses	605	1,788	1,282	3,208
General and administrative expenses	49,969	5,537	87,717	13,657
Amortization and depreciation not included in retail cost of goods sold	14,758	21	26,809	54
(Gain) loss from derivatives in our own equity	(411)	-	7,814	-
Total costs and expenses	**309,335**	**7,346**	**537,312**	**16,919**
Operating (loss) income	(5,071)	10,441	(20,726)	6,401
Retail interest expense	8,754	-	16,274	-
(Loss) income from continuing operations before income tax expense	**(13,825)**	**10,441**	**(37,000)**	**6,401**
Income tax (benefit) expense	(27)	209	317	499
(Loss) income from continuing operations after income tax expense	**(13,798)**	**10,232**	**(37,317)**	**5,902**
Loss from discontinued operations, net of tax	-	(2,505)	-	(4,753)
Net (loss) income	**(13,798)**	**7,727**	**(37,317)**	**1,149**
Net gain attributable to noncontrolling interests	-	3,125	-	5,267
Net (loss) income attributable to Bluestem Group Inc.	**$ (13,798)**	**$ 10,852**	**$ (37,317)**	**$ 6,416**
Other comprehensive income (loss)				
Net change in unrealized gains and losses on investment securities	362	(483)	147	(416)
Comprehensive (loss) income attributable to Bluestem Group Inc.	**$ (13,436)**	**$ 10,369**	**$ (37,170)**	**$ 6,000**
Basic and Diluted Loss Per Share - Common Stockholders				
Basic and diluted (loss) income per share - continuing operations	$ (0.10)	$ 0.13	$ (0.27)	$ 0.11
Basic and diluted (loss) income per share attributable to Bluestem Group Inc.	$ (0.10)	$ 0.11	$ (0.27)	$ 0.06
Basic weighted average shares outstanding	136,140,955	99,803,233	136,132,962	99,803,233
Diluted weighted average shares outstanding	136,140,955	101,072,344	136,132,962	100,448,306

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

BLUESTEM GROUP INC.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(in thousands, except number of shares)
(Unaudited)

	Bluestem Group Inc. Stockholders										
	Series A Convertible Preferred Stock		Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
BALANCE — January 31, 2014…………..........	-	$ -	100,182,419	$ 100	-	$ -	$ 189,970	$ 181,922	$ 1,601	$ 32,503	$ 406,096
Net income (loss)………………………………								108,936		(5,930)	103,006
Total other comprehensive loss, net of tax………									(737)		(737)
Common stock par value adjustment……………				902			(902)				-
Issuance of preferred stock………………………	1,000	5,000									5,000
Beneficial conversion feature associated with preferred stock at issuance…..…………………..		(228)					228				-
Issuance of common stock……..………………			2,081,357	21			8,317				8,338
Issuance of restricted common stock……………			249,623	2							2
Exercise of common stock warrants…..…….....…			33,861,194	339			135,311				135,650
Deemed dividend from beneficial conversion feature associated with preferred stock…………		84						(84)			-
Stock-based compensation……….………………							23,773				23,773
Other (includes impact from sale of discontinued operations assets)…………..…...…										(26,573)	(26,573)
BALANCE — January 30, 2015……..…………	1,000	$ 4,856	136,374,593	$ 1,364	-	$ -	$ 356,697	$ 290,774	$ 864	$ -	$ 654,555
Net loss...…………………………………………								(37,317)			(37,317)
Total other comprehensive loss, net of tax………									147		147
Issuance of restricted common stock……………			177,165	2							2
Exercise of common stock options…..……....….			25,624								-
Deemed dividend from beneficial conversion feature associated with preferred stock…………		57						(57)			-
Stock-based compensation……….………………							2,145				2,145
Treasury shares repurchased……………………			(21,419)		21,419	(131)	118				(13)
BALANCE — July 31, 2015……..……………	1,000	$ 4,913	136,555,963	$ 1,366	21,419	$ (131)	$ 358,960	$ 253,400	$ 1,011	$ -	$ 619,519

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

BLUESTEM GROUP INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	26-Weeks Ended	
	July 31, 2015	**August 1, 2014**
Operating Activities of Continuing Operations		
Net (loss) income	$ (37,317)	$ 1,149
Net loss from discontinued operations	-	(4,753)
Net (loss) income from continuing operations	(37,317)	5,902
Adjustments to reconcile net (loss) income from continuing operations to net cash provided by operating activities of continuing operations:		
Provision for deferred income taxes	(872)	-
Net (gains) losses on loans held for sale, investment securities and other	(6,090)	(15,607)
Equity in net (gains) losses of investees and cash return on investment	(1,129)	(1,101)
Amortization and depreciation expense	27,444	54
Loss from derivatives in our own equity	7,814	-
Provision for doubtful accounts	7,157	-
Provision for retail merchandise returns	13,852	-
Stock-based compensation expense	2,947	900
Inventory obsolescence and other reserves	14,836	-
Other, net	2,268	-
Net change in assets and liabilities which provided (used) cash:		
Customer account and other receivables, net	(22,637)	4,499
Retail merchandise inventories	1,978	-
Other assets	(1,570)	1,690
Accounts payable and other liabilities	(61)	1,871
Proceeds from sales of / payments from loans held for sale	33,536	11,376
Net cash provided by operating activities of continuing operations	42,156	9,584
Investing Activities of Continuing Operations		
Net increase in restricted cash	1,981	-
Proceeds from sales of investment securities classified as available-for-sale	51	-
Proceeds from repayments of investment securities classified as available-for-sale	223	13,769
Proceeds from sales of / capital distributions from equity investments	57,523	33,009
Purchases of customer accounts receivable	(475,031)	-
Proceeds from sale of customer accounts receivable	475,178	-
Acquisition of Orchard Brands Corporation net of cash on hand	(392,158)	-
Net (purchases) dispositions of property and equipment	(15,223)	4,663
Net cash (used in) provided by investing activities of continuing operations	(347,456)	51,441

(Continued on next page)

BLUESTEM GROUP INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	26-Weeks Ended	
	July 31, 2015	August 1, 2014
Financing Activities of Continuing Operations		
Net borrowings/repayments of debt	$ 217,486	$ (13,678)
Borrowings on revolving credit facilities	192,276	-
Repayments on revolving credit facilities	(194,944)	-
Proceeds from issuance of preferred stock	-	5,000
Treasury shares repurchased	(131)	-
Net cash provided by (used in) financing activities of continuing operations	214,687	(8,678)
Effect of Foreign Exchange Rates on Cash	(77)	63
Discontinued Operations		
Net cash used in operating activities of discontinued operations	-	(1,192)
Net cash provided by investing activities of discontinued operations	-	2,736
Net cash provided by discontinued operations	-	1,544
Net (Decrease) Increase in Cash and Cash Equivalents	(90,690)	53,954
Cash and Cash Equivalents, Beginning of Period	254,207	169,444
Cash and Cash Equivalents, End of Period	$ 163,517	$ 223,398
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 14,318	$ -
Income taxes (refunded) paid	$ (34)	$ 213
Non-cash Transactions:		
Purchases of property and equipment on account	$ (293)	$ -
Capital lease obligation incurred	$ 878	$ -

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

BLUESTEM GROUP INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization and Operations

As used in this report:

- "BGI" or "the Company" refers to Bluestem Group Inc. with its consolidated subsidiaries
- "Bluestem" refers to Bluestem Brands, Inc., an indirect subsidiary of Bluestem Group Inc. which consists of the Bluestem Legacy Portfolio of retail brands and the Orchard portfolio of retail brands
- "Bluestem Legacy Portfolio" refers to the consolidated Fingerhut, Gettington and PayCheck Direct retail brands
- "Orchard Portfolio" refers to the consolidated Appleseed's, Bedford Fair, Blair, Draper's & Damon's, Gold Violin, Haband, LinenSource, Norm Thompson, Old Pueblo Traders, Sahalie, Solutions, Tog Shop, and WinterSilks retail brands
- "Commercial Real Estate" refers to the commercial real estate finance operations of BGI

Bluestem Group Inc. is a holding company whose businesses include Bluestem Brands, a multi-brand, online retailer of a broad selection of name-brand and private label general merchandise serving low- to middle-income consumers through 16 retail brands that include: Appleseed's, Bedford Fair, Blair, Draper's & Damon's, Fingerhut, Gettington, Gold Violin, Haband, LinenSource, Norm Thompson, Old Pueblo Traders, PayCheck Direct, Sahalie, Solutions, Tog Shop and Wintersilks. Complementing each brand is a large selection of merchandise with payment options that provide customers with the flexibility of paying over time. Bluestem Group Inc. also includes the Commercial Real Estate related companies which are focused on managing the commercial real estate-related business and existing assets, including monetizing the asset when appropriate.

On March 5, 2014, the Company entered into an agreement with Centerbridge Capital Partners II, L.P. and certain of its affiliates ("Centerbridge") for a strategic investment in the Company by Centerbridge ("Investment Agreement"), subject to certain terms and conditions. On May 8, 2014, following receipt of stockholder approval, the Company, as contemplated by the Investment Agreement, (i) filed Amended and Restated Articles of Incorporation and amended and restated its Bylaws, (ii) issued to Centerbridge $5.0 million of convertible preferred stock and warrants to purchase up to 43 million shares of common stock ("Warrants") and (iii) entered into an agreement under which Centerbridge committed to purchase up to $100 million of floating-rate subordinated payment-in-kind notes, subject to certain terms and conditions. Funds made available to the Company by Centerbridge would be used, together with the Company's own resources, to finance one or more acquisitions over a period of two years from closing, which may be extended for an additional year. As discussed below, funds made available to the Company by Centerbridge were used to finance the acquisition of Bluestem Brands.

On November 7, 2014, a subsidiary of BGI acquired all of the outstanding common shares and voting interests of Bluestem Brands, Inc. for $565 million in cash, subject to various pre-closing and post-closing adjustments. The Company funded the purchase price and associated transactional expenses with approximately $136 million of cash on hand, $136 million of proceeds from the exercise of Warrants by Centerbridge pursuant to the terms of the Investment Agreement, and a $300 million term loan facility issued by Bluestem Brands, Inc. Certain members of Bluestem Brands, Inc's management team also provided capital for the transaction through the purchase of the Company's common stock. In addition, Bluestem Brands, Inc. closed on an amendment and restatement of its $80 million asset-based lending facility. The results of Bluestem Brands, Inc.'s operations have been included in the condensed consolidated financial statements since November 7, 2014.

On July 10, 2015, Bluestem Brands, Inc. acquired all of the outstanding common shares and voting interests of Orchard Brands Corporation, which operates the Orchard Portfolio, for $410 million in cash, subject to customary purchase price adjustments. The Company funded the purchase price and associated transactional expenses with a combination of $104 million of cash on hand, $270 million of proceeds from an amended term loan facility issued by Bluestem Brands, Inc. and $25 million of borrowings under Bluestem's asset-based lending facility. The operating results of the Orchard Brands Corporation have been included in the condensed consolidated financial statements since July 10, 2015.

On June 17, 2015, the Company's stockholders approved a change in its name from Capmark Financial Group Inc. to Bluestem Group Inc. and the Company filed an amendment to its Amended and Restated Articles of Incorporation to change its name to Bluestem Group Inc.

See Note 4, *Business Combinations,* of the Company's Notes to condensed consolidated financial statements for pro forma information and further discussion of the Bluestem Brands, Inc. and Orchard Brand Corporation acquisitions.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim reporting. Accordingly, these financial statements do not include all of the information and footnote disclosures required for annual financial reporting. These interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's report as of and for the years ended January 30, 2015 and January 31, 2014 ("Annual Report") (available at www.bluestemgroup.com). The Company's results for any interim period are not necessarily indicative of results for a full year or any other interim period.

The preparation of the condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts and disclosures of revenue and expense. Significant estimates made by management include revenue recognition, revenue deferrals, the allowance for doubtful accounts, reserves for excess and obsolete merchandise inventories, allowances for merchandise returns and customer allowances, promotional material inventories, income taxes, valuation of loans held-for-sale, valuation of stock-based awards, valuation of derivatives in the Company's own equity, fair value estimates related to intangible and long-lived assets, direct response advertising costs, and the estimated demand used in the calculation of the amortization of direct response advertising costs. Certain of the Company's critical accounting estimates require higher degrees of judgment and are more complex than others in their application. For all of these estimates, future events rarely develop exactly as forecasted and, therefore, routinely require adjustment.

The accompanying unaudited condensed consolidated financial statements include financial information for the Company and its consolidated subsidiaries, including wholly-owned and majority owned subsidiaries in which the Company has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the consolidated financial statements include all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of the Company as of July 31, 2015 and the results of its operations and cash flows for the interim periods presented.

Reclassification

In connection with the acquisition of Bluestem Brands, Inc., the Company made certain reclassifications to the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Comprehensive Income to better align the presentation of the companies. The Condensed Consolidated Balance Sheets have been reclassified to include current and noncurrent assets and liabilities. Accounts included in current assets include cash, receivables, and other assets that are expected to be realized in cash or sold during the normal operating cycle of the business. Current liabilities include accounts payable, accrued costs and other obligations that are expected to be paid during the normal operating cycle of the business. Noncurrent assets and noncurrent liabilities include assets and liabilities that are expected to remain on the Company's balance sheet for longer than one normal operating cycle.

In the Consolidated Statement of Comprehensive Income, the Company's noninterest expenses have been reclassified between commercial real estate operating expenses and general and administrative expenses. Commercial real estate operating expenses consist primarily of professional fees for legal service providers for asset transactions and litigation and compensation and benefits costs for asset management related personnel. General and administrative expenses include payroll and benefit costs for corporate and administrative employees; professional fees for investment and acquisition transactions, legal, accounting, and other service providers; occupancy costs of the Company's corporate offices; insurance; maintenance; and other overhead costs.

Fiscal Year

On December 18, 2014, the Company changed its fiscal year from December 31 to the Friday closest to January 31 of the following year to conform to the fiscal year of Bluestem. Bluestem operates on a fiscal calendar widely used by the retail industry that result in fiscal years consisting of a 52- or 53-week period ending on the Friday closest to January 31 of the following year. The previously unaudited results for the Company for the 13- and 26-weeks ended June 30, 2014 were restated for the new fiscal quarter.

In these unaudited condensed consolidated financial statements, including the notes thereto, financial results are for the 13- and 26-weeks ended July 31, 2015 and August 1, 2014. All fiscal quarters presented include a 13 week period.

3. Significant Accounting Policies and Recently Issued Accounting Standards

Due to the Company's acquisition of the Orchard Brands Corporation on July 10, 2015, the Company updated its accounting policies previously disclosed in the Annual Report as follows:

Revenue Recognition

Net retail sales consists of merchandise sales, shipping and handling revenue, shipping returns fee income, credit card fees 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 retail sales are reported net of discounts and estimated sales returns, and exclude sales taxes.

Payments received in advance of receipt of merchandise by customers are recorded in Accrued costs and other liabilities in the Condensed Consolidated Balance Sheets.

Gift cards are sold to customers without expiration dates. Administrative fees are not charged on unused gift cards. Income is recognized from gift cards when they are redeemed by the customer. Income is recognized on unredeemed gift cards when the Company can determine that the likelihood of the gift card being redeemed is remote and there is no legal obligation to remit the unredeemed gift cards to relevant jurisdictions (gift card breakage). The gift card breakage rate is based on historical redemption patterns. Gift card breakage is included in net retail sales in the Condensed Consolidated Statements of Comprehensive Income.

Net interest income represents the difference between the amount of interest that the Company earns on its commercial real estate interest-earning assets, primarily loans held-for-sale, and the amount of interest that the Company pays on its commercial real estate interest-bearing liabilities.

Net gains on investments and real estate primarily include net realized gains and losses on investment securities available-for-sale and net realized and unrealized gains and losses on real estate investments.

Other noninterest income primarily includes net realized and unrealized gains and losses on loans and equity investments and the recognition of the discount recorded in the application of fresh-start accounting to the loans held-for-sale. The discount is recognized as a component of the realized gain on sale at the time of a partial or full disposition of the loan.

Credit Card Agreements

Orchard Brands Corporation has entered into arrangements with a third party program operator to provide private label credit cards to its customers where it may receive payments from the program operators if certain specified measures are realized. These amounts are recorded as a component of net retail sales in the Condensed Consolidated Statements of Comprehensive Income, when earned. Additionally, reimbursement of certain marketing expenses may be received which are recorded as a reduction in operating expenses in the Condensed Consolidated Statements of Comprehensive Income.

Self Insurance

Orchard Brands Corporation self-insures its health insurance benefits and worker's compensation benefits provided to substantially all of its employees. Orchard Brands Corporation has purchased stop-loss insurance to cover individual claims in excess of $250,000. Incurred but not reported ("IBNR") claims are estimated under the health insurance program based on specific actual historical claims experience. The recorded accrual is equal to the IBNR plus the amount of any unpaid reported claims. As of July 31, 2015, Orchard Brands Corporation's total medical liability, including IBNR claims, was $1.1 million. The estimate of exposure to health insurance claims is subjective, and the amount of claims actually incurred could differ, which could result in increased or decreased expense in future periods. The total recorded liability relating to the worker's compensation benefits was $0.7 million at July 31, 2015. The recorded liabilities are included in accrued costs and other liabilities in the Company's Condensed Consolidated Balance Sheets.

Recently Adopted Accounting Standards

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This update was issued to reduce the number of dispositions resulting in discontinued operations presentation. The amendments include a component of an entity or a group of components of an entity or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable or operating segment, a reporting unit, a subsidiary or an asset group. The FASB also eliminated the requirement to evaluate continuing involvement with the disposed component to conclude on discontinued operations presentation. The update expands the disclosures about discontinued operations and disposals of individually insignificant components that do not qualify as discontinued operations. This update is effective prospectively for disposals occurring within annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. Early application is permitted, but only for those disposals (or classifications as held-for-sale) that have not been reported in financial statements previously issued or available for issuance. This guidance was effective for the Company beginning February 2015. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

On April 7, 2015, the FASB issued ASU 2015-03, *Interest — Imputation of Interest (Subtopic 835-30) — Simplifying the Presentation of Debt Issuance Costs.* The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This requirement will simplify the presentation of debt issuance costs as the presentation will be consistent with the presentation for debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The amendments in this update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted.

In connection with the acquisition of Orchard Brands Corporation, (see Note 4, *Business Combinations*), the Company amended the term loan facility and asset-based lending facility and borrowed an additional $280 million and $25 million, respectively. The Company has elected to early adopt ASU 2015-03 in the period ending July 31, 2015. The balances for the period ended January 30, 2015 have been retrospectively adjusted as follows:

	As Originally Reported	As Adjusted	Effect Of Change
ASSETS			
Current assets:			
Other current assets	$ 34,999	$ 33,647	$ (1,352)
Total current assets	459,421	458,069	(1,352)
Other assets	26,474	21,107	(5,367)
Total Assets	$ 1,308,000	$ 1,301,281	$ (6,719)
LIABILITIES			
Current liabilities:			
Short-term debt	$ 19,116	$ 17,764	$ (1,352)
Total current liabilities	193,976	192,624	(1,352)
Long-term debt	359,483	354,116	(5,367)
Total Liabilities	$ 1,308,000	$ 1,301,281	$ (6,719)

Accounting Standards Issued But Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contract with Customer (Topic 606)* (“ASU 2014-09”). This update requires revenue to be recognized based on the amount an entity is expected to be entitled to for promised goods or services provided to customers. The update also requires expanded disclosures regarding contracts with customers. The guidance in this update supersedes the revenue recognition requirements in Topic 605, “*Revenue Recognition”*, and most industry-specific guidance.

On August 12, 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (“ASU 2015-14”) which defers the effective date of ASU 2014-09 for all entities by one year. This update is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU 2014-09 was effective for the Company beginning February 2017. ASU 2015-14 defers the Company’s effective date until February 2018. The Company is currently evaluating the requirements of this standard and has not yet determined the impact on the results of operations or financial position.

On September 25, 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments* (“ASU 2015-16”). The amendments in ASU 2015-16 require the acquirer to record, in the same period’s financial statements, the effect on earning of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This amendment eliminates the requirement to retrospectively account for adjustments to the provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period. The amendments in this update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company anticipates the adoption of this guidance will not have a material effect on its consolidated financial statements.

4. Business Combinations

Orchard Brands Corporation

On July 10, 2015, the Company acquired all of the outstanding common shares and voting interests of Orchard Brands Corporation for $410 million in cash, subject to various post-closing adjustments. The Company funded the purchase price and associated transactional expenses with:

- $104 million of cash on hand;
- $270 million of proceeds from a term loan facility; and
- $25 million of borrowings under an asset-based lending facility.

The operating results of the Orchard Brands Corporation have been included in the condensed consolidated financial statements since July

10, 2015. The Orchard Brands Corporation is a national multi-channel direct marketer offering apparel, accessories, and home products for women and men principally in the boomer and senior demographic, generally considered ages 50 and older. Product assortments are offered through various platforms including catalogs, mailers, internet, mobile, and in retail and outlet stores. The transaction will broaden and diversify the customer base and retail capabilities of Bluestem.

The purchase price has been preliminarily allocated based on the carrying value of net assets acquired and liabilities assumed at the date of acquisition. The Company has engaged a third-party valuation advisor to conduct analyses of certain assets acquired and liabilities assumed in order to assist in the determination of the purchased price allocation. The preliminary purchase price allocation is subject to further refinement and may require significant adjustments to arrive at the final purchase price allocation. The Company expects the purchase price to be completed in the fourth quarter of fiscal year 2015. There is no assurance that the finalized allocation will not result in a material change from the preliminary purchase price allocation.

The following table summarizes the preliminary estimate of the fair value of assets acquired and liabilities assumed as part of the Orchard Brands Corporation acquisition (in thousands):

Purchase price	$	392,510
Cash		352
Inventory		127,255
Property and equipment		42,843
Other assets		54,228
Total identifiable assets acquired		224,678
Current liabilities		117,147
Other liabilities		20,028
Total liabilities assumed		137,175
Net identifiable assets acquired		87,503
Goodwill		305,007
Net assets acquired	$	392,510

The excess purchased price over tangible net assets acquired has been preliminarily allocated to goodwill in the amount of $305 million and has been fully allocated to the Orchard reporting segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

The amount of revenue included in the Company's Condensed Consolidated Statements of Comprehensive Income for the 13-weeks ended July 31, 2015 related to the Orchard Brand Corporation was $48.4 million. The amount of operating income included in the Company's Condensed Consolidated Statements of Comprehensive Income for the 13-weeks ended July 31, 2015 related to the Orchard Brand Corporation was $1.6 million.

Bluestem

On November 7, 2014, the Company acquired all of the outstanding common shares and voting interest of Bluestem Brands, Inc. for $565 million in cash, subject to various post-closing adjustments. The Company funded the purchase price and associated transactional expenses with:

- $136 million of cash on hand;
- $136 million of proceeds from the exercise Warrants by Centerbridge pursuant to the terms of the Investment Agreement; and
- Borrowings under a $300 million term loan facility.

The results of the acquisition have been included in the condensed consolidated financial statements since November 7, 2014. Bluestem is a national multi-brand online retailer serving low-to-middle income consumers by offering products with customized payment plans through three operating segments: Fingerhut, Gettington and PayCheck Direct. Bluestem offers a large selection of name-brand, private label, and non-branded merchandise through internet websites and catalogs to customers in the United States. It primarily sells consumer electronics, domestics, housewares, home furnishings, children's merchandise, and apparel. By combining its proprietary marketing and credit decision-making technologies, Bluestem is able to tailor merchandise and credit offers to prospective as well as existing customers.

The following table summarizes the consideration paid for Bluestem and the amount of assets acquired and liabilities assumed on November 7, 2014 (in thousands):

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

Through the application of "push-down" accounting, the assets and liabilities of Bluestem were adjusted to fair value on November 7, 2014. The fair value of the acquired intangible assets of $396.2 million includes customer relationships and tradenames 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 tradenames was determined by using the relief from royalty method. Significant estimates included the determination of expected revenue and estimated royalty rate. See Note 9, *Goodwill and Intangibles,* for further information.

The goodwill of $201.6 million has been assigned in full to the Fingerhut segment and 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 July 31, 2015, there were no changes in the recognized amounts of goodwill resulting from the acquisition of Bluestem. See Note 9, *Goodwill and Intangibles,* for further information.

The amount of revenue included in the Company's Condensed Consolidated Statements of Comprehensive Income for the 13- and 26-weeks ended July 31, 2015 related to Bluestem was $252.9 million and $459.1 million, respectively. The amount of operating loss included in the Company's Condensed Consolidated Statements of Comprehensive Income for the 13- and 26-weeks ended July 31, 2015 related to Bluestem was $14.6 million and $31.0 million, respectively.

Pro forma Results

The following summary presents unaudited pro forma consolidated results of operations for the 13- and 26-weeks ended July 31, 2015 and August 1, 2014, as if the Orchard Brands Corporation acquisition had occurred on February 1, 2014 and as if the Bluestem Brands, Inc. 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 had the Company, the Orchard Brands Corporation, and Bluestem Brands, Inc. been combined during the periods presented, nor is it necessarily indicative of the future results of operations of the combined companies (in thousands):

	13-Weeks Ended			
	July 31, 2015		**August 1, 2014**	
	Reported	**Proforma**	**Reported**	**Proforma**
Total net sales and revenue	$ 304,264	$ 515,368	$ 17,787	$ 496,427
Operating (loss) income	$ (13,825)	$ 4,119	$ 10,441	$ 28,037

	26-Weeks Ended			
	July 31, 2015		**August 1, 2014**	
	Reported	**Proforma**	**Reported**	**Proforma**
Total net sales and revenue	$ 516,586	$ 984,320	$ 23,320	$ 930,384
Operating (loss) income	$ (37,000)	$ (9,241)	$ 6,401	$ (12,261)

Pro forma operating adjustments consist of the following (in thousands):

	13-Weeks Ended		26-Weeks Ended	
	July 31, 2015	August 1, 2014	July 31, 2015	August 1, 2014
Amortization expense	$ -	$ (5,715)	$ -	$ (26,890)
Interest expense	3,258	2,625	7,961	5,358
Reversal of rent expense	-	292	-	584
Dividend equivalent expense	-	2,976	-	6,136
Acquisition costs	14,838	1,335	16,650	(13,766)
Acceleration of stock compensation expense	4,662	-	4,662	(4,662)
Loss on early retirement of debt	5,729	-	5,729	(7,692)

5. Net (Loss) Income Allocated to Common Stockholders

The table below demonstrates how the Company computed basic and diluted loss per share (in thousands, except share and per share amounts):

	13-Weeks Ended		26-Weeks Ended	
	July 31, 2015	August 1, 2014	July 31, 2015	August 1, 2014
(Loss) income from continuing operations after income taxes	$ (13,798)	$ 10,232	$ (37,317)	$ 5,902
Plus: Net income attributable to noncontrolling interests	-	3,125	-	5,267
Subtotal	(13,798)	13,357	(37,317)	11,169
Loss from discontinued operations, net	-	(2,505)	-	(4,753)
Net (loss) income attributable to Bluestem Group Inc.	(13,798)	10,852	(37,317)	6,416
Less: Net income allocated to preferred stockholders	-	133	-	133
Less: Deemed dividends to preferred stockholders	29	-	57	-
Net (loss) income allocated to common stockholders	$ (13,827)	$ 10,719	$ (37,374)	$ 6,283
Basic and Diluted Income (Loss) Per Share - Common Stockholders				
Basic and diluted (loss) income per share from continuing operations allocated to common stockholders	$ (0.10)	$ 0.13	$ (0.27)	$ 0.11
Basic and diluted loss per share from discontinued operations	$ -	$ (0.02)	$ -	$ (0.05)
Basic and diluted (loss) income per share available to common stockholders	$ (0.10)	$ 0.11	$ (0.27)	$ 0.06
Basic weighted average shares outstanding	136,140,955	99,803,233	136,132,962	99,803,233
Effect of dilutive shares for preferred stock	-	1,269,111	-	645,073
Diluted weighted average shares outstanding	136,140,955	101,072,344	136,132,962	100,448,306
Antidilutive nonvested shares	18,286,029	1,752,812	18,281,203	1,077,383

6. 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 customers. The credit accounts may only be used to purchase goods and services from Fingerhut, Gettington, 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 of three business days. 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.

Bluestem is a party to a series of transactions with Credit Issuer and SCUSA related to revolving Fingerhut and Gettington customer accounts receivables. The following are primary agreements executed by Bluestem (collectively the "A/R Program Agreement").

Agreement	Counterparty
Receivables Sales Agreement	Credit Issuer
Standard Receivables Sales Agreement	SCUSA
Program Agreement	Credit Issuer and SCUSA

Except as described below in the asset backed line of credit section of Note 10, "Collateralized Borrowing and Other Financing", Bluestem is obligated to sell all new receivables originated under revolving credit accounts to SCUSA on the same day those receivables are purchased by Bluestem from Credit Issuer. All receivables originated in revolving credit accounts are referred to as "Standard Receivables." All receivables generated in 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 the Credit Issuer. SCUSA bears risk of loss due to uncollectibility of the Standard Receivables purchased by SCUSA. Bluestem bears risk of loss due to uncollectibility on Nonstandard Receivables and any existing Standard Receivables not purchased by SCUSA.

Effective September 1, 2015, Bluestem and SCUSA amended certain terms of the Standard Receivables Sales Agreement. Among other things, the amendments include changes to the annual profit sharing splits between the Bluestem and SCUSA and modifications to SCUSA's exclusivity rights, which permit Bluestem, at Bluestem's option, to purchase from SCUSA on a one-time basis up to 9.99% of the SCUSA-owned accounts receivable and/or to retain up to 20% of Standard Receivables on newly originated revolving credit accounts that otherwise would be sold to SCUSA.

The Company is responsible for servicing all accounts whether the related receivables are owned by Bluestem 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 customers may be offered one of two credit products. The Fingerhut revolving credit is typically accepted on customary revolving credit terms. The Fingerhut FreshStart credit product is primarily marketed as a counter offer to customers who have applied but were declined a revolving credit account. The Gettington revolving credit is accepted on customary revolving credit terms. The PayCheck Direct non-interest bearing installment receivables are issued by the Company to consumers who are members and employees of participating organizations and employers in the program and customers make installment payments through payroll deductions or automatic bank withdrawals.

Serviced Credit Portfolio metrics as of July 31, 2015 are as follows (in thousands):

	Revolving (a)	FreshStart (b)	PayCheck Direct Installment (c)
Balance active accounts	1,800	136	32
Average balance outstanding	$ 688	$ 104	$ 545
Customer accounts receivable (d)	$ 1,237,579	$ 14,094	$ 17,318
Balances 30+ days delinquent (e)	$ 201,406	$ 5,804	$ 1,521
Balances 30+ days delinquent as a percentage of total customer accounts receivable (f)	16.3 %	41.2 %	8.8 %

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

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

(c) PayCheck Direct installment 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 consist of FreshStart installment accounts receivable, PayCheck Direct installment accounts receivable, revolving accounts receivable, and other accounts receivable. FreshStart installment, PayCheck Direct installment, and other accounts receivable are not sold to SCUSA, as defined by the A/R Program Agreement. The revolving accounts receivables 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 a 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 from third-party payment processors, in-transit payments related to third-party credit card and debit transaction and purchase or finance charge payments that have not yet posted to a customer revolving or installment account.

Company-owned customer accounts receivable as of July 31, 2015 and January 30, 2015 are as follows (in thousands):

	July 31, 2015	January 30, 2015
FreshStart installment accounts receivable	$ 14,060	$ 19,706
PayCheck Direct accounts receivable	17,586	16,494
Revolving accounts receivable	6,707	9,241
Other accounts receivable	18,530	5,944
Customer accounts receivable	56,883	51,385
Less allowance for doubtful accounts	(10,152)	(10,457)
Customer accounts receivable - net	$ 46,731	$ 40,928

Finance charge and fee income is recognized on Company-owned revolving and FreshStart 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 for all Company-owned accounts receivables, with the exception of the Orchard Portfolio's accounts receivable, is included in retail net credit expense in the Condensed 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. The Orchard Portfolio's accounts receivable are not included as part of the Bluestem credit portfolio and its provision for doubtful accounts is included in General and administrative expense in the Condensed Consolidated Statements of Comprehensive Income.

Changes in the allowance for doubtful accounts for the 26-weeks ended July 31, 2015 are as follows (in thousands):

Balance at January 30, 2015	$ 10,457
Orchard Brands Corporation balance at acquisition	86
Provision for doubtful accounts	7,157
Principal charge-offs	(7,897)
Recoveries	349
Balance at July 31, 2015	$ 10,152

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 July 31, 2015 are as follows (in thousands):

	July 31, 2015
Time since origination, as segmented in our estimate of the allowance for doubtful accounts:	
0 - 3 months	$ 29,738
4 - 6 months	9,614
7 - 9 months	4,321
10 - 12 months	627
13 - 15 months	4,236
16 - 18 months	2,446
19+ months	3,062
Impaired (1)	2,839
Period-end customer accounts receivable	$ 56,883

Note: (1) Includes qualified hardship, bankrupt, deceased, and re-aged customer accounts.

SCUSA-owned Customer Accounts Receivable

For the 13- and 26-weeks ended July 31, 2015, the Company purchased $262.4 million and $475.0 million, respectively, of new Standard Receivables and sold $262.5 million and $475.1 million, respectively, of new and existing Standard Receivables at par value under the A/R Program Agreements. SCUSA reimburses the Company for fees paid to the Credit Issuer except for applicable interchange fees.

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. For the 26-weeks ended July 31, 2015, the compensation received approximated adequate compensation for the services, and as such, there is no servicing asset or liability as of July 31, 2015.

7. Loans Held-for-Sale

As of July 31, 2015 and January 30, 2015, the Company had $48.1 million and $75.8 million of loans held-for-sale, respectively, that are no longer owned by the Company, but continue to be recognized on the Company's balance sheet because the transfers of these loans to a third party did not qualify as sales and were accounted for as financings. These loans held-for-sale are pledged for the collateralized borrowings for transactions that do not qualify as sales. Collateralized borrowings of $50.1 million and $81.3 million as of July 31, 2015 and January 30, 2015, respectively, are related to transfers of financial assets, including loans-held-for-sale, that do not qualify as sales. The funds received are recorded as liabilities in long-term debt on the Condensed Consolidated Balance Sheets. Recourse is limited to the assets related to these contractual arrangements.

The following table summarizes the Company's loans held-for-sale carried at the lower of cost or fair value by collateral type (in thousands):

	July 31, 2015		January 30, 2015	
Collateral type	**Carrying Amount**	**Percent of Portfolio**	**Carrying amount**	**Percent of portfolio**
Office	$ 25,944	52%	$ 46,714	60%
Retail	2,107	4%	2,093	3%
Mixed-use and other(1)	22,200	44%	29,273	37%
Total	$ 50,251	100%	$ 78,080	100%

Note: (1) Mixed use and other consists of loans secured by properties with more than one commercial real estate property type, loans secured by pools of mixed property types, plus loans secured by various other property types not otherwise delineated.

8. Equity Investments

The following table summarizes the Company's equity investments by investment type (in thousands):

	July 31, 2015		January 30, 2015	
	Carrying amount	Percent of Portfolio	Carrying amount	Percent of Portfolio
Investments in real estate investment funds and other real estate ventures.	$ 50,536	86%	$ 66,740	58%
Investments in entities that hold foreclosed real estate assets and other …	7,987	14%	8,177	7%
Investment in the capital stock of Federal Home Loan Bank of Seattle…..	-	0%	39,819	35%
Total……………………………………………………………..………	$ 58,523	100%	$ 114,736	100%

The Federal Home Loan Bank of Seattle obtained all necessary regulatory approvals for redemption of its outstanding shares of regulatory-restricted mandatorily redeemable capital stock. On May 18, 2015, the Federal Home Loan Bank of Seattle redeemed the Company's outstanding shares of regulatory-restricted mandatorily redeemable capital stock at par for $29.4 million. On June 1, 2015, the Federal Home Loan Bank of Des Moines redeemed the Company's remaining capital stock balance of $6.8 million. For the 26-weeks ended July 31, 2015, the Federal Home Loan Bank of Seattle also repurchased $3.6 million of the Company's capital stock pursuant to previously established quarterly share redemptions of excess capital stock.

9. Goodwill and Intangibles

As of July 31, 2015 and January 30, 2015, the Company's intangible assets and goodwill, consisted of the following (in thousands):

	July 31, 2015			January 30, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with finite lives:						
Customer relationships………………	$ 176,200	$ (36,144)	$ 140,056	$ 176,200	$ (18,308)	$ 157,892
Intangible assets with indefinite lives:						
Tradenames…………………………	220,000	-	220,000	220,000	-	220,000
Total intangible assets………………	$ 396,200	$ (36,144)	$ 360,056	$ 396,200	$ (18,308)	$ 377,892
Goodwill…………………………………	506,649		506,649	201,642	-	201,642
Total intangible assets and goodwill…….	$ 902,849	$ (36,144)	$ 866,705	$ 597,842	$ (18,308)	$ 579,534

The changes in the carrying amount of goodwill for the 26-weeks ended July 31, 2015 are as follows (in thousands):

	Fingerhut	Orchard	Total
Balance as of January 30, 2015……………………………….………………………………	$ 201,642	$ -	$ 201,642
Additions - Orchard Brands acquisition..	-	305,007	305,007
Balance as of July 31, 2015…………………………..……………………………………	$ 201,642	$ 305,007	$ 506,649

Intangible assets with finite lives are amortized using the accelerated method over their estimated useful lives. Intangible assets amortization expense for the 13- and 26-weeks ended July 31, 2015 was $10.1 million and $17.8 million, respectively**.**

As of July 31, 2015, estimated annual amortization expense for intangible assets for the next five fiscal years and thereafter is as follows (in thousands):

Fiscal Years		
Remainder of 2015	$	30,894
2016		36,158
2017		27,370
2018		20,365
2019		14,683
Thereafter		10,586
Total	$	140,056

10. Collateralized Borrowing and Other Financing

Collateralized borrowing and other financing are included as short-term debt and long-term debt on the Consolidated Balance Sheets as follows (in thousands):

	July 31, 2015		January 30, 2015	
Short-term Debt				
Short-term financing	$	31,179	$	17,764
Short-term Debt	$	31,179	$	17,764
Long-term Debt				
Collateralized borrowings	$	50,097	$	81,315
Long-term financing		508,214		272,801
Long-term debt	$	558,311	$	354,116

Collateralized Borrowings

Collateralized borrowings of $50.1 million and $81.3 million as of July 31, 2015 and January 30, 2015, respectively, related to transfers of financial assets that do not qualify as sales. The funds received are recorded as liabilities in long-term debt on the Consolidated Balance Sheet. Recourse is limited to the assets related to these contractual arrangements.

The following table summarizes the carrying value of assets of continuing operations that are pledged as collateral for the transactions that do not qualify as sales (in thousands):

	July 31, 2015		January 30, 2015	
Commercial real estate accounts and other receivables	$	474	$	1,420
Loans held for sale		48,144		75,786
Total assets pledged as collateral	$	48,618	$	77,206
Related collateralized borrowings	$	50,097	$	81,315

Financing

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

	July 31, 2015	January 30, 2015
Short-term financing		
Debt facility - net of discount and financing fees of $5,572 and $3,577	$ 29,165	$ 16,038
Capital lease obligation	1,967	1,672
Other notes payable	47	54
Short-term financing	$ 31,179	$ 17,764
Long-term financing		
Debt facility - net of discount and financing fees of $23,740 and $14,576	$ 505,467	$ 269,557
Capital lease obligation	2,747	3,072
Other notes payable	-	172
Long-term financing	$ 508,214	$ 272,801

Debt Facility

Term Loan

On November 7, 2014, Bluestem Brands, Inc. entered into a $300 million term loan facility with a syndication of investors (the "Initial Term Loan"), which matures on November 7, 2020. The Initial 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 being amortized under the straight-line method, which approximates the effective interest method, as interest expense over the term of the loan. Proceeds from the Initial Term Loan were used to finance the purchase of Bluestem. See Note 4, *Business Combinations,* for further information.

On July 10, 2015, Bluestem Brands, Inc. entered into the First Amendment and Incremental Agreement to the Term Loan and borrowed an additional $280 million (the "Incremental Loans" and, together with the "Initial Term Loan", the "Term Loan"). There were no changes to the payment terms, interest rate or financial covenants in connection with the Incremental Loans with the exception of the Orchard Brands Corporation's results are now included in the calculation of minimum liquidity and total leverage ratio. The Incremental Loans were issued with an original issue discount totaling $2.8 million and were accounted for as a debt modification. As a result, new lender fees of $7.7 million were recorded as deferred charges and $0.2 million of third-party fees were expensed. Both the original issue discount and the deferred charges are being amortized under the straight-line method, which approximates the effective interest method, as interest expense over the remaining term of the loan. Proceeds from the Incremental Loans were used to finance the purchase of the Orchard Brands Corporation. See Note 4, *Business Combinations*, for further information.

Bluestem Brands, Inc. is required to repay the outstanding principal balance of the Term Loan in quarterly installments of $7.5 million, with the balance due at maturity; however, the quarterly installments may be reduced by the excess cash flow mandatory prepayment described below. In addition, Bluestem Brands, Inc. is obligated to make mandatory prepayments of principal on an annual basis equal to:

- 50% of annual excess cash flow (as defined in the Term Loan), during the first period, subject to a range of 0% to 75% based upon specified leverage ratio targets for the following period; and
- net cash proceeds from (1) certain asset sales, (2) certain debt offerings, and (3) certain insurance condemnation proceeds.

Outstanding balances under the Term Loan, at the option of Bluestem Brands, Inc., 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 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 London InterBank Offered Rate. Interest payments are due quarterly on alternative base rate borrowings, and monthly on eurocurrency rate borrowings.

The Term Loan is secured by a first lien on unencumbered Bluestem property and equipment and a second lien on Bluestem's inventory and customer accounts receivable not otherwise pledged or sold. Under provisions of the Term Loan, Bluestem Brands, Inc. has restrictions on the amount of dividends declared and is subject to the following financial covenants, which are based on Bluestem's stand-alone financial results:

- Minimum Liquidity — As of the last day of any fiscal quarter, Bluestem must maintain liquidity of at least $40 million measured as the sum of (i) unrestricted cash and cash equivalents, plus (ii) undrawn committed availability under any credit facility maintained by Bluestem.
- Total Leverage Ratio — As of the last day of any fiscal quarter, Bluestem must maintain a total leverage ratio (net debt outstanding to adjusted EBITDA) of no greater than 5:1, dropping to 4.75:1 for fiscal quarters ending in 2016 and 4.5:1 for fiscal quarters ending in 2017 and thereafter. EBITDA is defined as earnings before interest, tax, depreciation and amortization, plus various other add back items generally representing non-operating or non-recurring items.

Failure to comply with these financial covenants is an event of default, subject to certain cure rights. As of July 31, 2015, Bluestem Brands, Inc. was in compliance with all these financial covenants.

As of July 31, 2015, the outstanding balance of the Term Loan was $559.3 million.

Asset Backed Line of Credit

Bluestem has an Asset Backed Line of Credit, as amended on July 10, 2015, that is secured by a first lien on inventory, and non-customer accounts receivables and a second lien on other unencumbered assets of Bluestem (the "Asset Backed Line of Credit"). The Asset Backed Line of Credit has a maturity date of July 10, 2020, and a total facility size of $200 million, subject to borrowing capacity. Borrowing capacity is calculated as the lower of 90% of the liquidation value from the latest inventory appraisal or 65% of eligible inventory, plus between 85% and 90% other eligible receivables (depending on the type of receivable), in each case less any reserves plus the lesser of $20 million and the applicable portion of Bluestem's eligible inventory in transit.

The July 10, 2015 amendment permits Bluestem Brands, Inc. to increase commitments under the Asset Backed Line of Credit by an amount not to exceed $50 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 Bluestem Brands, Inc. was to request any such additional commitments and the existing lenders or new lenders were to agree to provide such commitments, the size of the Asset Backed Line of Credit could be increased to $250 million, but Bluestem Brands, Inc.'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. Lender and third party costs of $2.5 million associated with the July 2015 amendment were deferred and will be amortized over the remaining term.

Daily outstanding balances on the Asset Backed Line of Credit will, at Bluestem Brands, Inc.'s request, be classified as either LIBOR Loans, or Adjusted Base Rate Loans (both as defined in the Asset Backed Line of Credit Agreement), subject to available balances. The rate of interest payable is (i) with respect to LIBOR Loans, the Adjusted LIBOR (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 Asset Backed Line of Credit.

The Asset Backed Line of Credit agreement requires the payment of an unused commitment fee of 0.375%.

Bluestem Brands, Inc. is subject to minimum net liquidity financial covenants under the Asset Backed Line of Credit, which are based on Bluestem's stand-alone financial results. Bluestem 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 Bluestem or any of its subsidiaries.

As of July 31, 2015, outstanding borrowings on the Asset Backed Line of Credit were $4.7 million and $103.7 million was available. Bluestem Brands, Inc. also had $ 4.1 million of outstanding letters of credit, the majority of which relate to its inventory purchasing activities and worker's compensation as of July 31, 2015. As of July 31, 2015 Bluestem Brands, Inc. was in compliance with all provisions of the Asset Backed Line of Credit Agreement.

The future maturities of the financing agreements, net of discounts and financing costs of $29.3 million, are as follows (in thousands):

Fiscal Years	July 31, 2015
Remainder of 2015	$ 25,520
2016	26,290
2017	25,679
2018	24,888
2019	24,596
Thereafter	412,420
Total	$ 539,393

Retail Interest Expense

For the 13- and 26-weeks ended July 31, 2015, retail interest expense is as follows (in thousands):

	13-Weeks Ended July 31, 2015	26-Weeks Ended July 31, 2015
Interest on debt	$ 7,705	$ 14,252
Interest on capital lease obligation	50	108
Amortization of deferred charges	433	772
Amortization of original issue discount	567	1,143
Interest income	(1)	(1)
Total interest expense - net	$ 8,754	$ 16,274

11. Other Balance Sheet Data

The following table provides additional information concerning selected balance sheet accounts (in thousands):

	July 31, 2015	January 30, 2015
Other Current Assets		
Promotional inventories	$ 50,012	$ 13,976
Prepaid expenses and other	20,360	19,671
Total other current assets	$ 70,372	$ 33,647
Other Assets		
Commercial real estate accounts and other receivables - noncurrent	$ 9,242	$ 20,228
Investment securities available-for-sale	1,016	870
Deferred charges and other	699	9
Total other assets	$ 10,957	$ 21,107
Accrued Costs and Other Liabilities		
Accrued liabilities	$ 58,322	$ 36,846
Accrued payroll and benefits	28,729	25,925
Derivative liability in our own equity	23,167	15,353
Deferred revenue	13,935	7,336
Current income taxes payable	-	3,202
Other	-	4,161
Total accrued costs and other liabilities	$ 124,153	$ 92,823
Other Long-Term Liabilities		
Unrecognized tax benefits	$ 8,986	$ 8,632
Other	4,385	11,405
Total other long-term liabilities	$ 13,371	$ 20,037

12. Variable Interest Entities

The Company is involved with various entities in the normal course of business that may be deemed to be VIEs. The Company consolidates VIEs for which it is determined to be the primary beneficiary. The Company holds significant variable interests in VIEs in which it may or may not be the sponsor and that have not been consolidated because the Company is not considered the primary beneficiary.

The Company has evaluated its investments and other interests in entities that may be considered VIEs under the provisions of ASC 810, *Consolidation*. See Note 14 of the Annual Report for a description of the VIEs in which the Company has a significant variable interest, in circumstances where the Company consolidates the VIE and in circumstances where the Company does not consolidate the VIE, as appropriate. As of July 31, 2015 and January 30, 2015, the Company is not the primary beneficiary of any VIEs.

The following table sets forth the total assets and liabilities, and sources of maximum exposure of entities deemed to be VIEs for which the Company is not considered to be the primary beneficiary and which are not consolidated by the Company, including significant variable interests as well as sponsored entities with a variable interest (in thousands):

				Maximum exposure to loss (3)			
	Size of VIEs (1)	Carrying amount of assets (2)	Carrying amount of liabilities (2)	Commitments	Loans and investments	Commercial real estate accounts and other receivables	Total
As of July 31, 2015							
Loans held for sale	$ 6,384	$ 2,107	$ -	$ -	$ 2,107	$ -	$ 2,107
New markets tax credit funds	98,111	70,834	-	-	48,144	22,690	70,834
CMBS securitization trusts	81,255	859	-	-	859	-	859
Total	$ 185,750	$ 73,800	$ -	$ -	$ 51,110	$ 22,690	$ 73,800
As of January 30, 2015							
Loans held for sale	$ 6,543	$ 2,294	$ -	$ -	$ 2,294	$ -	$ 2,294
New markets tax credit funds	140,487	108,937	-	-	75,786	33,151	108,937
CMBS securitization trusts	117,520	703	-	-	703	-	703
Total	$ 264,550	$ 111,934	$ -	$ -	$ 78,783	$ 33,151	$ 111,934

Notes:

(1) Size of the VIEs represents the amount of the underlying assets held by the VIEs.

(2) Amounts represent the carrying amount of the Company's variable interest included in assets and liabilities on the Company's Condensed Consolidated Balance Sheets.

(3) Maximum exposure to loss is based on the assumption that all of the assets in the VIEs become worthless and incorporates not only potential losses associated with assets included on the Condensed Consolidated Balance Sheets, but also potential losses associated with off-balance sheet commitments, such as unfunded liquidity and/or lending commitments and other contractual arrangements.

13. Income Taxes

For the 26-weeks ended July 31, 2015, the Company's tax provision included a $0.4 million increase to the liability for unrecognized tax benefits and $0.3 million was expensed for foreign and state taxes. The Company also recognized a $0.3 million tax benefit for temporary differences that will result in future taxable income. No tax benefit was recorded for the $37.0 million pre-tax accounting loss for the 26-weeks ended July 31, 2015, because of the Company's historical and cumulative tax losses. There was a $14.8 million increase in the net deferred tax liability as of July 31, 2015 because of the acquisition of the Orchard Brands Corporation. All other changes in deferred tax assets and liabilities were offset by changes in the valuation allowance and unrecognized tax benefit liability.

14. Fair Value of Assets and Liabilities

Following is a description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the three-level fair value hierarchy.

Commercial Real Estate Note Receivable

Upon emerging from bankruptcy on September 30, 2011, the Company elected the fair value option, under ASC 825, *Financial Instruments,* for a note receivable with a $4.6 million principal amount, which is included in commercial real estate accounts and other receivables on the Consolidated Balance Sheets. The fair value of the note receivable was estimated based on a discounted cash flow ("DCF") analysis and is classified within Level 3 of the valuation hierarchy. The DCF analysis includes a provision for an estimated reduction of the cash payment for actual losses that may emerge from a related portfolio of loans not on the Company's Consolidated Balance Sheets. The legal obligation for losses on the related portfolio of loans has been assumed by the note obligor. The maximum loss to the Company related to the portfolio of loans is limited to the $4.6 million par amount of the note receivable.

Investment Securities

Investment securities classified as available-for-sale are carried at fair value and included in other assets on the Consolidated Balance Sheets. Where quoted prices are available in an active market for identical instruments, investment securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then investment securities are classified as Level 2 and fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or DCFs. An example of instruments which would generally be classified within Level 2 of the valuation hierarchy is certain asset-backed securities. In cases where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy. Investment securities classified within Level 3 include certain residual interests in collateralized debt obligations, commercial mortgage-backed securities, and securitizations and other less liquid investment securities. The Company estimates the fair value of residual interests in securitizations based on a DCF analysis.

Derivative Instruments

Derivative instruments are accounted for as either assets or liabilities and are carried at fair value. The Company's derivatives instruments related to Warrants on common stock are valued based upon models with significant unobservable market parameters and are classified within Level 3 of the valuation hierarchy.

The Company accounts for certain of its assets and liabilities at fair value on a recurring basis or considers fair value in their measurement. The following table summarizes the assets and liabilities measured at fair value on a recurring basis, including the commercial real estate note receivable for which the Company has elected the fair value option (in thousands):

Description	Quoted Prices In Active Markets For Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of July 31, 2015
Commercial real estate note receivable	$ -	$ -	$ 4,242	$ 4,242
Investment securities available for sale	-	-	1,016	1,016
Total assets measured at fair value on a recurring basis	$ -	$ -	$ 5,258	$ 5,258
Derivative liabilities in our own equity measured at fair value on a recurring basis	$ -	$ -	$ 23,167	$ 23,167

Description	Quoted Prices In Active Markets For Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of January 30, 2015
Commercial real estate note receivable	$ -	$ -	$ 4,224	$ 4,224
Investment securities available for sale	-	-	870	870
Total assets measured at fair value on a recurring basis	$ -	$ -	$ 5,094	$ 5,094
Derivative liabilities in our own equity measured at fair value on a recurring basis	$ -	$ -	$ 15,353	$ 15,353

There were no transfers of assets between Level 1 and Level 2 in the 26-weeks ended July 31, 2015 and August 1, 2014, respectively. There were no transfers of assets into Level 3 or out of Level 3 in the 26-weeks ended July 31, 2015 and August 1, 2014, respectively.

The following table summarizes the changes in fair value for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

	13-Weeks Ended July 31, 2015				13-Weeks Ended August 1, 2014		
	Commercial Real Estate Note Receivable	Investment Securities Available for Sale	Total Assets	Derivatives Liabilities in Our Own Equity	Commercial Real Estate Note Receivable	Investment Securities Available for Sale	Total Assets
Beginning balance	$ 4,224	$ 654	$ 4,878	$ 23,578	$ 4,148	$ 1,526	$ 5,674
Purchases, issuances, sales and settlements:							
Purchases	-	-	-	-	-	-	-
Issuances	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-
Settlements	-	(166)	(166)	-	-	(11,974)	(11,974)
Total net realized/unrealized losses:			-				-
Included in earnings	18	166	184	(411)	8	11,973	11,981
Included in other comprehensive income (loss)	-	362	362	-	-	(483)	(483)
Ending balance	$ 4,242	$ 1,016	$ 5,258	$ 23,167	$ 4,156	$ 1,042	$ 5,198
Change in unrealized gains for the period included in earnings for assets or liabilities still held as of end of year	$ 18	$ -	$ 18	$ (411)	$ 8	$ -	$ 8

	26-Weeks Ended July 31, 2015				26-Weeks Ended August 1, 2014		
	Commercial Real Estate Note Receivable	Investment Securities Available for Sale	Total Assets	Derivatives Liabilities in Our Own Equity	Commercial Real Estate Note Receivable	Investment Securities Available for Sale	Total
Beginning balance	$ 4,224	$ 870	$ 5,094	$ 15,353	$ 3,941	$ 1,560	$ 5,501
Purchases, issuances, sales and settlements:							
Purchases	-	-	-	-	-	-	-
Issuances	-	-	-	-	-	-	-
Sales	-	(51)	(51)	-	-	-	-
Settlements	-	(223)	(223)	-	-	(13,810)	(13,810)
Total net realized/unrealized losses:			-				-
Included in earnings	18	273	291	7,814	215	13,710	13,925
Included in other comprehensive income (loss)	-	147	147	-	-	(416)	(416)
Ending balance	$ 4,242	$ 1,016	$ 5,258	$ 23,167	$ 4,156	$ 1,044	$ 5,200
Change in unrealized gains for the period included in earnings for assets or liabilities still held as of end of year	$ 18	$ -	$ 18	$ 7,814	$ 215	$ -	$ 215

Certain assets are measured at fair value on a nonrecurring basis, including adjustments to fair value based on the application of lower of cost or fair value accounting and asset impairments. There were no liabilities measured at fair value on a nonrecurring basis as of July 31, 2015 and January 30, 2015. There were no Level 1 or Level 2 assets measured at fair value on a nonrecurring basis as of July 31, 2015 and January 30, 2015. The carrying values of certain impaired loans held-for-sale measured at fair value on a nonrecurring basis and using significant unobservable inputs (Level 3) and still held as of July 31, 2015 and January 30, 2015 were $28.1 million and $2.1 million, respectively.

The following table presents the carrying amount and fair value of financial assets and financial liabilities (in thousands):

	Fair Value Hierarahy Level	July 31, 2015 Carrying Amount	July 31, 2015 Fair Value	January 30, 2015 Carrying Amount	January 30, 2015 Fair Value
Financial Assets:					
Investment securities available for sale	Level 3	$ 1,016	$ 1,016	$ 870	$ 870
Loans held for sale	Level 3	50,251	51,166	78,080	82,702
Financial Liabilities:					
Secured and other borrowings	Level 2	50,097	50,097	81,315	81,315
Derivative liabilities	Level 3	23,167	23,167	15,353	15,353

Cash, cash equivalents and restricted cash - the carrying value approximates fair value due to the short-term nature of the instruments and are classified as Level 1.

Customer accounts receivable - the carrying value approximates fair value due to the short-term nature of the receivables and are classified as Level 1.

Commercial real estate accounts and other receivables – the carrying value approximates fair value due to the short-term nature of the receivables. All commercial real estate accounts and other receivables are classified as Level 1, with the exception of the note receivable discussed above and summarized in the tables, which is classified as Level 3.

15. Commitments and Contingent Liabilities

Operating Lease Commitments

In connection with the Orchard Brands Corporation acquisition, the Company acquired certain operating lease obligations for retail and office facilities having initial or remaining terms of more than one year. Many of these leases require payment of taxes, maintenance, insurance and certain other operating expenses applicable to leased properties. Rental payments under the terms of some store facility leases include contingent rents based on sales levels and some are the greater of a minimum rental payment or a percentage of the store's gross receipts. The original lease terms under existing arrangements range from 1 to 6 years and may or may not include renewal options, rent escalation clauses and landlord leasehold improvement incentives. The resulting rent expense is recorded on a straight-line basis over the lease term, and accordingly, a deferred lease liability which is an insignificant amount has been recorded at July 31, 2015. In addition, the Orchard Brands Corporation has lease commitments for various office and warehouse equipment.

Lease Commitments

The Company holds assets under capital lease commitments, principally computer hardware used for corporate data storage, software and equipment, and is obligated under existing capital lease commitments to make future payments, including interest, of $4.9 million through fiscal year 2019.

The aggregate minimum rental commitments under operating leases, net of sublease income, and future maturities of capital leases for subsequent years as of July 31, 2015, are as follows (in thousands):

Fiscal Years	**Operating**	**Capital**
Remainder of 2015	$ 7,813	$ 1,044
2016	11,022	2,021
2017	8,862	1,277
2018	6,977	461
2019	5,568	139
Thereafter	16,919	-
Sublease income	(915)	-
Total future minimum lease payments	$ 56,246	$ 4,942
Less: Amount representing interest		(208)
Present value of future minimum lease payments		$ 4,734

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.

The Company has engaged a third-party valuation advisor to conduct analyses of certain assets and liabilities assumed with the Orchard Brands Corporation acquisition, including operating lease obligations. The Company expects this analysis to be completed in the fourth quarter of fiscal year 2015.

Inventory Purchase Commitments

In addition to the lease commitments disclosed above, the Orchard Brands Corporation enters into a number of cancelable and non-cancelable commitments. Typically, these commitments are for less than a year in duration and are principally focused on the procurement of inventory. Preliminary commitments with merchandise vendors typically are made five to seven months in advance of the planned receipt date. Inventory purchase commitments at July 31, 2015 were approximately $145.2 million.

Telephone Consumer Protection Act

Bluestem Brands, Inc. entered into an agreement to settle certain claims relating to allegations that it failed to comply with certain requirements of the Telephone Consumer Protection Act. The Company has recorded a $4.5 million liability and a $1.2 million receivable from a third-party collection company related to the settlement as of July 31, 2015. 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 predecessor shareholders of Bluestem Brands, Inc. per terms of the agreement dated September 28, 2014, whereby the Company acquired Bluestem Brands, Inc. on November 7, 2014.

Litigation

The Company and, former officers, directors and employees of the Company (collectively, the "BGI Parties") may be subject to potential liability under laws and government regulations, and various pre-petition and post-petition claims, as applicable and other legal actions that are pending or may be asserted against it. The BGI Parties may also be subject to governmental and regulatory examinations, information requests, investigations and proceedings, certain of which may result in settlements, fines, penalties, or other relief. The BGI Parties also receive numerous requests, subpoenas, and orders seeking documents, testimony, and other information in connection with various aspects of their pre-petition and post-petition businesses. In addition, 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 believes it 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. Legal costs for these matters are expensed as incurred. Predecessor shareholders of Bluestem Brands, Inc. are responsible for certain litigation matters per terms of the agreement dated September 28, 2014, whereby the Company acquired Bluestem on November 7, 2014.

As of July 31, 2015, after consultation with counsel and based on current knowledge, it is the opinion of management that potential liability arising from pending litigation is not expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows. However, due to the inherent uncertainty with respect to these matters and since the ultimate resolution of the Company's litigation, claims, and other legal proceedings are influenced by factors outside of the Company's control, it is reasonably possible that actual results will differ from management's estimates.

Indemnities and Guarantees

During the normal course of business, the Orchard Brands Corporation has made certain indemnities, under which it may be required to make payments in relation to certain transactions. These indemnities include those given to various lessors in connection with facility leases for certain claims arising from such facility or lease and indemnities to directors and officers of the Orchard Brands Corporation and its subsidiaries to the extent permitted under the laws of the states of incorporation. The duration of these indemnities vary. The Company has not recorded any liability for these indemnities in the Condensed Consolidated Balance Sheets as all the claims are expected to be immaterial.

Escheatment Liability

Management has assessed exposure for unclaimed property which has not been remitted to applicable states. The unclaimed property exposure relates primarily to refund checks that have not been cashed by customers. At July 31, 2015, the liability recorded, including interest, amounted to $3.4 million. These amounts are included in Accrued costs and other liabilities in the Condensed Consolidated Balance Sheets.

16. Accumulated Other Comprehensive Income

The following table summarizes the components of accumulated other comprehensive (loss) income, net of tax (in thousands):

	13-Weeks Ended		26-Weeks Ended	
	July 31, 2015	**August 1, 2014**	**July 31, 2015**	**August 1, 2014**
Balance as of the beginning of the period………………………………	$ 649	$ 1,669	$ 864	$ 1,602
Net unrealized gains (losses) arising during the period………………	521	12,202	683	13,072
Less reclassification adjustment for net (gains) losses included in net income…………………………………………………	(159)	(12,685)	(536)	(13,488)
Net change during the period………………………………………....	$ 362	$ (483)	$ 147	$ (416)
Balance as of the end of the period……………………………………	$ 1,011	$ 1,186	$ 1,011	$ 1,186

17. Segment Information

The Company reviews and presents the consolidated business results based on the organizational structure Company management uses to evaluate performance and make decisions on allocating resources and assessing performance.

As a result of the Bluestem Brands, Inc. acquisition, the Company modified its management reporting structure to align with changes in how the business is managed. The Company has recast data from prior periods to reflect this change in reportable segments to conform to the current-year presentation. The Company's consolidated business results are being presented in three reportable segments (referred to herein as "segments") Fingerhut, Orchard and Commercial Real Estate.

The Company's business segments are separately managed and organized based on the type of business conducted. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 3 of the Annual Report and as updated in this Quarterly Report, except that disaggregated results have been prepared using a management approach, which is substantially consistent with the basis and manner in which management internally disaggregates financial information for the purpose of assisting in the operating-decision process. Material intersegment transactions have been eliminated in consolidation.

Fingerhut

Fingerhut is a national multi-brand online retailer servicing low income consumers by offering products with customized payment plans through revolving credit lines or installment loans. Fingerhut offers a large selection of name-brand, private label, and non-branded merchandise through internet websites and catalogs to customers in the United States. It primarily sells consumer electronics, domestics, housewares, home furnishings, children's merchandise, and apparel. By combining Fingerhut's proprietary marketing and credit decision-making technologies, the Company is able to tailor merchandise and credit offers to prospective as well as existing customers.

Orchard

Orchard is a national multi-channel direct marketer offering apparel, accessories, and home products for women and men principally in the boomer and senior demographic, generally considered ages 50 and older. Orchard offers its product assortments through various platforms including catalogs, mailers, internet, mobile, and in retail and outlet stores. Orchard's focus on and understanding of its customer demographic provides a competitive advantage. The products are offered under the brands Appleseed's, Bedford Fair, Blair, Draper's & Damon's, Gold Violin, Haband, LinenSource, Norm Thompson, Old Pueblo Traders, Sahalie, Solutions, Tog Shop, and WinterSilks. Orchard designs its marketing programs using its extensive proprietary database of customer information of over 32 million households.

Commercial Real Estate

Commercial Real Estate is focused on managing its existing commercial real estate-related business and assets, including monetizing the assets when appropriate.

Other

As a result of not meeting the quantitative threshold requirements, two smaller operating segments within the Bluestem Legacy Portfolio, Gettington, and PayCheck Direct have been included within Other. Gettington targets middle income consumers and offers merchandise selections and payment plans similar to Fingerhut. 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 paying for their purchases over time through payroll deductions or automatic bank withdrawals.

Corporate

Consistent with the Company's management reporting, the business segments do not include corporate administrative and support functions or certain immaterial businesses. This includes unallocated payroll and benefit costs for corporate and administrative employees, including information technology, legal, human resources, finance, merchandising, supervision of credit servicing, executive and sales and marketing management; professional fees for investment and acquisition transactions, legal, accounting, and other service providers; occupancy costs of corporate and distribution center facilities; insurance; maintenance and other overhead costs. The Company also does not allocate income taxes to its business segments or include any other eliminations, reclassifications or other adjustments that are made to conform the Company's management reporting to the consolidated financial statements.

Management evaluates segment performance based on revenue, operating expenses and results of continuing operations. The following tables summarize the financial results of the continuing operations for the Company's business segments (in thousands):

	13-Weeks Ended July 31, 2015					
	Fingerhut	Orchard	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue						
Net retail sales	$ 223,680	$ 48,441	$ -	$ 29,254	$ -	$ 301,375
Commercial real estate revenue						
Net interest income	-	-	379	-	-	379
Net gains on investments available for sale	-	-	166	-	-	166
Other noninterest income	-	-	2,344	-	-	2,344
Total net sales and revenue	**223,680**	**48,441**	**2,889**	**29,254**	**-**	**304,264**
Costs and expenses						
Retail cost of goods sold	125,810	22,350	-	21,375	-	169,535
Retail sales and marketing expenses	42,916	17,607	-	4,547	-	65,070
Retail net credit expense	8,556	-	-	1,253	-	9,809
Commercial real estate operating expenses	-	-	605	-	-	605
General and administrative expenses	-	6,120		-	43,849	49,969
Amortization and depreciation not included in retail cost of goods sold	-	748	-	-	14,010	14,758
Gain from derivatives in our own equity	-	-	-	-	(411)	(411)
Total costs and expenses	**177,282**	**46,825**	**605**	**27,175**	**57,448**	**309,335**
Operating income (loss)	**$ 46,398**	**$ 1,616**	**$ 2,284**	**$ 2,079**	**$ (57,448)**	**$ (5,071)**

	13-Weeks Ended August 1, 2014					
	Fingerhut	Orchard	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue						
Commercial real estate revenue						
Net interest income	$ -	$ -	$ 1,673	$ -	$ -	$ 1,673
Net gains on investments available for sale	-	-	11,986	-	-	11,986
Other noninterest income	-	-	4,128	-	-	4,128
Total net sales and revenue	**-**	**-**	**17,787**	**-**	**-**	**17,787**
Costs and expenses						
Commercial real estate operating expenses	-	-	1,788	-	-	1,788
General and administrative expenses	-	-	-	-	5,537	5,537
Amortization and depreciation not included in retail cost of goods sold	-	-	-	-	21	21
Total costs and expenses	**-**	**-**	**1,788**	**-**	**5,558**	**7,346**
Operating income (loss)	**$ -**	**$ -**	**$ 15,999**	**$ -**	**$ (5,558)**	**$ 10,441**

	26-Weeks Ended July 31, 2015					
	Fingerhut	Orchard	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue						
Net retail sales	$ 407,455	$ 48,441	$ -	$ 51,654	$ -	$ 507,550
Commercial real estate revenue						
Net interest income	-	-	1,177	-	-	1,177
Net gains on investments available for sale	-	-	274	-	-	274
Other noninterest income	-	-	7,585	-	-	7,585
Total net sales and revenue	**407,455**	**48,441**	**9,036**	**51,654**	**-**	**516,586**
Costs and expenses						
Retail cost of goods sold	229,370	22,350	-	38,075	-	289,795
Retail sales and marketing expenses	81,585	17,607	-	8,595	-	107,787
Retail net credit expense	14,241	-	-	1,867	-	16,108
Commercial real estate operating expenses	-	-	1,282	-	-	1,282
General and administrative expenses	-	6,120	-	-	81,597	87,717
Amortization and depreciation not included in retail cost of goods sold	-	748	-	-	26,061	26,809
Loss from derivatives in our own equity	-	-	-	-	7,814	7,814
Total costs and expenses	**325,196**	**46,825**	**1,282**	**48,537**	**115,472**	**537,312**
Operating income (loss)	**$ 82,259**	**$ 1,616**	**$ 7,754**	**$ 3,117**	**$ (115,472)**	**$ (20,726)**

	26-Weeks Ended August 1, 2014					
	Fingerhut	Orchard	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue						
Commercial real estate revenue						
Net interest income	$ -	$ -	$ 3,671	$ -	$ -	$ 3,671
Net gains on investments available for sale	-	-	13,776	-	-	13,776
Other noninterest income	-	-	5,873	-	-	5,873
Total net sales and revenue	**-**	**-**	**23,320**	**-**	**-**	**23,320**
Costs and expenses						
Commercial real estate operating expenses	-	-	3,208	-	-	3,208
General and administrative expenses	-	-	-	-	13,657	13,657
Amortization and depreciation not included in retail cost of goods sold	-	-	-	-	54	54
Total costs and expenses	**-**	**-**	**3,208**	**-**	**13,711**	**16,919**
Operating income (loss)	**$ -**	**$ -**	**$ 20,112**	**$ -**	**$ (13,711)**	**$ 6,401**

18. Subsequent Events

Bluestem is party to a class action lawsuit filed on August 27, 2015 relating to the pricing of goods sold under the Fingerhut brand. As the case is in its early stages, the ultimate resolution of this matter cannot be determined at this time. No amount was recorded related to this matter as of July 31, 2015.

These financial statements include consideration of subsequent events through September 28, 2015, the date the consolidated financial statements were issued.