



Bluestem Group Inc.
Report as of and for the 13-weeks ended
May 1, 2015 and May 2, 2014
This report is issued June 30, 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-weeks ended May 1, 2015 and May 2, 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.capmark.com).

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 Brands” refers to Bluestem Brands, Inc., an indirect subsidiary of Bluestem Group Inc.
- “Commercial Real Estate” refers to the commercial real estate finance operations

The Company

Bluestem Group Inc. (formerly known as Capmark Financial Group Inc.) is a holding company whose businesses include Bluestem Brands, Inc. and commercial real estate finance companies. On November 7, 2014 (“Acquisition Date”), a subsidiary of BGI acquired all of the outstanding common shares and voting interests of 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 nationwide. The commercial real estate finance companies are focused on managing the commercial real estate-related business and existing assets, including monetizing the assets 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 Brands.

On the Acquisition Date, the Company acquired Bluestem Brands 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 debt facility issued by Bluestem Brands. Certain members of Bluestem Brands’ management team also provided capital for the transaction through the purchase of the Company’s common stock. In addition, Bluestem Brands closed on an amendment and restatement of its \$80 million asset-based lending facility. The results of Bluestem Brands’ operations have been included in the condensed consolidated financial statements since the Acquisition Date. See Note 4, *Business Combination*, of our Notes to Condensed Consolidated Financial Statements for pro forma information and further discussion of the Bluestem Brands acquisition.

On May 27, 2015, the Company announced it had entered into a definitive agreement to acquire Orchard Brands Corporation, a leading national multi-brand family of 13 catalog and eCommerce brands serving the boomer and senior demographics, for \$410 million in cash, subject to various pre-closing and post-closing adjustments. The transaction is expected to broaden and diversify the customer base and retail capabilities of Bluestem Brands.

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.

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

The Company is a holding company whose businesses include Bluestem Brands, a national multi-brand online retailer serving low-to-middle income consumers by offering products with customized payment plans, and commercial real estate finance companies with a focus on the management of their commercial real estate-related assets. The results of Bluestem Brands’ operations have been included in the consolidated financial statements since the Acquisition Date. We review and present our consolidated business results in two reportable segments (referred to herein as “segments”), Fingerhut and Commercial Real Estate, based on the organizational structure that we use to

evaluate performance and make decisions on allocating resources and assessing performance.

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 Brands. Bluestem Brands 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-weeks ended March 31, 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.

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.

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 Bluestem Brands, 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 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) for the 13-weeks ended May 1, 2015 and May 2, 2014:

	13-Weeks Ended	
	May 1, 2015	May 2, 2014
Net sales and revenue		
Net retail sales.....	\$ 206,175	\$ -
Commercial real estate revenue	-	-
Net interest income.....	798	1,998
Net gains on investments available for sale.....	108	1,790
Other noninterest income.....	5,241	1,745
Total net sales and revenue.....	212,322	5,533
Costs and expenses		
Retail cost of goods sold.....	120,260	-
Retail sales and marketing expenses.....	42,717	-
Retail net credit expense.....	6,299	-
Commercial real estate operating expenses.....	677	1,420
General and administrative expenses.....	37,748	8,120
Amortization and depreciation not included in retail cost of goods sold.....	12,051	33
Loss from derivatives in our own equity.....	8,225	-
Total costs and expenses.....	227,977	9,573
Operating loss.....	(15,655)	(4,040)
Retail interest expense.....	7,520	-
Loss from continuing operations before income tax expense.....	(23,175)	(4,040)
Income tax expense.....	344	290
Loss from continuing operations after income tax expense.....	(23,519)	(4,330)
Loss from discontinued operations, net of tax.....	-	(2,248)
Net loss.....	(23,519)	(6,578)
Net loss attributable to noncontrolling interests.....	-	2,142
Net loss attributable to Bluestem Group Inc.....	\$ (23,519)	\$ (4,436)

Results of Operations by Segment:

The following table provides selected financial information by segment (in thousands):

	13-Weeks Ended May 1, 2015				
	Fingerhut	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue					
Net retail sales.....	\$ 183,776	\$ -	\$ 22,399	\$ -	\$ 206,175
Commercial real estate revenue					
Net interest income.....	-	798	-	-	798
Net gains on investments available for sale.....	-	108	-	-	108
Other noninterest income.....	-	5,241	-	-	5,241
Total net sales and revenue.....	183,776	6,147	22,399	-	212,322
Costs and expenses					
Retail cost of goods sold.....	103,560	-	16,700	-	120,260
Retail sales and marketing expenses.....	38,669	-	4,048	-	42,717
Retail net credit expense.....	5,685	-	614	-	6,299
Commercial real estate operating expenses.....	-	677	-	-	677
General and administrative expenses.....	-	-	-	37,748	37,748
Amortization and depreciation not included in retail cost of goods sold.....	-	-	-	12,051	12,051
Loss from derivatives in our own equity.....	-	-	-	8,225	8,225
Total costs and expenses.....	147,914	677	21,362	58,024	227,977
Operating Income (loss).....	\$ 35,862	\$ 5,470	\$ 1,037	\$ (58,024)	\$ (15,655)

	13-Weeks Ended May 2, 2014				
	Fingerhut	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue					
Net retail sales.....	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate revenue					
Net interest income.....	-	1,998	-	-	1,998
Net gain on investments available for sale.....	-	1,790	-	-	1,790
Noninterest income.....	-	1,745	-	-	1,745
Total net sales and revenue.....	-	5,533	-	-	5,533
Costs and expenses					
Retail cost of goods sold.....	-	-	-	-	-
Retail sales and marketing expenses.....	-	-	-	-	-
Retail net credit expense.....	-	-	-	-	-
Commercial real estate operating expenses.....	-	1,420	-	-	1,420
General and administrative expenses.....	-	-	-	8,120	8,120
Amortization and depreciation not included in retail cost of goods sold.....	-	-	-	33	33
Loss from derivatives in our own equity.....	-	-	-	-	-
Total costs and expenses.....	-	1,420	-	8,153	9,573
Operating Income (loss).....	\$ -	\$ 4,113	\$ -	\$ (8,153)	\$ (4,040)

Fingerhut

For the 13-weeks ended May 1, 2015, Fingerhut's net retail sales, retail costs of goods sold, and retail gross profit consist of the following (in thousands):

	13-Weeks Ended	
	May 1, 2015	
	<hr/>	
Sales by category:		
Home.....	\$	89,061
Entertainment.....		73,237
Fashion.....		30,297
Total sales.....		<hr/> 192,595
Returns and allowances.....		(12,542)
Commissions.....		3,723
Net retail sales.....		<hr/> 183,776
Retail cost of goods sold.....		103,560
Retail gross profit.....	\$	<hr/> <hr/> 80,216
Retail gross profit percentage.....		43.6%

Net Retail Sales:

Net retail sales consists 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 excludes sales taxes. For the 13-weeks ended May 1, 2015, Fingerhut's net retail sales were \$183.8 million. Fingerhut filled 880 thousand orders during the 13-weeks ended May 1, 2015, with an average order size of \$219.

Fingerhut added approximately 190 thousand and 60 thousand new revolving and Freshstart customers, respectively, for the 13-weeks ended May 1, 2015. The \$183.8 million net retail sales were a result of strong sales to both new and existing customers. New customer accounts acquired were driven by broader visibility of our website through TV advertising and assortment expansion by partnering with drop ship vendors to increase product assortment. Sales to existing customers were driven by improved rebuy rates from TV advertising.

Retail Cost of Goods Sold:

Retail cost of goods sold includes the cost of merchandise sold (net of vendor rebates, purchase discounts, and estimated returns), shipping and handling costs, inbound freight costs, payroll and benefits for distribution center employees, depreciation of distribution center assets, and estimates of product obsolescence costs. Distribution center occupancy costs are not included in cost of sales. For the 13-weeks ended May 1, 2015, Fingerhut's retail cost of sales was \$103.6 million.

Retail Sales and Marketing Expenses:

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

	13-Weeks Ended	
	May 1, 2015	
	<hr/>	
Catalog direct mail.....	\$	21,310
TV and digital marketing.....		13,310
Order entry and customer service.....		3,099
Premium (free gift with purchase) and other.....		950
Total retail sales and marketing expenses.....	\$	<hr/> <hr/> 38,669

For the 13-weeks ended May 1, 2015, retail sales and marketing expenses of \$38.7 million 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, by category (in thousands):

	13-Weeks Ended	
	May 1, 2015	
Finance charge and fee income.....	\$	(3,989)
Provision for doubtful accounts.....		4,593
Servicing fee income and portfolio profit sharing.....		(12,859)
Credit management costs.....		17,940
Retail net credit expense	\$	<u>5,685</u>

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 section, purchased by SCUSA. The Company bears risk of loss due to uncollectibility on Nonstandard Receivables, as defined in the liquidity section, and any existing Standard Receivables not purchased by SCUSA. As of May 1, 2015, total customer accounts receivable was \$1.3 billion, of which \$49.8 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 sold to SCUSA. For the 13-weeks ended May 1, 2015, Fingerhut’s retail net credit expense was \$5.7 million. On June 12, 2015, the Company and SCUSA agreed to amend certain terms of the Standard Receivables Sales Agreement. See Note 17, *Subsequent Events*, of our Notes to Condensed Consolidated Financial Statements for information on amendment.

Commercial Real Estate**Commercial Real Estate Revenue:**

Total commercial real estate revenue is summarized below.

	13-Weeks Ended	
	May 1, 2015	May 2, 2014
Net interest income.....	\$ 798	\$ 1,998
Net gains on investments available for sale.....	108	1,790
Other noninterest income.....	5,241	1,745
Total commercial real estate revenue.....	\$ <u>6,147</u>	\$ <u>5,533</u>

Net interest income:

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

	13-Weeks Ended	
	May 1, 2015	May 2, 2014
Interest income.....	\$ 1,223	\$ 2,443
Interest expense.....	(425)	(445)
Net interest income.....	\$ <u>798</u>	\$ <u>1,998</u>

During the 13-weeks ended May 1, 2015, interest income was driven primarily by \$0.5 million of interest on investment securities classified as available-for-sale and \$0.3 million of deferred interest receivable recognized on loans held-for-sale. Interest income also included \$0.4 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 same period, interest expense was driven primarily by \$0.4 million of related interest on secured borrowings for transactions that were accounted for as financings.

During the 13-weeks ended May 2, 2014, interest income was driven primarily by \$1.0 million of deferred interest receivable recognized on loans held-for-sale and \$0.9 million of interest on investment securities classified as available-for-sale. Interest income also included \$0.4 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 same period, interest expense was driven primarily by \$0.4 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 May 2, 2014, net gains on investments available-for-sale primarily included a realized gain related to the redemption of an interest in a collateralized debt obligation classified as available-for-sale.

Other noninterest income:

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

	13-Weeks Ended	
	May 1, 2015	May 2, 2014
Net gains (losses) on loans	\$ 4,397	\$ (13)
Other (losses) gains, net	(55)	1,774
Equity in income of joint ventures and partnerships	413	(88)
Net real estate investment and other income	486	72
Other noninterest income	<u>\$ 5,241</u>	<u>\$ 1,745</u>

For the 13-weeks ended May 1, 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 also included \$1.4 million of realized gains on the disposition of loans held-for-sale.

For the 13-weeks ended May 2, 2014, other noninterest income consisted primarily of other gains (losses), net which 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	
	May 1, 2015	May 2, 2014
Professional fees	\$ 285	\$ 901
Compensation and benefits	392	519
Commercial real estate operating expenses	<u>\$ 677</u>	<u>\$ 1,420</u>

Professional fees for the 13-weeks ended May 1, 2015 and May 2, 2014 consist of fees for litigation and asset transactions. Compensation and benefits for the 13-weeks ended May 1, 2015 and May 2, 2014 consist of salary and benefits costs for asset management-related personnel and incentive compensation for retention programs.

Other

For the 13-weeks ended May 1, 2015, Other's net retail sales, retail costs of goods sold, and retail gross profit consist of the following (in thousands):

	13-Weeks Ended	
	May 1, 2015	
Sales by category:		
Home.....	\$	9,645
Entertainment.....		11,131
Fashion.....		2,699
Total sales.....		<u>23,475</u>
Returns and allowances.....		(1,407)
Commissions.....		331
Net retail sales.....		<u>22,399</u>
Retail cost of goods sold.....		16,700
Retail gross profit.....	\$	<u>5,699</u>
Retail gross profit percentage.....		25.4%

Net Retail Sales:

For the 13-weeks ended May 1, 2015, Other's net retail sales were \$22.4 million, which primarily consisted of Gettington net retail sales.

Retail Cost of Goods Sold:

Retail cost of goods sold 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-weeks ended May 1, 2015, Other's retail cost of goods sold was \$16.7 million and consisted primarily of Gettington's cost of goods sold.

Retail Sales and Marketing Expenses:

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

	13-Weeks Ended	
	May 1, 2015	
Catalog direct mail.....	\$	2,732
TV and digital marketing.....		654
Order entry and customer service.....		300
Sales commissions and other.....		362
Total retail sales and marketing expenses.....	\$	<u>4,048</u>

For the 13-weeks ended May 1, 2015, Other's retail sales and marketing expenses were \$4.0 million and primarily consisted of Gettington costs and expenses.

Retail Net Credit Expense:

The following table presents retail net credit expense, by category (in thousands):

	13-Weeks Ended	
	May 1, 2015	
Finance charge and fee income.....	\$	9
Provision for doubtful accounts.....		674
Servicing fee income and portfolio profit sharing.....		(1,223)
Credit management costs.....		1,154
Retail net credit expense.....	\$	<u>614</u>

For the 13-weeks ended May 1, 2015, Other's retail net credit expense was \$0.6 million and primarily consisted of Gettington.com costs and expenses.

Corporate

Corporate activities consist of general and administrative expenses, amortization and depreciation not included in retail cost of goods sold, and loss from derivatives in our own equity.

General and Administrative Expenses:

Total general and administrative expenses for the 13-weeks ended May 1, 2015 and May 2, 2014, were as follows (in thousands).

	13-Weeks Ended	
	May 1, 2015	May 2, 2014
Compensation and benefits.....	\$ 23,841	\$ 2,091
Professional fees.....	7,787	4,950
Rents and occupancy costs.....	4,084	577
Other.....	2,036	502
Total general and administrative expenses.....	<u>\$ 37,748</u>	<u>\$ 8,120</u>

Compensation and benefit costs include salaries, wages, benefits, and incentive-based compensation. For the 13-weeks ended May 1, 2015, salaries, wages, and benefit costs were \$19.3 million, including \$0.5 million of expense for retention programs. The incentive-based compensation expense of \$4.5 million included \$1.0 million for stock-based compensation. For the 13-weeks ended May 2, 2014, salaries and benefit costs were \$1.3 million. The incentive-based compensation expense of \$0.8 million included \$0.5 million for stock-based compensation expense.

Professional fees included in general and administrative expenses for the 13-weeks ended May 1, 2015 included \$1.8 million of costs associated with the Company's proposed acquisition of Orchard Brands Corporation ("Orchard Brands"), see Note 17, *Subsequent Events*, of our Notes to Condensed Consolidated Financial Statements for further discussion of the Orchard Brands acquisition. Professional fees for this period also included information technology expenses of \$1.4 million, third-party audit, tax, and legal expenses of \$2.2 million, and credit and collection consulting expenses of \$0.9 million. Professional fees included in general and administrative expenses for the 13-weeks ended May 2, 2014 primarily included \$3.5 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 distribution facilities, maintenance, and other overhead costs. For the 13-weeks ended May 1, 2015, rents and occupancy costs were \$4.1 million and relate primarily to corporate and distribution center expenses associated with Bluestem Brands.

Amortization and Depreciation not Included in Retail Costs of Goods Sold:

Amortization and depreciation not included in retail costs of goods sold of Bluestem Brands was included in our expenses as of the Acquisition Date. 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 used in Bluestem Brands; office furniture; property under capital lease; and leasehold improvements. For the 13-weeks ended May 1, 2015, amortization and depreciation not included in retail cost of goods sold was \$12.1 million and primarily consisted of \$7.7 million of amortization of our customer relationships intangible asset acquired in connection with the Bluestem acquisition. We are amortizing the 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.

Loss from Derivatives in Our Own Equity:

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 May 1, 2015, Warrants to acquire 9.6 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 Statement of Comprehensive Income as gains or losses from derivatives in our own equity. The derivative liability increased by \$8.2 million for the 13-weeks ended May 1, 2015, primarily due to an increase in the over-the-counter trading price of the Company's common stock. As a result, a loss from derivatives in our own equity of \$8.2 million for the 13-weeks ended May 1, 2015, and a derivative liability of \$23.6 million as of May 1, 2015 were recorded.

Retail Interest Expense

Retail interest expense (net of interest income) was \$7.5 million for the 13-weeks ended May 1, 2015, and was primarily the result of the term debt facility issued in conjunction with the acquisition of Bluestem Brands and the asset-based lending facility. Weighted-average borrowings outstanding as of May 1, 2015, were \$296.1 million with a weighted-average interest rate of 8.36%.

Income Tax Expense

For the 13-weeks ended May 1, 2015, \$0.3 million tax expense was recognized on \$23.2 million of loss from continuing operations before income taxes, which was primarily related to adjustments to uncertain tax positions. For the 13-weeks ended May 2, 2014, \$0.3 million tax expense was recognized on \$4.0 of loss from continuing operations before income taxes, which was primarily related to state taxes. Based on the Company's historical and cumulative tax losses, a tax benefit for the year-to-date losses in both periods was not recognized.

Liquidity and Capital Resources

Our retail operations require a significant amount of capital to fund operations and to grow. With a majority of the retail sales occurring on revolving customer credit accounts, cash flows from our retail operations are dependent on the sale of our customer accounts receivable to SCUSA. We sell all of Fingerhut and Gettington.com related revolving customer accounts receivable to SCUSA on the day we purchase 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 receivable, purchases and production of promotional materials, debt service, collateral requirements, investments in our management information systems and other infrastructure, and other general working capital needs. These requirements are seasonal, with peak needs arising in September through January as we experience higher levels of sales and customer accounts receivable, and amounts become due for holiday season inventory purchases and marketing efforts. We also offer deferred payment terms to qualifying customers, which delays the first principal payment on holiday purchases until the first half of the following year.

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) funds available under our asset-based revolving inventory facility, (4) distributions received from our real estate related equity investments, and (5) collections on and sales of other assets in our portfolio. As of May 1, 2015, we had \$249.4 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 13-weeks ended May 1, 2015 and May 2, 2014:

	13-Weeks Ended	
	May 1, 2015	May 2, 2014
Continuing Operations		
Net cash provided by operating activities.....	\$ 12,311	\$ 342
Net cash provided investing activities.....	\$ 476	\$ 24,614
Net cash (used in) provided by financing activities.....	\$ (33,494)	\$ 149

Operating Activities - Net cash provided by operating activities for the 13-weeks ended May 1, 2015 was \$12.3 million and consisted of net loss from continuing operations of \$23.5 million and a reduction in accounts payable and other liabilities of \$22.6 million due to the timing of vendor payments related to Bluestem Brands. These uses of cash were offset by non-cash add-backs for amortization and depreciation expense, loss from derivatives in our own equity, and provision for doubtful accounts and merchandise returns related to Bluestem Brands and \$32.0 million of proceeds from repayments of loans held-for-sale. Net cash provided by operating activities for the 13-weeks ended May 2, 2014 was \$0.3 million and consisted of a net loss from continuing operations of \$4.3 million and a non-cash adjustment of \$3.6 million for net gains. The non-cash adjustment was offset by cash inflows from working capital accounts, primarily due to proceeds from sales and payments received on loans held-for-sale and increases in accounts payable and other liabilities and a non-cash add-back for stock-based compensation expense.

Investing Activities - Net cash used in investing activities for the 13-weeks ended May 1, 2015 was \$0.5 million. This activity consisted primarily of proceeds from sale of customer accounts receivable and proceeds from capital distributions received from equity investments offset by purchases of customer accounts receivable. Net cash provided by investing activities for the 13-weeks ended May 2, 2014 was \$24.6 million. This activity consisted primarily of proceeds from capital distributions received from equity investment and repayments received on investment securities classified as available-for-sale.

Financing Activities - Net cash used by financing activities for the 13-weeks ended May 1, 2015 was \$33.5 million and consisted primarily of repayment on collateralized borrowings. Collateralized borrowings include amounts related to loans held-for-sale associated with 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. During the 13-weeks ended May 1, 2015, certain NMTC partnerships met the derecognition criteria resulting in a \$34.9 million decrease in collateralized borrowings. In addition, proceeds of \$86.9 million were received under the Company's inventory line of credit, offset by payments of \$85.5 million

Transfers and Servicing of Financial Assets — Customer Accounts Receivable

Bluestem Brands 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 the primary agreements executed by Bluestem Brands related to these transactions and the counterparties to each transaction (collectively, the "A/R Program Agreements").

<u>Agreement</u>	<u>Counterparty</u>
Receivables Sales Agreement	Credit Issuer
Standard Receivables Sales Agreement	SCUSA
Program Agreement	Credit Issuer and SCUSA

Bluestem Brands is obligated to sell all new receivables originated under revolving credit accounts to SCUSA on the same day those receivables are purchased by Bluestem Brands 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 Brands retains all Nonstandard Receivables purchased from Credit Issuer. SCUSA bears risk of loss due to uncollectibility of the Standard Receivables purchased by SCUSA. Bluestem Brands 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 Company-owned accounts receivable. On June 12, 2015, the Company and SCUSA agreed to amend certain terms of the Standard Receivables Sales Agreement. See Note 17, *Subsequent Events*, of our Notes to Condensed Consolidated Financial Statements for information on amendment.

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. During the 13-weeks ended May 1, 2015, there were no material changes to this previously disclosed information outside of the ordinary course of business.

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. During the 13-weeks ended May 1, 2015, there were no material changes to this previously disclosed information outside the normal course of business.

Off Balance Sheet Arrangements

Information regarding derivative liabilities in our own equity is included in Note 13, *Fair Value of Assets and Liabilities* of our Notes to Condensed Consolidated Financial Statements. We do not have any guarantee contracts, contingent interest in assets transferred, or variable interest entities that qualify as off-balance sheet arrangements.

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

	May 1, 2015	January 30, 2015
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 233,459	\$ 254,207
Restricted cash.....	15,966	13,586
Customer accounts receivable, net of allowance of \$14,879 and \$10,457, respectively.....	34,947	40,928
Commercial real estate accounts and other receivables.....	18,166	19,270
Retail merchandise inventories.....	95,732	96,431
Other current assets.....	41,939	34,999
Total current assets.....	440,209	459,421
Loans held-for-sale.....	50,432	78,080
Equity investments.....	106,266	114,736
Property and equipment, net.....	52,106	49,755
Intangibles, net.....	370,190	377,892
Goodwill.....	201,642	201,642
Other assets.....	16,423	26,474
Total Assets.....	\$ 1,237,268	\$ 1,308,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 82,053	\$ 82,037
Accrued costs and other liabilities.....	82,876	92,823
Short-term debt.....	21,207	19,116
Total current liabilities.....	186,136	193,976
Long-term debt.....	324,781	359,483
Deferred income taxes.....	79,947	79,949
Other long-term liabilities.....	14,574	20,037
Total liabilities.....	605,438	653,445
Stockholders' equity:		
Series A participating convertible preferred stock, \$0.01 par value, \$5,000 stated value; shares authorized —10,000,000 at May 1, 2015 and January 30, 2015; shares issued and outstanding — 1,000 at May 1, 2015 and January 30, 2015.....	4,884	4,856
Common stock, \$0.01 par value, shares authorized — 350,000,000 at May 1, 2015 and January 30, 2015; shares issued and outstanding — 136,374,593 at May 1, 2015 and January 30, 2015.....	1,364	1,364
Additional paid-in capital.....	357,706	356,697
Retained earnings.....	267,227	290,774
Accumulated other comprehensive income, net of tax.....	649	864
Total stockholders' equity.....	631,830	654,555
Total Liabilities and Stockholders' Equity.....	\$ 1,237,268	\$ 1,308,000

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

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

	13-Weeks Ended	
	May 1, 2015	May 2, 2014
Net sales and revenue		
Net retail sales.....	\$ 206,175	\$ -
Commercial real estate revenue	.	.
Net interest income.....	798	1,998
Net gains on investments available for sale.....	108	1,790
Other noninterest income.....	5,241	1,745
Total net sales and revenue.....	212,322	5,533
Costs and expenses		
Retail cost of goods sold.....	120,260	-
Retail sales and marketing expenses.....	42,717	-
Retail net credit expense.....	6,299	-
Commercial real estate operating expenses.....	677	1,420
General and administrative expenses.....	37,748	8,120
Amortization and depreciation not included in retail cost of goods sold.....	12,051	33
Loss from derivatives in our own equity.....	8,225	-
Total costs and expenses.....	227,977	9,573
Operating loss.....	(15,655)	(4,040)
Retail interest expense.....	7,520	-
Loss from continuing operations before income tax expense.....	(23,175)	(4,040)
Income tax expense.....	344	290
Loss from continuing operations after income tax expense.....	(23,519)	(4,330)
Loss from discontinued operations, net of tax.....	-	(2,248)
Net loss.....	(23,519)	(6,578)
Net loss attributable to noncontrolling interests.....	-	2,142
Net loss attributable to Bluestem Group Inc.....	(23,519)	(4,436)
Other comprehensive (loss) income		
Net change in unrealized gains and losses on investment securities.....	(215)	67
Other comprehensive (loss) income.....	(215)	67
Comprehensive loss attributable to Bluestem Group Inc.....	\$ (23,734)	\$ (4,369)
Basic and Diluted Loss Per Share - Common Stockholders		
Basic and diluted loss per share - continuing operations.....	\$ (0.17)	\$ (0.02)
Basic and diluted loss per share attributable to Bluestem Group Inc.....	\$ (0.17)	\$ (0.04)
Basic and diluted weighted average shares outstanding.....	136,124,970	99,803,233

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

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

Bluestem Group Inc. Stockholders									
	Series A Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
BALANCE — January 31, 2014.....	-	\$ -	100,182,419	\$ 100	\$ 189,970	\$ 181,922	\$ 1,601	\$ 32,503	\$ 406,096
Net income.....						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.....						(23,519)			(23,519)
Total other comprehensive loss, net of tax.....							(215)		(215)
Deemed dividend from beneficial conversion feature associated with preferred stock.....		28				(28)			-
Stock-based compensation.....					1,009				1,009
BALANCE — May 1, 2015.....	1,000	\$ 4,884	136,374,593	\$ 1,364	\$ 357,706	\$ 267,227	\$ 649	\$ -	\$ 631,830

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

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

	13-Weeks Ended	
	May 1, 2015	May 2, 2014
Operating Activities of Continuing Operations		
Net loss.....	\$ (23,519)	\$ (6,578)
Net loss from discontinued operations.....	-	(2,248)
Net loss from continuing operations.....	(23,519)	(4,330)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities of continuing operations:		
Uncertain tax positions.....	306	-
Net gains.....	(4,450)	(3,551)
Equity in net (gains) losses of investees and cash return on investment.....	(413)	88
Amortization and depreciation expense.....	12,335	33
Loss from derivatives in our own equity.....	8,225	-
Provision for doubtful accounts.....	5,267	-
Provision for retail merchandise returns.....	6,154	-
Stock-based compensation expense.....	1,421	450
Other, net.....	7,312	-
Net change in assets and liabilities which provided (used) cash:		
Customer account and other receivables, net.....	(4,825)	769
Retail merchandise inventories.....	2,527	-
Other assets.....	(7,348)	1,974
Accounts payable and other liabilities.....	(22,630)	3,632
Proceeds from sales of / payments from loans held for sale.....	31,949	1,277
Net cash provided by operating activities of continuing operations.....	12,311	342
Investing Activities of Continuing Operations		
Net increase in restricted cash.....	(2,380)	(1)
Proceeds from sales of investment securities classified as available-for-sale.....	51	-
Proceeds from repayments of investment securities classified as available-for-sale.....	58	1,795
Proceeds from sales of / capital distributions from equity investments.....	8,978	22,791
Purchases of customer accounts receivable.....	(210,647)	-
Proceeds from sale of customer accounts receivable.....	210,720	-
Net (purchase) disposition of property and equipment.....	(6,304)	29
Net cash provided by investing activities of continuing operations.....	476	24,614

(Continued on next page)

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

Financing Activities of Continuing Operations

Repayments of debt.....	(34,898)	149
Borrowings on revolving credit facilities.....	86,923	-
Repayments on revolving credit facilities.....	(85,519)	-
Net cash (used in) provided by financing activities of continuing operations.....	(33,494)	149

Effect of Foreign Exchange Rates on Cash.....	(41)	109
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Discontinued Operations

Net cash used in operating activities of discontinued operations.....	-	(1,218)
Net cash provided by investing activities of discontinued operations.....	-	1,216
Net cash used in discontinued operations.....	-	(2)

Net (Decrease) Increase in Cash and Cash Equivalents.....	(20,748)	25,212
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Cash and Cash Equivalents, Beginning of Period.....	254,207	169,444
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Cash and Cash Equivalents, End of Period	\$ 233,459	\$ 194,656
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Supplemental Disclosures of Cash Flow Information:

Interest paid.....	\$ 6,532	\$ -
Income taxes paid.....	\$ 3,959	\$ 136

Non-cash Transactions:

Purchases of property and equipment on account.....	\$ 371	\$ -
Capital lease obligation incurred.....	\$ 308	\$ -

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

BLUESTEM GROUP INC.
Notes to Condensed Consolidated Financial Statements

1. Organization and Operations

As used in this report:

- “BGL,” “we,” “us,” “our,” or “the Company” refer to Bluestem Group Inc. with its consolidated subsidiaries
- “Bluestem Brands” refers to Bluestem Brands, Inc., an indirect subsidiary of Bluestem Group Inc.
- “Commercial Real Estate” refers to the commercial real estate finance operations

Bluestem Group Inc. (formerly known as Capmark Financial Group Inc.) is a holding company whose businesses include Bluestem Brands, Inc. and commercial real estate finance companies. On November 7, 2014 (“Acquisition Date”), a subsidiary of BGI acquired all of the outstanding common shares and voting interests of 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 nationwide. Additional information about the Bluestem Brands, Inc. acquisition is discussed in Note 4, *Business Combination*. The commercial real estate finance companies are focused on managing the commercial real estate-related business and existing assets, including monetizing the assets 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 Acquisition Date, the Company acquired Bluestem Brands 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 debt facility issued by Bluestem Brands. Certain members of Bluestem Brands’ management team also provided capital for the transaction through the purchase of the Company’s common stock. In addition, Bluestem Brands closed on an amendment and restatement of its \$80 million asset-based lending facility. The results of Bluestem Brands’ operations have been included in the consolidated financial statements since the Acquisition Date. See Note 4, *Business Combination*, for further discussion of the Bluestem Brands acquisition.

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.

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.capmark.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, 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 and derivatives in our own equity. The Company’s estimates and assumptions are affected by risks and uncertainties associated with credit exposure and interest rate and market spread volatility. Management bases their estimates on historical corporate and industry experience and various other assumptions they believe are appropriate under the circumstances, including market-based inputs when available. Future changes in credit and market trends and conditions may occur, which could cause actual results to differ materially from the estimates used in preparing the accompanying condensed consolidated financial statements. 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 May 1, 2015 and the results of its operations and cash flows for the interim periods presented.

Reclassification

In connection with the acquisition of Bluestem Brands, the Company made certain reclassifications to the Condensed Consolidated Balance Sheet and Consolidated Statement of Comprehensive Income to better align the presentation of both companies. The Condensed Consolidated Balance Sheet has 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 Brands. Bluestem Brands 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-weeks ended March 31, 2014 were restated for the new fiscal quarter.

In these unaudited condensed consolidated statements, including the notes thereto, financial results are for the 13-weeks ended May 1, 2015 and May 2, 2014. The 13-weeks ended May 1, 2015 and May 2, 2014 both included a 13 week period.

3. Recently Issued Accounting Standards

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.

Accounting Standards Issued But Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contract with Customer (Topic 606)*. 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. This update is effective for public business entities for annual reporting periods beginning after December 15, 2016, including interim periods within those reporting periods. Early adoption is not permitted. In April 2015, the FASB proposed to defer the effective date of this ASU to December 15, 2017, with the option to adopt as early as December 15, 2016. The FASB has not yet voted on the proposal. This guidance is effective for us beginning February 2017. We are currently evaluating the requirements of this standard and have not yet determined the impact on our results of operations or financial position.

In May 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an entity's Ability to Continue as a Going Concern*. This guidance requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This update is effective for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. This guidance is effective for the Company beginning February 2017. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

On February 18, 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810) — Amendments to the Consolidation Analysis*. The amendments in this update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIE") or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the analysis for evaluating fees paid to a decision maker or a service provider as a VIE; and (4) end the deferral granted to investment companies from applying the VIE guidance. 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. This guidance is effective for the Company beginning February 2016. The adoption of this guidance is not expected to 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. This guidance is effective retrospectively for the Company beginning February 2016. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

4. Business Combination

On November 7, 2014, the Company acquired all of the outstanding common shares and voting interest of Bluestem Brands 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
- Borrowings under a \$300 million long-term debt facility (Term Loan)

The results of Bluestem Brands' operations have been included in the condensed consolidated financial statements since the Acquisition Date. Bluestem Brands 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 Brands 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 Brands is able to tailor merchandise and credit offers to prospective as well as existing customers.

The following table summarizes the consideration paid for Bluestem Brands and the amount of assets acquired and liabilities assumed at the Acquisition Date (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

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 May 1, 2015, there were no changes in the recognized amounts of goodwill resulting from the acquisition of Bluestem Brands. See Note 9, *Goodwill and Intangibles*, for further information.

The amount of revenue and net loss included in the Company's Condensed Consolidated Statement of Comprehensive Income for the 13-weeks ended May 1, 2015 related to Bluestem Brands was \$206.2 million and \$11.3 million, respectively.

Pro forma results

The following summary presents unaudited pro forma consolidated results of operations for the 13-weeks ended May 1, 2015 and May 2, 2014, as if the Bluestem Brands 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 and Bluestem Brands 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			
	May 1, 2015		May 2, 2014	
	Reported	Pro forma	Reported	Pro forma
Total net sales and revenue.....	\$ 212,322	n/a	\$ 5,533	\$ 176,784
Operating loss.....	\$ (15,655)	n/a	\$ (4,040)	\$ (18,384)

Pro forma operating adjustments for the 13-weeks ended May 2, 2014 consist primarily of the following: 1) recognition of \$21.2 million of amortization expense as a result of finite-lived intangible assets, 2) recognition of \$2.2 million of interest expense, offset by 3) the reversal of \$0.3 million related to rent expense.

5. Loss Per Share

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	
	May 1, 2015	May 2, 2014
Loss from continuing operations after income taxes.....	\$ (23,519)	\$ (4,330)
Plus: Net loss attributable to noncontrolling interests.....	-	2,142
Loss from continuing operations.....	(23,519)	(2,188)
Loss from discontinued operations, net.....	-	(2,248)
Net loss attributable to Bluestem Group Inc.....	(23,519)	(4,436)
Less: Deemed dividends to preferred stockholders.....	28	-
Net loss allocated to common stockholders -	<u>\$ (23,547)</u>	<u>\$ (4,436)</u>
Basic and Diluted Loss Per Share - Common Stockholders		
Basic and diluted loss per share from continuing operations allocated to common stockholders.....	\$ (0.17)	\$ (0.02)
Basic and diluted loss per share from discontinued operations.....	\$ -	\$ (0.02)
Basic and diluted loss per share available to common stockholders.....	\$ (0.17)	\$ (0.04)
Basic weighted average shares outstanding.....	136,124,970	99,803,233
Effect of dilutive shares for preferred stock.....	-	-
Effect of dilutive shares for nonvested restricted shares.....	-	-
Effect of dilutive shares for warrants.....	-	-
Effect of dilutive shares for options.....	-	-
Diluted weighted average shares outstanding.....	<u>136,124,970</u>	<u>99,803,233</u>
Antidilutive nonvested shares.....	18,286,611	379,186

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, generally one business day. The purchase price of the receivables from the Credit Issuer is par value, and the Company pays applicable interchange fees, origination fees, and other products fees along with applicable customer finance charges earned by the Credit Issuer during the contractual hold period.

Bluestem Brands 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 Brands (collectively the "A/R Program Agreement").

<u>Agreement</u>	<u>Counterparty</u>
Receivables Sales Agreement	Credit Issuer
Standard Receivables Sales Agreement	SCUSA
Program Agreement	Credit Issuer and SCUSA

Bluestem Brands is obligated to sell all new receivables originated under revolving credit accounts to SCUSA on the same day those receivables are purchased by Bluestem Brands 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 Brands bears risk of loss due to uncollectibility on Nonstandard Receivables and any existing Standard Receivables not purchased by SCUSA. On June 12, 2015, the Company and SCUSA agreed to amend certain terms of the Standard Receivables Sales Agreement. See Note 17, *Subsequent Events*, for information on amendment.

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

Fingerhut 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 May 1, 2015 are as follows (in thousands):

	Revolving ^(a)	FreshStart ^(b)	PayCheck Direct Installment ^(c)
Balance active accounts.....	1,808	178	28
Average balance outstanding.....	\$ 672	\$ 121	\$ 635
Customer accounts receivable (d).....	\$ 1,214,618	\$ 21,625	\$ 17,788
Balances 30+ days delinquent (e).....	\$ 186,478	\$ 10,344	\$ 1,355
Balances 30+ days delinquent as a percentage of total customer accounts receivable (f).....	15.4 %	47.8%	7.6 %

(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 AR 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 May 1, 2015 and January 30, 2015 are as follows (in thousands):

	May 1, 2015	January 30, 2015
FreshStart installment accounts receivable.....	\$ 21,216	\$ 19,706
PayCheck Direct accounts receivable.....	15,754	16,494
Revolving accounts receivable.....	9,814	9,241
Other accounts receivable.....	3,042	5,944
Customer accounts receivable.....	49,826	51,385
Less allowance for doubtful accounts.....	(14,879)	(10,457)
Customer accounts receivable - net.....	\$ 34,947	\$ 40,928

Finance charge and fee income is recognized on Company-owned customer accounts receivable according to the contractual provisions of the credit account agreements. The Company maintains an allowance for doubtful accounts at a level intended to absorb estimated probable losses inherent in Company-owned customer accounts receivable, including accrued finance charges and fees as of the balance sheet date. The provision for doubtful accounts is included in retail net credit expense 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.

Changes in the allowance for doubtful accounts for the 13-weeks ended May 1, 2015 are as follows (in thousands):

Balance at January 30, 2015.....	\$	10,457
Provision for doubtful accounts.....		5,267
Principal charge-offs.....		(1,490)
Recoveries.....		645
Balance at May 1, 2015.....	\$	<u>14,879</u>

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 May 1, 2015 are as follows (in thousands):

	<u>May 1, 2015</u>	
Time since origination, as segmented in our estimate of the allowance for doubtful accounts:		
0 - 3 months.....	\$	17,904
4 - 6 months.....		18,124
7 - 9 months.....		5,377
10 - 12 months.....		1,516
13 - 15 months.....		110
16 - 18 months.....		1,201
19+ months.....		2,232
Impaired (1).....		3,362
Period-end customer accounts receivable.....	\$	<u>49,826</u>

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

SCUSA-owned Customer Accounts Receivable

For the 13-weeks ended May 1, 2015, the Company purchased \$212.6 million of new Standard Receivables and sold \$212.7 million 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 13-weeks ended May 1, 2015, the compensation received approximated adequate compensation for the services, and as such, there is no servicing asset or liability as of May 1, 2015.

7. Loans Held-for-Sale

As of May 1, 2015 and January 30, 2015, the Company had \$48.3 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 \$50.2 million and \$81.3 million as of May 1, 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 Sheet. 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):

Collateral type	May 1, 2015		January 30, 2015	
	Carrying Amount	Percent of Portfolio	Carrying amount	Percent of portfolio
Office.....	\$ 26,010	52%	\$ 46,714	60%
Retail.....	2,152	4%	2,093	3%
Mixed use and other(1).....	22,270	44%	29,273	37%
Total.....	<u>\$ 50,432</u>	<u>100%</u>	<u>\$ 78,080</u>	<u>100%</u>

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):

	May 1, 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.....	\$ 61,900	58%	\$ 66,740	58%
Investment in the capital stock of Federal Home Loan Bank of Seattle ("FHLB").....	36,188	34%	39,819	35%
Investments in entities that hold foreclosed real estate assets and other	8,178	8%	8,177	7%
Total.....	<u>\$ 106,266</u>	<u>100%</u>	<u>\$ 114,736</u>	<u>100%</u>

9. Goodwill and Intangibles

As of May 1, 2015, the Company's intangible assets and goodwill, all related to the acquisition of Bluestem, consisted of the following (in thousands):

	May 1, 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	\$ (26,010)	\$ 150,190	\$ 176,200	\$ (18,308)	\$ 157,892
Intangible assets with indefinite lives:						
Tradenames.....	220,000	-	220,000	220,000	-	220,000
Total intangible assets.....	<u>\$ 396,200</u>	<u>\$ (26,010)</u>	<u>\$ 370,190</u>	<u>\$ 396,200</u>	<u>\$ (18,308)</u>	<u>\$ 377,892</u>
Goodwill.....	201,642	-	201,642	201,642	-	201,642
Total intangible assets and goodwill.....	<u>\$ 597,842</u>	<u>\$ (26,010)</u>	<u>\$ 571,832</u>	<u>\$ 597,842</u>	<u>\$ (18,308)</u>	<u>\$ 579,534</u>

There were no changes in the carrying amount of goodwill for the 13-weeks ended May 1, 2015. Intangible assets with finite lives are amortized using the accelerated method over their estimated useful lives. Intangible assets amortization expense for the 13-weeks ended May 1, 2015 was \$7.7 million.

As of May 1, 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.....	\$	41,028
2016.....		36,158
2017.....		27,370
2018.....		20,365
2019.....		14,683
Thereafter.....		10,586
Total.....	\$	<u>150,190</u>

10. Other Balance Sheet Data

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

	<u>May 1, 2015</u>	<u>January 30, 2015</u>
Other Current Assets		
Promotional inventories.....	\$ 21,988	\$ 13,976
Prepaid expenses and other.....	19,951	21,023
Total other current assets.....	<u>\$ 41,939</u>	<u>\$ 34,999</u>
Other Assets		
Commercial real estate accounts and other receivables - noncurrent.....	\$ 10,320	\$ 20,228
Investment securities available-for-sale.....	654	870
Deferred charges and other.....	5,449	5,376
Total other assets.....	<u>\$ 16,423</u>	<u>\$ 26,474</u>
Accrued Costs and Other Liabilities		
Accrued liabilities.....	\$ 26,082	\$ 36,846
Accrued payroll and benefits.....	10,991	25,925
Derivative liability in our own equity.....	23,578	15,353
Deferred revenue.....	12,833	7,336
Current income taxes payable.....	-	3,202
Other.....	9,392	4,161
Total accrued costs and other liabilities.....	<u>\$ 82,876</u>	<u>\$ 92,823</u>
Other Long-Term Liabilities		
Unrecognized tax benefits.....	8,938	8,632
Other.....	5,636	11,405
Total other long-term liabilities.....	<u>\$ 14,574</u>	<u>\$ 20,037</u>

11. 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 May 1, 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):

	Size of VIEs (1)	Carrying amount of assets (2)	Carrying amount of liabilities (2)	Maximum exposure to loss (3)			
				Commitments	Loans and investments	Commercial real estate accounts and other receivables	Total
As of May 1, 2015							
Loans held for sale.....	\$ 6,524	\$ 2,152	\$ -	\$ -	\$ 2,152	\$ -	\$ 2,152
New markets tax credit funds.....	98,529	70,855	-	-	48,280	22,575	\$ 70,855
CMBS securitization trusts.....	83,117	526	-	-	526	-	\$ 526
Total.....	<u>\$ 188,170</u>	<u>\$ 73,533</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,958</u>	<u>\$ 22,575</u>	<u>\$ 73,533</u>
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.....	<u>\$ 264,550</u>	<u>\$ 111,934</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,783</u>	<u>\$ 33,151</u>	<u>\$ 111,934</u>

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 Sheet.
- (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 Sheet, but also potential losses associated with off-balance sheet commitments, such as unfunded liquidity and/or lending commitments and other contractual arrangements.

12. Income Taxes

For the 13-weeks ended May 1, 2015, our tax provision included a \$0.2 million increase to the liability for unrecognized tax benefits and \$0.1 million was expensed for state taxes. No tax benefit was recorded for the \$23.2 million pre-tax accounting loss because of the Company's historical and cumulative tax losses. There was no change in the net deferred tax liability as of May 1, 2015 because all changes in deferred tax assets and liabilities were offset by changes in the valuation allowance and unrecognized tax benefit liability. An exam of the Company's fiscal 2012 consolidated federal tax return was initiated by the Internal Revenue Service during the current period.

13. 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 Sheet. 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 Sheet. 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 Sheet. 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. Examples of instruments which would generally be classified within Level 2 of the valuation hierarchy include 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 May 1, 2015
Commercial real estate note receivable.....	\$ -	\$ -	\$ 4,224	\$ 4,224
Investment securities available for sale.....	-	-	654	654
Total assets measured at fair value on a recurring basis.....	\$ -	\$ -	\$ 4,878	\$ 4,878
Derivative liabilities in our own equity measured at fair value on a recurring basis.....	\$ -	\$ -	\$ 23,578	\$ 23,578

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 31, 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 13-weeks ended May 1, 2015 or May 2, 2014, respectively. There were no transfers of assets into Level 3 or out of Level 3 in the 13-weeks ended May 1, 2015 or May 2, 2014, respectively.

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

	13-Weeks Ended May 1, 2015				13-Weeks Ended May 2, 2014			
	Commercial Real Estate Note	Investment Securities	Derivatives Liabilities in	Total	Commercial Real Estate Note	Investment Securities	Total	
	Receivable	Available for Sale	Our Own Equity		Receivable	Available for Sale		
Beginning balance	\$ 4,224	\$ 870	\$ 15,353	\$ 20,447	\$ 3,941	\$ 1,560	\$ 5,501	
Purchases, issuances, sales and settlements:								
Purchases.....	-	-	-	-	-	-	-	
Issuances.....	-	-	-	-	-	-	-	
Sales.....	-	(51)	-	(51)	-	-	-	
Settlements.....	-	(58)	-	(58)	-	(1,795)	(1,795)	
Total net realized/unrealized losses:								
Included in earnings.....	-	108	8,225	8,333	207	1,735	1,942	
Included in other comprehensive income (loss).....	-	(215)	-	(215)	-	26	26	
Ending balance.....	\$ 4,224	\$ 654	\$ 23,578	\$ 28,456	\$ 4,148	\$ 1,526	\$ 5,674	
Change in unrealized gains for the period included in earnings for assets or liabilities still held as of end of year...	\$ -	\$ -	\$ 8,225	\$ 8,225	\$ 207	\$ -	\$ 207	

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 May 1, 2015 and January 30, 2015. There were no Level 1 or Level 2 assets measured at fair value on a nonrecurring basis as of May 1, 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 May 1, 2015 and January 30, 2015 were \$2.2 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 Hierarchy Level	May 1, 2015		January 30, 2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:					
Investment securities available for sale.....	Level 3	\$ 654	\$ 654	\$ 870	\$ 870
Loans held for sale.....	Level 3	50,432	51,347	78,080	82,702
Financial Liabilities:					
Secured and other borrowings.....	Level 2	50,166	50,166	81,315	81,315
Derivative liabilities.....	Level 3	23,578	23,578	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.

14. Contingent Liabilities

Telephone Consumer Protection Act

Bluestem Brands entered into an agreement to settle certain claims relating to allegations that Bluestem Brands 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 May 1, 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 per terms of the agreement dated September 28, 2014, whereby the Company acquired Bluestem Brands 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 prepetition 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 prepetition 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 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 are responsible for certain litigation matters as specified in the agreement whereby the Company acquired Bluestem Brands on November 7, 2014.

As of May 1, 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.

15. Accumulated Other Comprehensive Income

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

	13-Weeks Ended	
	May 1, 2015	May 2, 2014
Net unrealized gain on investment securities:		
Net unrealized gain on investment securities as		
of beginning of period, net of tax	\$ 864	\$ 1,601
Net unrealized gains arising during the period.....	162	871
Less reclassification adjustment for net gains		
included in net income.....	(377)	(804)
Net change during the period.....	(215)	67
Balance as of end of period.....	\$ 649	\$ 1,668

16. Segment Information

We review and present our business results in two reportable segments, Commercial Real Estate and Fingerhut, based on the organizational structure that we use to evaluate performance and make decisions on resource allocation, as well as availability and materiality of separate financial results consistent with that structure.

As a result of the acquisition of Bluestem Brands, 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 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, 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. Fingerhut offer 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, we are able to tailor merchandise and credit offers to prospective as well as existing customers.

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 Bluestem Brands, Gettington, and PayCheck Direct have been included within Other activity. 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 May 1, 2015				
	Fingerhut	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue					
Net retail sales.....	\$ 183,776	\$ -	\$ 22,399	\$ -	\$ 206,175
Commercial real estate revenue					
Net interest income.....	-	798	-	-	798
Net gains on investments available for sale.....	-	108	-	-	108
Other noninterest income.....	-	5,241	-	-	5,241
Total net sales and revenue.....	183,776	6,147	22,399	-	212,322
Costs and expenses					
Retail cost of goods sold.....	103,560	-	16,700	-	120,260
Retail sales and marketing expenses.....	38,669	-	4,048	-	42,717
Retail net credit expense.....	5,685	-	614	-	6,299
Commercial real estate operating expenses.....	-	677	-	-	677
General and administrative expenses.....	-	-	-	37,748	37,748
Amortization and depreciation not included in retail cost of goods sold.....	-	-	-	12,051	12,051
Loss from derivatives in our own equity.....	-	-	-	8,225	8,225
Total costs and expenses.....	147,914	677	21,362	58,024	227,977
Operating Income (loss).....	\$ 35,862	\$ 5,470	\$ 1,037	\$ (58,024)	\$ (15,655)

	13-Weeks Ended May 2, 2014				
	Fingerhut	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue					
Net retail sales.....	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate revenue					
Net interest income.....	-	1,998	-	-	1,998
Net gain on investments available for sale.....	-	1,790	-	-	1,790
Noninterest income.....	-	1,745	-	-	1,745
Total net sales and revenue.....	-	5,533	-	-	5,533
Costs and expenses					
Retail cost of goods sold.....	-	-	-	-	-
Retail sales and marketing expenses.....	-	-	-	-	-
Retail net credit expense.....	-	-	-	-	-
Commercial real estate operating expenses.....	-	1,420	-	-	1,420
General and administrative expenses.....	-	-	-	8,120	8,120
Amortization and depreciation not included in retail cost of goods sold.....	-	-	-	33	33
Loss from derivatives in our own equity.....	-	-	-	-	-
Total costs and expenses.....	-	1,420	-	8,153	9,573
Operating Income (loss).....	\$ -	\$ 4,113	\$ -	\$ (8,153)	\$ (4,040)

17. Subsequent Events

The FHLB obtained all necessary regulatory approvals for redemption of its outstanding shares of regulatory-restricted mandatorily redeemable capital stock. On May 18, 2015, the FHLB 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.

On May 27, 2015, the Company announced it had entered into a definitive agreement to acquire Orchard Brands Corporation, a leading national multi-brand family of 13 catalog and eCommerce brands serving the boomer and senior demographics, for \$410 million in cash, subject to various pre-closing and post-closing adjustments. The transaction is expected to close in July 2015.

On June 12, 2015, the Company and SCUSA agreed to amend certain terms of the A/R Program Agreements. Among other things, the amendments include changes to the annual profit sharing splits between the Company and SCUSA and modifications to SUCSA's exclusivity rights. We expect the formal amendments to be executed and effective during the second quarter of fiscal 2015.

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

These financial statements include consideration of subsequent events through June 30, 2015, the date the consolidated financial statements were issued.