Bluestem Brands, Inc.
Report as of and for the fiscal years ended
January 29, 2016 and January 30, 2015
This report is issued April 15, 2016

BLUESTEM BRANDS, INC.

6509 Flying Cloud Drive
Eden Prairie, Minnesota 55344

BLUESTEM BRANDS, INC.
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Bluestem Brands, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of January 29, 2016 and January 30, 2015, and the related consolidated statements of comprehensive income, cash flows, and changes in stockholders' equity for the year ended January 29, 2016, the twelve weeks ended January 30, 2015, and the forty weeks ended November 7, 2014, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

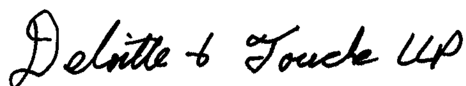
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bluestem Brands, Inc. and its subsidiaries as of January 29, 2016 and January 30, 2015, and the results of their operations and their cash flows for the year ended January 29, 2016, the twelve weeks ended January 30, 2015, and the forty weeks ended November 7, 2014, in accordance with accounting principles generally accepted in the United States of America.



April 15, 2016

Member of
Deloitte Touche Tohmatsu

BLUESTEM BRANDS, INC.
Consolidated Balance Sheets
(in thousands, except share data)

	January 29, 2016	January 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,870	$ 59,222
Restricted cash	22,485	13,425
Customer accounts receivable, net of allowance of $14,434 and $10,457, respectively	44,446	33,449
Merchandise inventories	263,579	96,431
Promotional material inventories	53,253	13,976
Prepaid expenses and other current assets	32,647	26,510
Total current assets	428,280	243,013
Property and equipment, net	125,001	49,755
Intangibles, net	460,551	377,892
Goodwill	367,481	201,642
Other assets	3,405	97
Total Assets	**$ 1,384,718**	**$ 872,399**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 180,601	$ 82,037
Current income taxes payable	34,583	18,567
Accrued costs and other liabilities	111,613	65,109
Short-term debt	47,981	17,787
Total current liabilities	374,778	183,500
Long-term debt	490,032	272,889
Deferred income taxes	154,428	125,205
Other long-term liabilities	6,171	5,187
Total liabilities	1,025,409	586,781
Stockholders' equity:		
Common stock, $0.00001 par value, 100 shares authorized; 1 share issued and outstanding	-	-
Additional paid-in capital	369,602	269,602
Retained earnings	(10,293)	16,016
Total stockholders' equity	359,309	285,618
Total Liabilities and Stockholders' Equity	**$ 1,384,718**	**$ 872,399**

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

BLUESTEM BRANDS, INC.
Consolidated Statements of Comprehensive Income
(in thousands)

	Successor		Predecessor
	Fiscal Year Ended January 29, 2016	12 weeks ended January 30, 2015	40 weeks ended November 7, 2014
Net sales	$ 1,720,189	$ 432,392	$ 639,131
Cost of goods sold	937,841	256,885	370,763
Gross profit	**782,348**	**175,507**	**268,368**
Sales and marketing expenses	412,234	69,128	127,667
Net credit expense (income)	64,035	18,011	(1,053)
General and administrative expenses	200,276	34,466	131,801
Amortization and depreciation not included in cost of goods sold	98,383	21,573	9,739
Loss on early extinguishment of debt	-	-	9,298
Operating income (loss)	7,420	32,329	(9,084)
Interest expense, net	43,920	7,091	13,576
(Loss) income before income tax expense	**(36,500)**	**25,238**	**(22,660)**
Income tax (benefit) expense	(10,191)	9,222	(7,662)
Net (loss) income	**$ (26,309)**	**$ 16,016**	**$ (14,998)**

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

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

	Series B Convertaible Preferred Stock		Series A Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Predecessor									
BALANCE - January 31, 2014	753,256,768	$ 469	791,738,012	$ 872	6,416,291	$ -	$ 142,086	$ (188,972)	$ (45,545)
Exercise of common stock options					107,035	-	566		566
Stock-based compensation							28,232		28,232
Series B convertible preferred stock accretion		2,624					(2,624)		-
Series A convertible preferred stock accretion				4,895			(4,895)		-
Excess tax benefit from stock-based compensation					(238,100)		5,159		5,159
Repurchase of restricted stock							(3,280)		(3,280)
Net loss								(14,998)	(14,998)
BALANCE - November 7, 2014	753,256,768	$ 3,093	791,738,012	$ 5,767	6,285,226	$ -	$ 165,244	$ (203,970)	$ (29,866)
Successor									
Equity contributions					1	-	269,602		269,602
Net income								16,016	16,016
BALANCE — January 30, 2015					1	$ -	$ 269,602	$ 16,016	$ 285,618
Equity contributions							100,000		100,000
Net loss								(26,309)	(26,309)
BALANCE —January 29, 2016					1	$ -	$ 369,602	$ (10,293)	$ 359,309

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

BLUESTEM BRANDS, INC.
Consolidated Statements of Cash Flows
(in thousands)

	Successor		Predecessor
	Fiscal Year Ended January 29, 2016	12-weeks ended January 30, 2015	40-weeks ended November 7, 2014
Operating Activities of Continuing Operations			
Net (loss) income	$ (26,309)	$ 16,016	$ (14,998)
Adjustments to reconcile net (loss) income from operations to net cash provided by (used in) operating activities:			
Amortization and depreciation expense	101,327	21,831	11,260
Noncash component of loss on early extinguishment of debt	-	-	9,298
Provision for doubtful accounts	31,204	10,510	(5,958)
Provision for merchandise returns	83,824	11,455	18,731
Deferred income taxes	(28,346)	(4,077)	(1,336)
Stock-based compensation expense	4,106	836	28,232
Excess tax benefit from stock-based compensation	-	-	(5,159)
Inventory obsolescence and other reserves	45,701	11,285	20,612
Other, net	5,129	899	1,839
Net change in assets and liabilities:			
Customer accounts receivable, net	(125,094)	(40,027)	(29,848)
Merchandise inventories	(6,695)	78,895	(99,907)
Promotional material inventories	(8,693)	22,066	(20,680)
Prepaid expenses and other assets	2,606	(6,029)	(358)
Current income taxes payable	16,016	18,567	(24,384)
Accounts payable and other liabilities	(60,680)	(50,858)	81,849
Net cash provided by (used in) operating activities	34,096	91,369	(30,807)
Investing Activities of Continuing Operations			
Purchases of customer accounts receivable	(1,197,537)	(430,600)	(661,362)
Proceeds from sale of customer accounts receivable	1,198,146	430,949	662,654
Acquisitions, net of cash on hand	(375,313)	(550,712)	-
Net purchases of property and equipment	(35,935)	(5,351)	(18,869)
Net (increase) decrease in restricted cash	(9,060)	736	(7,089)
Net cash used in investing activities	$ (419,699)	$ (554,978)	$ (24,666)

(Continued on next page)

BLUESTEM BRANDS, INC.
Consolidated Statements of Cash Flows
(in thousands)

	Successor		Predecessor
	Fiscal Year Ended January 29, 2016	12-weeks ended January 30, 2015	40-weeks ended November 7, 2014
Financing Activities of Continuing Operations			
Borrowings on debt	$ 269,246	$ 281,064	$ -
Repayments on debt	(43,282)	-	-
Borrowings on asset backed line of credit	481,712	180,287	336,175
Repayments on asset backed line of credit	(469,425)	(182,676)	(335,809)
Repayments on Predecessor term debt	-	-	(225,000)
Settlement of Bluestem selling stockholders' acquisition-related liabilities	-	(66,361)	186,589
Equity contribution from parent	100,000	269,602	-
Other financing activities, net	-	-	2,045
Net cash provided by (used in) financing activities	338,251	481,916	(36,000)
Net (Decrease) Increase in Cash and Cash Equivalents	(47,352)	18,307	(91,473)
Cash and Cash Equivalents, Beginning of Period	59,222	40,915	132,388
Cash and Cash Equivalents, End of Period	$ 11,870	$ 59,222	$ 40,915
Supplemental Disclosures of Cash Flow Information:			
Interest paid	$ 39,105	$ 7,320	$ 11,771
Income taxes paid	$ 1,999	$ 338	$ 18,815
Non-cash Transactions:			
Purchases of property and equipment on account	$ -	$ 288	$ -
Capital lease obligation incurred	$ 2,045	$ 35	$ 2,272
Series B convertible stock accretion	$ -	$ -	$ 2,624
Series A convertible stock accretion	$ -	$ -	$ 4,895

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

BLUESTEM BRANDS, INC.
Notes to Consolidated Financial Statements

1. Organization and Operations

As used in this report:

- "Bluestem" or "the Company" refers to Bluestem Brands, Inc., which consists of the Bluestem Legacy Portfolio of retail brands and the Orchard Portfolio of retail brands
- "Bluestem Legacy Portfolio" refers to the consolidated Fingerhut, Gettington and PayCheck Direct retail brands
- "Orchard Portfolio" refers to the consolidated Appleseed's, Bedford Fair, Blair, Draper's & Damon's, Gold Violin, Haband, LinenSource, Norm Thompson, Old Pueblo Traders, Sahalie, Solutions, Tog Shop, and WinterSilks retail brands

Bluestem Brands, Inc. is a multi-brand, online retailer of a broad selection of name-brand and private label general merchandise serving the boomer and senior demographic, generally considered age 50 and over, and low- to middle-income consumers across all age demographics through 16 retail brands that include: Appleseed's, Bedford Fair, Blair, Draper's & Damon's, Fingerhut, Gettington, Gold Violin, Haband, LinenSource, Norm Thompson, Old Pueblo Traders, PayCheck Direct, Sahalie, Solutions, Tog Shop and Wintersilks. Complementing each Bluestem Legacy Portfolio brand are payment options that provide customers with the flexibility of paying over time while Orchard Portfolio provides customers the ability to obtain credit through private label credit cards.

By combining proprietary marketing and credit decision-making technologies, Bluestem is able to tailor merchandise and credit offers to prospective as well as existing customers. Bluestem views merchandising, marketing and credit management within its Bluestem Legacy Portfolio business model as strategically indivisible. Credit is offered to Bluestem Legacy Portfolio customers to reasonably assist them in making merchandise purchases while enhancing customer loyalty and driving repeat orders. Bluestem offers a large selection of name-brand, private label, and non-branded merchandise through internet websites and catalogs to customers in the United States. Merchandise is continuously tailored across three key product categories:

- ***Home*** — including housewares, bed and bath, lawn and garden, home furnishings and hardware
- ***Entertainment*** — including electronics, video games, toys and sporting goods
- ***Fashion*** — including apparel, footwear, cosmetics, fragrances and jewelry

Bluestem is a party to a series of transactions with WebBank and Santander Consumer USA Inc. ("SCUSA") related to revolving Fingerhut and Gettington customer accounts receivable. WebBank is the originating bank for Bluestem's customer revolving credit accounts. Bluestem sells substantially all new receivables originated under revolving credit accounts to SCUSA on the same day those receivables are purchased from WebBank. Bluestem services the credit accounts and related receivables as WebBank's and/or SCUSA's agent. In consideration of Bluestem's servicing of the portfolio owned by SCUSA, SCUSA pays a servicing fee to and shares a portion of the profits of the portfolio with Bluestem. See Note 6, *Serviced Credit Portfolio*, of the Notes to Consolidated Financial Statements for more information on SCUSA-owned and Bluestem-owned accounts receivable.

On November 7, 2014, the Company merged with and into Northstar Merger Sub Inc. ("Merger Sub") pursuant to an Agreement and Plan of Merger, dated September 28, 2014, by and among Capmark Financial Group Inc. ("Capmark"), Northstar Holdings Inc. ("Holdings Inc."), Merger Sub, and the Company, with the Company surviving the merger (the "Acquisition"). The purchase price of $565 million and associated transactional expenses were funded with $136 million of cash on hand, $136 million of proceeds from the exercise of warrants by Centerbridge pursuant to the terms of an investment agreement, and a $300 million term loan facility issued by Bluestem (the "Initial Term Loan"). Certain members of Bluestem's management team also provided capital for the transaction through the purchase of the Company's common stock. In addition, Bluestem closed on an amendment and restatement of its $80 million asset backed line of credit (the "Asset Backed Line of Credit"). Bluestem Brands, Inc. is a Delaware corporation and subsequent to the Acquisition became an indirect wholly-owned subsidiary of Capmark. On June 17, 2015, Capmark changed its name to Bluestem Group Inc.

On July 10, 2015, Bluestem Brands, Inc. acquired all of the outstanding common shares and voting interests of Orchard Brands Corporation ("Orchard"), which operates the Orchard Portfolio, for $410 million in cash, subject to various pre-closing and post-closing adjustments. The Company funded the purchase price and associated transactional expenses with $104 million of cash on hand, $270 million of proceeds from a term loan facility (the "Incremental Loans" and, together with the "Initial Term Loan", the "Term Loan") entered into by Bluestem, and $25 million of borrowings under Bluestem's Asset Backed Line of Credit, which was amended and restated to increase the size of the facility to $200 million. The operating results of Orchard have been included in the consolidated financial statements since July 10, 2015. See Note 4, *Business Combinations,* for pro forma information and further discussion of the Orchard acquisition.

During the fourth quarter of fiscal year 2015, the Company decided to reposition its Gettington business to focus on selling off-price merchandise to customers using Gettington's proprietary credit. The Company believes transitioning the Gettington business to fill this void is a natural fit, allowing the Company to leverage the existing Gettington retail platform and deep expertise with payment plans to provide an exciting, new shopping opportunity for both new and existing Bluestem customers. This new business model is expected to launch during fiscal year 2016.

2. Basis of Presentation

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

The accompanying consolidated financial statements include financial information for the Company and its consolidated subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The fiscal year ended January 30, 2015 is presented as "Predecessor" and "Successor" periods to indicate whether the period precedes or succeeds the Acquisition.

The financial statements of subsidiaries outside the United States of America are generally measured using the local currency as the functional currency. All assets and liabilities of foreign subsidiaries are translated into U.S. dollars using observable exchange rates as of the balance sheet date.

Reclassifications

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Update ("ASU") 2015-03, *Interest — Imputation of Interest (Subtopic 835-30) — Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), the Company retrospectively reclassified its debt issuance costs related to its Term Loan as a direct deduction from the carrying amount of that debt liability.

In accordance with ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"), the Company retrospectively reclassified all of its current deferred tax assets and current deferred tax liabilities to noncurrent deferred tax assets and noncurrent deferred tax liabilities.

The Company also reclassified other accounts receivable from customer accounts receivable, net of allowance to other current assets on the Consolidated Balance Sheets. See the table in Note 3, *Significant Accounting Policies and Recently Issued Accounting Standards,* for the retrospectively adjusted balances related to these reclassifications.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending on the Friday closest to January 31 of the following year. In these consolidated financial statements, including the notes thereto, financial results are for the fiscal years ended January 29, 2016 and January 30, 2015. These years, which are referred to as fiscal years 2015 and 2014, respectively, each included a 52-week period.

3. Significant Accounting Policies and Recently Issued Accounting Standards

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less and credit card receivables due from third-party financial institutions to be the equivalent of cash. All cash and cash equivalents, which consist primarily of money market accounts, commercial paper and credit card receivables due from third-party financial institutions received within 3-5 days are carried at cost, which approximates fair value. Credit card receivables due from third-party financial institutions were $8.9 million and zero as of January 29, 2016 and January 30, 2015, respectively.

Restricted Cash

Restricted cash represents cash that is restricted as to withdrawal or usage and includes restricted depository accounts related to the Company's agreement with WebBank to originate customer credit accounts. Under the agreements with the WebBank, as amended, Bluestem is required to maintain a segregated deposit account with WebBank with a $13.0 million balance from January 1 through October 31, and $25.0 million and $35.0 million for the months of November and December, respectively. At January 29, 2016, restricted cash included $13.0 million related to WebBank's origination of customer revolving and installment credit accounts. During fiscal year 2014, the Company was required to maintain a segregated deposit account in an amount equivalent to a minimum of $2.0 million plus 100% of the highest of the preceding calendar week's daily outstanding principal balance held by WebBank during the contractual holding period. At January 30, 2015, restricted cash included $9.1 million related to WebBank's origination of customer revolving and installment credit accounts. Bluestem has been in compliance with the Company's agreement with WebBank for all periods during fiscal year 2015, the twelve weeks ended January 30, 2015, and the forty weeks ended November 7, 2014.

The Company also has restricted accumulated customer cash receipts related to its agreements with WebBank and SCUSA (collectively the "A/R Program Agreements") whereby payments on customer accounts receivable are accumulated in restricted accounts and, subsequently, are released to the Company and SCUSA. As of January 29, 2016 and January 30, 2015, $9.1 million and $4.1 million, respectively, of accumulated customer cash receipts were reported as a component of restricted cash in the Company's Consolidated Balance Sheets.

Inventories

Merchandise inventories are valued at the lower of weighted-average cost or market value. The Company writes down inventory considered obsolete based on management's best estimate of the amount of inventory that is subject to obsolescence. The estimates are subject to change depending on changes in economic conditions and other factors, which may affect the ending inventory valuation as well as gross margin. Merchandise inventories were $263.6 million and $96.4 million, net of write-downs for excess and obsolete merchandise of $16.5 million and $9.6 million at January 29, 2016 and January 30, 2015, respectively. Cash discounts and trade rebates from vendors are recorded as a reduction to merchandise inventories.

Promotional material inventories consist of raw materials, work in process, and costs associated with catalog direct response advertising and premium (free gift) inventory. Production of catalog direct response advertising includes costs associated with photography, page design, development, separations, payroll and benefit costs for employees involved in the creation of catalogs, as well as costs of paper, printing, and postage. Catalog direct response advertising costs are deferred and amortized to sales and marketing expense over the period during which the sales are expected to occur, generally over three to five months following a mailing. Premiums are expensed when shipped to the customer along with the product order. Catalog direct response advertising expense for the fiscal year ended January 29, 2016, the twelve weeks ended January 30, 2015, and the forty weeks ended November 7, 2014 was $281.3 million, $39.4 million, and $73.1 million, respectively.

Revenue Recognition

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

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

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

Credit Card Agreements

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

Cost of Goods Sold

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, occupancy costs and depreciation of distribution centers and related fulfillment assets, charges from third-party distribution centers, and estimates of product obsolescence costs.

Sales and Marketing Expenses

Sales and marketing expenses include catalog production and postage costs, television and digital marketing costs, order entry and customer service costs, premium (i.e., free gift with purchase) expense, interchange fees, and retail stores. Catalog production and postage costs are deferred and amortized over the period during which the future benefits of the mailing are expected to be received, generally between three and five months. Television marketing costs are expensed the first time the advertising takes place.

General and Administrative Expenses

General and administrative expenses include compensation and benefit costs for corporate and administrative employees, including information technology, legal, human resources, finance, merchandising, supervision of credit servicing, executive leadership, sales and

marketing management; professional fees for acquisition transactions, legal, accounting, and other service providers; occupancy costs of corporate offices, insurance, maintenance, and other overhead costs.

Additional Accounting Policies

To facilitate a better understanding of the Company's consolidated financial statements, the following significant accounting policies have been disclosed with the related financial disclosures:

Note	Topic	Note	Topic
4	Business combinations	10	Accounting for income taxes
5	Serviced credit portfolio	12	Stock-based compensation
6	Property and equipment, net	14	Operating leases
7	Intangible assets and goodwill		

Recently Adopted Accounting Standards

In April 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 were effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.* The amendment clarified that given the absence of authoritative guidance within Update 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of credit arrangement. In accordance with ASU 2015-15, debt issuance costs associated with the Company's Asset Backed Line of Credit are recorded as an asset and are amortized over the term of the line of credit.

In connection with the acquisition of Orchard, the Company amended the Term Loan facility and the Asset Backed Line of Credit and borrowed an additional $280 million and $25 million, respectively. See Note 4, *Business Combinations*, for further information on the Company's acquisitions. The Company elected to early adopt ASU 2015-03 for debt issuance costs associated with the Company's Term Loan facility during the second quarter of fiscal year 2015.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"). The amendments in ASU 2015-17 require deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. The amendments in this update are effective for public business entities that present a classified statement of position for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. The Company early adopted ASU 2015-17 in the fourth quarter of fiscal year 2015.The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

The balances for the period ended January 30, 2015 have been retrospectively adjusted for the early adoption of ASU 2015-15, ASU 2015-17, and another reclassification as described in Note 2, *Basis of Presentation,* as follows (in thousands):

	As Originally Reported	As Adjusted	Effect of Changes and Reclassification	
ASSETS				
Current assets:				
Customer account receivable, net of allowance	$ 40,928	$ 33,449	$ (7,479)	(1)
Deferred income taxes	14,914	-	(14,914)	(2)
Other current assets	20,360	26,510	6,150	(3)
Total current assets	259,256	243,013	(16,243)	
Other assets	5,377	97	(5,280)	(1), (3)
Total Assets	$ 893,922	$ 872,399	$ (21,523)	
LIABILITIES				
Current liabilities:				
Short-term debt	$ 19,116	$ 17,787	$ (1,329)	(3)
Total current liabilities	184,829	183,500	(1,329)	
Long-term debt	278,169	272,889	(5,280)	(3)
Deferred income taxes	140,119	125,205	(14,914)	(2)
Total Liabilities	608,304	586,781	(21,523)	
Total Liabilities and Stockholders' Equity	$ 893,922	$ 872,399	$ (21,523)	

(1) Reclassification of other accounts receivable, net of allowance of $7.5 million to other current assets.

(2) Effect of change related to adoption of ASU 2015-17 of $14.9 million.

(3) Effect of change related to adoption of ASU 2015-03 and ASU 2015-15; $6.6 million of which $1.3 million was current and $5.3 million was long-term.

Accounting Standards Issued But Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contract with Customer (Topic 606)* ("ASU 2014-09") which 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 guidance was initially expected to be effective for annual reporting periods beginning after December 15, 2016, and provides for either full retrospective adoption or a modified retrospective adoption by which the cumulative effect of the change is recognized in retained earnings at the date of initial application. In July 2015, the FASB approved the deferral of the effective date of this standard by one year, and allows for adoption either at annual reporting periods beginning after December 15, 2016 or December 15, 2017. The Company is currently evaluating the requirements of this standard and has not yet determined the impact on the results of operations or financial position.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments* ("ASU 2015-16"). The amendments in ASU 2015-16 require the acquirer to record, in the same period's financial statements, the effect on earnings, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This amendment eliminates the requirement to retrospectively account for adjustments to the provisional amounts and is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company anticipates the adoption of this guidance will not have a material effect on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01")* which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This amendment is effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the requirements of this standard and has not yet determined the impact on the results of operations or financial position.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02") which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods

within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effects that the adoption of ASU 2016-02 will have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-04, *Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products* ("ASU 2016-04") which requires entities to derecognize the amount of liabilities related to the expected breakage in proportion to the pattern of rights expected to be exercised by the product holder only to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. ASU 2016-04 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Earlier application is permitted, including adoption in an interim period. The Company is currently evaluating the requirements of this standard and has not yet determined the impact on the results of operations or financial position.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting* ("ASU 2016-09") which simplifies accounting for stock-based award transactions specific to income tax consequences, the classification of awards as equity or liabilities, and the classification of award payments on the statement of cash flows. ASU 2016-09 is effective for interim and annual periods beginning on or after December 15, 2016. Earlier application is permitted, including adoption in an interim period. The Company is currently evaluating the requirements of this standard and has not yet determined the impact on the results of operations or financial position.

4. Business Combinations

The Company allocates the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is within one year from the acquisition date, adjustments may be recorded to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Orchard Brands Corporation

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

- $4 million of cash on hand;
- $100 million capital contribution from Bluestem Group Inc.;
- $270 million of proceeds from the Term Loan facility; and
- $25 million of borrowings under the Asset Backed Line of Credit.

The operating results of the Orchard have been included in the consolidated financial statements since July 10, 2015.

The Company engaged a third-party valuation advisor to conduct analyses of certain assets acquired and liabilities assumed in order to assist in the determination of the purchase price allocation.

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

Purchase price	$ 386,249
Current assets	138,191
Property and equipment	62,348
Intangible assets	159,160
Other assets	50,437
Total identifiable assets acquired	410,136
Current liabilities	120,746
Other long-term liabilities	68,980
Total liabilities assumed	189,726
Net identifiable assets acquired	220,410
Goodwill	165,839
Net assets acquired	$ 386,249

Orchard's assets and liabilities were adjusted to fair value on July 10, 2015. The fair value of the intangible assets of $159.2 million included customer relationships and trade names of $95.0 million and $64.2 million, respectively. The fair value of customer relationships and developed technology were determined by using a discounted cash flow analysis which required significant estimates in the determination of expected cash flows. Developed technology of $10.9 million is included in property and equipment. The fair value of tradenames was determined using the relief from royalty method which required significant estimates in the determination of expected revenue and estimated royalty rates. See Note 7, *Intangible Assets and Goodwill*, for further information.

The excess purchase price over net identifiable assets acquired was allocated to goodwill in the amount of $165.8 million and was fully allocated to the Orchard reporting segment. Orchard's goodwill is primarily attributable to the assembled work force and management's knowledge in designing its marketing programs using source information from its extensive propriety database of customer information. Marketing strategies are designed to grow lifetime value with its customers by using the strength of its brand portfolio to meet more of its customer's needs. None of the goodwill recognized is expected to be deductible for income tax purposes. See Note 7, *Intangible Assets and Goodwill*, for further information. All Orchard purchase price allocations have been completed and are considered final.

The amount of revenue included in the Company's Consolidated Statements of Comprehensive Income for the fiscal year ended January 29, 2016 related to Orchard was $535.9 million. The amount of income from operations before income tax expense included in the Company's Consolidated Statements of Comprehensive Income for the fiscal year ended January 29, 2016 related to Orchard was $27.5 million.

The Company recognized $8.4 million of acquisition related costs for the year ended January 29, 2016, which have been included as part of general and administrative expenses in the Consolidated Statement of Comprehensive Income.

Bluestem

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

- Borrowings of $300 million under the Successor term loan facility ("Initial Term Loan"). See Note 8*, Debt and Other Financing*; and
- $269 million of equity investments from Bluestem Group Inc.

The Acquisition occurred simultaneously with:

- The closing of the financing transactions and equity investments described previously
- Payoff of former long-term debt facility ("Predecessor Term Loan")
- Amendment to the Company's Asset Backed Line of Credit

The results of the Acquisition have been included in the consolidated financial statements since November 7, 2014, presented as "Predecessor" and "Successor" periods to indicate whether the period precedes or succeeds the Acquisition.

The Company engaged a third-party valuation advisor to conduct analyses of certain assets acquired and liabilities assumed in order to assist in the determination of the purchase price allocation.

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

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

Bluestem's assets and liabilities were adjusted to fair value on November 7, 2014. The fair value of the acquired intangible assets of $396.2 million included customer relationships and tradenames of $176.2 million and $220.0 million, respectively. Fair value of the customer relationships was determined by using a discounted cash flow analysis which required significant estimates in the determination of expected cash flows. Fair value of the tradenames was determined by using the relief from royalty method which required significant estimates in the determination of expected revenue and an estimated royalty rate. See Note 7*, Intangible Assets and Goodwill,* 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, proprietary marketing and credit decision-making tools, and management knowledge. None of the goodwill is expected to be deductible for income tax purposes. As of January 29, 2016, there were no changes in the recognized amounts of goodwill resulting from the Acquisition. See Note 7, *Intangible Assets and Goodwill,* for further information. All Bluestem purchase price allocations have been completed and are considered final.

The amount of revenue included in the Company's Consolidated Statements of Comprehensive Income for the fiscal years ended January 29, 2016 and January 30, 2015 related to Bluestem was $1.2 billion and $432.4 million, respectively. The amount of loss/income from operations before income tax expense included in the Company's Consolidated Statements of Comprehensive Income for the fiscal years ended January 29, 2016 and January 30, 2015 related to Bluestem was $64.0 million loss and $25.2 million income, respectively.

Pro forma Results

The following summary presents unaudited pro forma consolidated results of operations for the fiscal years ended January 29, 2016 and January 30, 2015, as if the Orchard acquisition had occurred on February 1, 2014 and as if the Bluestem Brands, Inc. acquisition had occurred on February 2, 2013. The following unaudited pro forma financial information does not necessarily reflect the actual results that would have occurred had the Company, Orchard, and Bluestem been combined during the periods presented, nor is it necessarily indicative of the future results of operations of the combined companies (in thousands):

	Fiscal Years Ended			
	January 29, 2016		January 30, 2015	
	Reported	Proforma	Reported	Proforma
Total net sales	$ 1,720,189	$ 2,187,947	$ 432,392	$ 2,092,956
(Loss) income from continuing operations before income tax expense	$ (36,500)	$ 435	$ 25,238	$ 51,972

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

	Fiscal Years Ended	
	January 29, 2016	January 30, 2015
Amortization expense	$ 17,543	$ (23,313)
Interest expense	(1,993)	(11,108)
Reversal of rent expense	-	1,003
Dividend equivalent expense	-	28,681
Acquisition costs	18,938	11,238
Stock compensation	4,662	6,717
Loss of early retirement of debt	5,729	9,298
Total pro forma operating adjustments	$ 44,879	$ 22,516

5. Serviced Credit Portfolio

Bluestem is a party to a series of transactions with WebBank and SCUSA related to revolving Fingerhut and Gettington customer accounts receivables. The Company markets revolving credit accounts and installment credit accounts to qualifying customers identified by the Company. WebBank 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 Fingerhut and Gettington customers. The Company is obligated to purchase and assume ownership of the receivables after a contractual holding period by WebBank of three business days. The purchase price of the receivables from WebBank is at par value, and the Company pays applicable interchange fees, origination fees, and other product fees along with applicable customer finance charges earned by WebBank during the contractual hold period. SCUSA is obligated to reimburse Bluestem for origination and other product fees.

The following are primary agreements executed by Bluestem (collectively the "A/R Program Agreement").

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

Except as described below, Bluestem is obligated to sell substantially all new receivables originated under revolving credit accounts to SCUSA on the same day those receivables are purchased by Bluestem from WebBank. All receivables originated in revolving credit accounts are referred to as "Standard Receivables." SCUSA bears risk of loss due to uncollectibility of the Standard Receivables purchased from Bluestem. All receivables generated in accounts other than revolving credit accounts, including Fingerhut FreshStart credit accounts and PayCheck Direct accounts, are referred to as "Nonstandard Receivables." Bluestem retains all Nonstandard Receivables purchased from WebBank. Bluestem bears risk of loss due to uncollectibility on Nonstandard Receivables and any existing Standard Receivables not purchased by SCUSA.

A Standard Receivable eligible to be sold under the A/R Program Agreements qualifies as a sale under ASC 860 and is recorded at the lower of cost or fair value at the date of eligibility. At that time, any reduction in the Standard Receivable's value is reflected as a charge to provision for doubtful accounts expense with a corresponding addition to the allowance for doubtful accounts. The Standard Receivable is then reclassified as held-for-sale and the Company records a charge-off for any reduction below par on the Standard Receivable with a corresponding reduction in the allowance for doubtful accounts. The Company derecognizes the Standard Receivable upon the sale and any servicing asset or liability is recognized at fair value.

Effective September 1, 2015, Bluestem and SCUSA amended certain terms of the Standard Receivables Sales Agreement. Among other things, the amendments included changes to the annual profit sharing splits between Bluestem and SCUSA and modifications to SCUSA's exclusivity rights, which permit Bluestem, at Bluestem's option, to purchase from SCUSA, on a one-time basis, up to 9.99% of the SCUSA-owned accounts receivable selected randomly and/or to retain up to 20% of Standard Receivables on newly originated revolving credit accounts that otherwise would be sold to SCUSA. Bluestem has not yet exercised either option.

Net credit expense is summarized below (in thousands):

	Successor		Predecessor
	Fiscal Year Ended January 29, 2016	12 Weeks Ended January 30, 2015	40 Weeks Ended November 7, 2014
Credit management costs	$ 78,133	$ 19,038	$ 51,877
Provision for doubtful accounts	31,204	10,510	(5,958)
Finance charge and fee income	(6,048)	(3,436)	7,848
Servicing fee income and portfolio profit sharing	(39,254)	(8,101)	(54,820)
Net credit expense	$ 64,035	$ 18,011	$ (1,053)

The Company is responsible for servicing all accounts whether the related receivables are owned by the Company or SCUSA ("Serviced Credit Portfolio"). 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 WebBank, new account application and credit bureau processing costs, as well as direct customer service costs.

The Company records a provision for doubtful accounts to maintain the allowance for doubtful accounts at a level intended to absorb probable losses from customer defaults on Company-owned customer accounts receivable and when Standard Receivables expected to be sold to SCUSA below par as of the date of the Consolidated Balance Sheets.

The Company recognizes finance charge and fee income on Company-owned customer accounts receivable according to the contractual provisions of its customer account agreements.

The Company receives a servicing fee and shares a portion of the profits, as defined in the A/R Program Agreements, of the SCUSA owned portfolio of Standard Receivables.

Fingerhut customers may be offered one of two credit products, Fingerhut revolving credit or Fingerhut FreshStart credit. 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. Gettington revolving credit is accepted on customary revolving credit terms. The PayCheck Direct non-interest bearing installment receivables are issued by the Company to

customers who are members and employees of participating organizations and customers make installment payments through payroll deductions or automatic bank withdrawals.

Serviced Credit Portfolio metrics as of the end of the period are as follows (in thousands):

January 29, 2016	Revolving [1]	FreshStart [2]	PayCheck Direct Installment [3]
Balance active accounts	1,984	159	56
Average balance outstanding	$ 742	$ 118	$ 624
Customer accounts receivable [4]	$ 1,472,335	$ 18,754	$ 35,096
Balances 30+ days delinquent [6]	$ 216,089	$ 4,684	$ 1,349
Balances 30+ days delinquent as a percentage of total customer accounts receivable [7]	14.7 %	25.0 %	3.8 %

January 30, 2015	Revolving [1]	FreshStart [2]	PayCheck Direct Installment [3]
Balance active accounts	1,878	184	25
Average balance outstanding	$ 686	$ 127	$ 723
Customer accounts receivable [4,5]	$ 1,287,526	$ 23,346	$ 17,921
Balances 30+ days delinquent [6]	$ 189,092	$ 4,805	$ 1,109
Balances 30+ days delinquent as a percentage of total customer accounts receivable [7]	14.7 %	20.6 %	6.2 %

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

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

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

(4) Customer accounts receivable balances as of the customers' statement cycle dates prior to or on fiscal period end.

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

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

(7) Delinquent balances as of the customers' statement cycle dates prior to or on fiscal period end as a percentage of total customer accounts receivable 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, and revolving accounts receivable. FreshStart installment and PayCheck Direct installment accounts receivable are not sold to SCUSA. The revolving accounts receivables owned by the Company are generally accounts which have not had a new sale origination since the SCUSA arrangement began in April 2013 or are in a certain status which precluded sale to SCUSA, such as qualified hardship, bankruptcy, deceased or re-aged. The Company-owned revolving accounts receivable will run-off over time as payments are made or the account is charged-off.

Company-owned customer accounts receivable are as follows (in thousands):

	January 29, 2016	January 30, 2015
PayCheck Direct accounts receivable	$ 35,268	$ 16,519
FreshStart installment accounts receivable	18,727	19,256
Revolving accounts receivable	4,885	8,131
Customer accounts receivable	58,880	43,906
Less: allowance for doubtful accounts	(14,434)	(10,457)
Customer accounts receivable - net	$ 44,446	$ 33,449

Finance charge and fee income is recognized on Company-owned revolving and FreshStart accounts receivable according to the contractual provisions of the credit account agreements. Finance charges are accrued on Company-owned customer accounts receivable until the account balance is paid off or charged off. A late fee is imposed if the customer does not pay at least the minimum payment by the payment due date and continues until the account is over 90 days delinquent. The Company's estimate of uncollectible finance charge and fee income is included in the allowance for doubtful accounts.

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. 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. Orchard's accounts receivable are not included as part of the Bluestem credit portfolio and its provision for doubtful accounts is included in general and administrative expenses in the Consolidated Statements of Comprehensive Income.

The Company uses its judgment to evaluate the adequacy of the allowance for doubtful accounts based on a variety of quantitative and qualitative risk considerations. Quantitative factors include, among other things, customer credit risk and aging of customer accounts receivable. Qualitative factors include, among other things, economic factors that have historically been leading indicators of future delinquency and losses such as national unemployment rates, changing trends in the financial obligations ratio published by the Federal Reserve, and changes in the consumer price index.

The Company estimates the allowance for doubtful accounts by segmenting customer accounts receivable by the number of days balances are delinquent. Balances that are at least one day past their due date are considered delinquent. Balances that are not delinquent are considered current. Customer accounts receivable are charged-off, as of the statement cycle date, following the passage of 180 days (120 days for FreshStart installment accounts) without receiving a qualifying payment. Accounts receivable relating to bankrupt or deceased account holders are written off as of the statement cycle date following the passage of 60 days after receipt of formal notification regardless of delinquency status. Recoveries of receivables previously written off are reversed against the provision for doubtful accounts when received. The number of days customer accounts are past due and their related accounts receivable balances are as follows (in thousands):

	January 29, 2016
Current	$ 44,819
Days past due:	
1 - 29	6,929
30 - 59	2,778
60 - 89	2,125
90 - 119	1,892
120 - 149	173
150 - 179	2
180+	162
Customer accounts receivable	$ 58,880

Changes in the allowance for doubtful accounts were as follows (in thousands):

	Successor		Predecessor
	Fiscal Year Ended January 29, 2016	12 Weeks Ended January 30, 2015	40 Weeks Ended November 7, 2014
Balance at the beginning of the period	$ 10,457	$ -	$ 37,101
Provision for doubtful accounts [1]	31,204	10,510	(5,958)
Principal charge-offs [1]	(27,945)	(53)	(22,558)
Recoveries	718	-	4,314
Balance at the end of the period	$ 14,434	$ 10,457	$ 12,899

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[1] Includes a $12.1 million charge for accounts receivable sold to SCUSA below par (merchant discount) during fiscal year 2015.

SCUSA-owned Customer Accounts Receivable

For the fiscal year ended January 29, 2016, the Company purchased $1,203.6 million of new Standard Receivables from WebBank and sold $1,204.3 million of new and existing Standard Receivables under the A/R Program Agreements to SCUSA. For the twelve weeks ended

January 30, 2015 and the forty weeks ended November 7, 2014, the Company purchased $423.8 million and $677.4 million, respectively, of new Standard Receivables under the A/R Program Agreements. For the twelve weeks ended January 30, 2015 and the forty weeks ended November 7, 2014, the Company sold $424.1 million and $678.7 million, respectively, of new and existing Standard Receivables at par value under the A/R Program Agreements. SCUSA reimburses the Company for origination fees and other product fees paid to WebBank. During the twelve weeks ended January 30, 2014, the forty weeks ended November 7, 2014, and prior to the fourth quarter of fiscal year 2015, all Standard Receivables were sold at par value. During the fourth quarter of fiscal year 2015, sales of Standard Receivables to SCUSA were made at a discount to par related to applying an average merchant discount of 2.54%. The Company recorded a $12.1 million charge to the provision for doubtful accounts and a $12.1 million charge-off on the provision for doubtful accounts for the reduction below par related to the sale of Standard Receivables.

The Standard Receivables Sale Agreement states if the Risk-Adjusted Margin ("RAM") forecast projects RAM, as a percentage of forecasted average program receivables to be less than 5% for the full fiscal year, then Bluestem shall implement a merchant discount rate on all standard receivables purchased by SCUSA. The merchant discount rate is determined by dividing the forecasted merchant discount fee, which is the amount when included in the RAM forecast results in a RAM of 5% for the full fiscal year, by the forecast amount of Standard Receivables to be purchased by SCUSA during the remaining months of the current fiscal year. The RAM forecasts are updated each January, April, July, October, and at the option of SCUSA, December. In the event that the future RAM forecast predicts RAM to be at or above 5%, Bluestem will no longer be obligated to apply the merchant discount rate. As a result of the September 1, 2015 amendment to the Standard Receivables Sales Agreement, the fourth quarter fiscal year 2015 merchant fee was based on forecasted RAM for the period from September 1, 2015 through January 31, 2016.

In consideration of the Company's servicing of the Standard Receivable portfolio owned by SCUSA, SCUSA pays a servicing fee to and shares a portion of the profits of the portfolio with the Company. The portfolio profits are based on finance charge, fees and other revenues, less write-offs of uncollectable receivables, net of recoveries, servicing fees, an agreed upon cost of funds and in certain circumstances a merchant fee. Upon transfer, any servicing asset or liability is initially recognized at fair value. The compensation received from SCUSA approximated adequate compensation for the services provided, and as such, there is no servicing asset or liability for the fiscal years ended January 29, 2016 and January 30, 2015.

6. Property and Equipment, Net

Property and equipment includes land, buildings, purchased and internally-developed software, computer hardware, machinery and equipment used in the Company's distribution centers, office furniture, property under capital lease, and leasehold improvements. Land is not depreciated. Buildings are depreciated using the straight-line method over the estimated useful lives of twenty years. Property under capital lease is comprised of computer hardware used for corporate data storage, software and equipment. Property and equipment is recorded at cost and is depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the estimated useful lives of the assets or the contractual term of the lease, with consideration of lease renewal options if renewal appears probable. All depreciable property other than buildings and leasehold improvements has estimated useful lives ranging from three to seven years.

The Company has pledged unencumbered Bluestem property and equipment as additional collateral for the Term Loan, with the Asset Backed Line of Credit in a secondary position. See Note 8, *Debt and Other Financing* for further information on the Term Loan and Asset Backed Line of Credit.

Property and equipment, net consisted of the following (in thousands):

	January 29, 2016	January 30, 2015
Land and building	$ 25,469	$ -
Software	80,093	39,711
Computer hardware	11,064	3,920
Machinery, equipment, and furniture	23,015	2,724
Property under capital lease and leasehold improvements	13,164	7,217
Total property and equipment	152,805	53,572
Less: Accumulated depreciation and amortization	(27,804)	(3,817)
Property and equipment, net	$ 125,001	$ 49,755

For the fiscal year ended January 29, 2016, depreciation of fixed assets and internal-use software and website development amortization expense was $24.8 million of which $2.9 million was reported in cost of goods sold. Total depreciation of fixed assets and internal-use software and website development amortization expense was $3.5 million for the twelve weeks ended January 30, 2015 and $10.5 million for the forty weeks ended November 7, 2014. Depreciation expense of $0.2 million and $0.8 million was reported in cost of goods sold, for the twelve weeks ended January 30, 2015 and the forty weeks ended November 7, 2014, respectively. For the fiscal year ended January 29, 2016, the twelve weeks ended January 30, 2015, and the forty weeks ended November 7, 2014 routine maintenance and repair costs were

$9.8 million, $1.4 million, and $3.7 million, respectively. Routine maintenance and repair costs are reported in general and administrative expenses.

7. Intangibles Assets and Goodwill

As of January 29, 2016 and January 30, 2015, the Company's intangible assets and goodwill consisted of the following (in thousands):

	January 31, 2016				January 30, 2015		
	Gross Carrying Amount	Impairment	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with finite lives:							
Customer relationships………………….….	$ 271,210	$ -	$ (74,609)	$ 196,601	$ 176,200	$ (18,308)	$ 157,892
Intangible assets with indefinite lives:							
Tradenames…………………………….….	284,150	(20,200)	-	263,950	220,000	-	220,000
Total intangible assets………………………	555,360	(20,200)	(74,609)	460,551	396,200	(18,308)	377,892
Goodwill………………………………………	367,481	-	-	367,481	201,642	-	201,642
Total intangible assets and goodwill……………	$ 922,841	$ (20,200)	$ (74,609)	$ 828,032	$ 597,842	$ (18,308)	$ 579,534

Finite-lived intangible assets consist of customer relationships and are amortized using an accelerated method over their estimated useful lives ranging from two to 17 years. The Company considers the period of expected cash flows and underlying data used to measure the fair value of the intangible assets when selecting a useful life.

In conjunction with the decision to reposition Gettington's business in the fourth quarter of fiscal year 2015, the remaining estimated useful life of Gettington's customer relationships was reduced to the end in 2016 to align with the time remaining prior to the strategic shift in the business. Additional amortization expense of $3.1 million was recorded in the fourth quarter of fiscal year 2015 related to the reduction in the estimated useful life. Total intangible assets amortization expense for the fiscal years ended January 29, 2016 and January 30, 2015 was $56.3 million and $18.3 million, respectively.

Indefinite-lived intangible assets, consist of tradenames and are not subject to amortization. The Company assesses the recoverability of indefinite-lived intangible assets annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Fair values are established utilizing the relief from royalty method.

Key assumptions used in this model include discount rates, royalty rates, growth rates, sales projections and terminal value rates. Discount rates, royalty rates, growth rates and sales projections are the assumptions most sensitive and susceptible to change as they require significant management judgment. Discount rates used are similar to the rates estimated by the weighted average cost of capital considering any differences in company-specific risk factors. Royalty rates are established by management based on comparable tradename licensing agreements in the market. Operational management, considering industry and company-specific historical and projected data, develops growth rates and sales projections associated with each indefinite-lived intangible asset. Terminal value rate determination follows common methodology of capturing the present value of perpetual sales estimates beyond the last projected period assuming a constant weighted average cost of capital and long-term growth rates.

During the fourth quarter of fiscal year 2015, the Company tested its indefinite-lived intangible assets to determine the estimated fair values. The Gettington tradename had a carrying value which exceeded its estimated fair value primarily due to the decision made in the fourth quarter of fiscal year 2015 to reposition the Gettington business. As a result, the Gettington tradename, with a carrying amount of $21.1 million, was written down to its estimated fair value of $0.9 million, with a non-cash impairment charge of $20.2 million recorded in amortization and depreciation not included in costs of goods sold on the Consolidated Statement of Comprehensive Income in the fiscal year ended January 29, 2016.

The changes in the carrying amount of goodwill are as follows (in thousands):

	Fingerhut	Orchard	Total
Balance as of November 7, 2014	$ -	$ -	$ -
Additions	201,642	-	201,642
Balance as of January 30, 2015	$ 201,642	$ -	$ 201,642
Additions	-	165,839	165,839
Balance as of January 29, 2016	$ 201,642	$ 165,839	$ 367,481

The Company tests for goodwill impairment at the reporting unit level on the first day of the Company's fourth quarter each year or more frequently if events occur or circumstances change that would warrant such a review. When the fair value of a reporting unit falls below its carrying amount, an impairment charge is recorded for the amount by which the carrying amount of goodwill exceeds its implied fair value. Fair values are established using a discounted cash flow method.

The Company performed a combination of qualitative and quantitative assessments of its reporting units. The assessments indicated that the fair value of the reporting unit exceeded its respective carrying value and the Company determined that no impairment to its goodwill occurred during the fiscal year ended January 29, 2016.

As of January 29, 2016, estimated annual amortization expense for intangible assets for the next five fiscal years and thereafter is as follows (in thousands):

Fiscal Years	
2016	$ 44,825
2017	35,401
2018	28,251
2019	22,502
2020	17,993
Thereafter	47,629
Total	$ 196,601

8. Debt and Other Financing

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

	January 29, 2016	January 30, 2015
Short-term debt		
Term loan - net of discount and financing fees of $5,166 and $3,577	$ 24,877	$ 12,313
Asset backed line of credit	20,790	3,748
Capital lease obligation	2,295	1,672
Other notes payable	19	54
Short-term debt	$ 47,981	$ 17,787
Long-term debt		
Term loan - net of discount and financing fees of $19,117 and $14,576	$ 487,560	$ 269,645
Capital lease obligation	2,472	3,072
Other notes payable	-	172
Long-term debt	$ 490,032	$ 272,889

Term Loan

On November 7, 2014, Bluestem Brands, Inc. entered into a $300 million Initial Term Loan facility with a syndication of investors, which matures on November 7, 2020. The Initial Term Loan was issued with an original issue discount totaling $12.0 million. Direct loan origination fees of $6.9 million were capitalized as deferred charges. Both the original issue discount and the deferred charges are amortized under the straight-line method, which approximates the effective interest method, as interest expense over the term of the loan.

The deferred charges and original issue discount were recorded as a deduction from the carrying amount of the Initial Term Loan on the Company's Consolidated Balance Sheets. Proceeds from the Initial Term Loan were used to finance the purchase of Bluestem. See Note 4, *Business Combinations*, for further information.

On July 10, 2015, Bluestem Brands, Inc. entered into the First Amendment and Incremental Agreement to the Term Loan and borrowed an additional $280 million. There were no changes to the payment terms, interest rate or financial covenants in connection with the Incremental Loans, with the exception that the Orchard's results are now included for purposes of calculating the financial covenants and the quarterly principal payments increased from $3.8 million to $7.5 million. The Incremental Loans were issued with an original issue discount totaling $2.8 million and were accounted for as a debt modification. As a result, new lender fees of $7.7 million were recorded as deferred charges and $0.2 million of third-party fees were expensed. Both the original issue discount and the deferred charges are amortized under the straight-line method, which approximates the effective interest method, as interest expense over the remaining term of the loan. The deferred charges and original issue discount were recorded as a deduction from the carrying amount of the Term Loan on the Company's Consolidated Balance Sheets. Proceeds from the Incremental Loans were used to finance the purchase of the Orchard Brands Corporation. See Note 4, *Business Combinations*, for further information.

Bluestem is required to repay the outstanding principal balance of the Term Loan in quarterly installments of $7.5 million, with the balance due at maturity. Quarterly installments may be reduced by the mandatory prepayments of principal on an annual basis equal to:

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

Outstanding balances under the Term Loan, at the option of Bluestem, can be classified on a monthly or quarterly basis as either alternative base rate or eurocurrency rate borrowings. Alternative base rate borrowings bear an interest rate of 6.5% per annum plus adjustments amounting to a minimum additional rate of 2% per annum. Eurocurrency rate borrowings bear an interest rate of 7.5% per annum plus adjustments amounting to a minimum additional rate of 1% per annum. The interest rate adjustment amounts required under the two different types of borrowings may exceed the 2% and 1% floors respectively, depending on changes in the federal funds rate, the prime rate, or the London InterBank Offered Rate. Interest payments are due quarterly on alternative base rate borrowings, and monthly on eurocurrency rate borrowings.

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

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

Failure to comply with these financial covenants is an event of default, subject to certain cure rights. As of January 29, 2016, Bluestem was in compliance with all these financial covenants and no excess cash flow payment was due.

As of January 29, 2016 and January 30, 2015, the outstanding balance of the Term Loan was $536.7 million and $300.1 million, respectively.

As of January 29, 2016, the carrying value and fair value of the Term Loan was $512.4 million and $499.1 million, respectively. As of January 30, 2015, the carrying value of the Term Loan was $288.6 million, which approximated fair value. The Term Debt is classified as Level 2 for which the Company obtain quoted prices for similar liabilities in markets that are not active.

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

The July 10, 2015 amendment permits Bluestem to increase commitments under the Asset Backed Line of Credit by an amount not to exceed $50 million. However, the lenders are under no obligation to provide any such additional commitments, and any increase in

commitments or incremental term loans will be subject to certain conditions. If Bluestem was to request any such additional commitments and the existing lenders or new lenders were to agree to provide such commitments, the size of the Asset Backed Line of Credit could be increased to $250 million, but the Company's ability to borrow would still be limited by the amount of the borrowing base. The cash proceeds of any incremental commitments may be used for working capital and general corporate purposes. Lender and third party costs of $2.5 million associated with the July 2015 amendment were deferred and will be amortized over the remaining term.

Daily outstanding balances on the Asset Backed Line of Credit will, at Bluestem's request, be classified as either LIBOR loans, or adjusted base rate loans, subject to available balances. The rate of interest payable is (i) with respect to LIBOR Loans, the adjusted LIBOR for the interest period elected, plus an applicable margin; or (ii) with respect to adjusted base rate loans, the highest of the applicable margin plus (i) prime rate (as defined), (ii) the federal funds rate plus 0.50% or (iii) one month LIBOR plus 1%. The applicable margin is up to 1% with respect to adjusted base rate loans and up to 2% with respect to LIBOR loans. The applicable margin is subject to adjustment based on the historical excess availability under the Asset Backed Line of Credit.

The Asset Backed Line of Credit agreement requires the payment of an unused commitment fee of 0.375% if the average utilization is less than 50% and 0.25% if the average utilization is greater than or equal to 50%.

Bluestem is subject to a minimum net liquidity financial covenant under the Asset Backed Line of Credit, which is based on Bluestem's stand-alone financial results. Bluestem must maintain net liquidity of at least $40 million measured at each fiscal month end as the sum of (i) unrestricted cash and cash equivalents, and (ii) availability of cash under any credit facility maintained by Bluestem or any of its subsidiaries.

As of January 29, 2016 outstanding borrowings on the Asset Backed Line of Credit were $20.8 million and $115.4 million was available. As of January 30, 2015 outstanding borrowings on the Asset Backed Line of Credit were $3.7 million and $43.1 million was available. Bluestem also had $5.2 million and $0.5 million of outstanding letters of credit as of January 29, 2016 and January 30, 2015, respectively, the majority of which are related to requirements for worker's compensation insurance and customs requirements related to purchases of inventory. As of January 29, 2016, Bluestem was in compliance with all provisions of the Asset Backed Line of Credit Agreement.

Predecessor Term Loan

On December 6, 2013, the Company entered into a $225 million long-term debt facility with a syndicate of banks ("Predecessor Term Loan") maturing December 6, 2018. The Predecessor Term Loan was issued with an original issue discount totaling $6.7 million. Direct loan origination fees of $4.8 million were capitalized as deferred charges. On November 7, 2014, the Predecessor Term Loan was paid off in conjunction with the Acquisition. The $5.4 million unamortized original issue discount and $3.9 million deferred charges were written off and reported as a loss on early extinguishment of debt during the forty weeks ended November 7, 2014.

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

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

Fiscal Years	**January 29, 2016**
2016	$ 53,146
2017	31,547
2018	30,741
2019	30,310
2020	416,552
Subtotal	562,296
Discount and financing costs	(24,283)
Net	$ 538,013

Interest Expense

Interest expense, net, consisted of the following (in thousands):

	Successor		Predecessor
	Fiscal Year Ended January 29, 2016	12 Weeks Ended January 30, 2015	40 Weeks Ended November 7, 2014
Interest on debt	$ 38,958	$ 6,156	$ 12,206
Interest on capital lease obligation	247	38	37
Amortization of deferred charges	2,343	333	796
Amortization of original issue discount	2,380	567	552
Interest income	(8)	(3)	(15)
Total interest expense, net	$ 43,920	$ 7,091	$ 13,576

Weighted-average borrowings outstanding as of January 29, 2016, were $462.8 million with a weighted-average interest rate of 8.24%.

9. Other Balance Sheet

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

	January 29, 2016	January 30, 2015
Accrued Costs and Other Liabilities		
Accrued liabilities	$ 69,839	$ 35,882
Accrued payroll and benefits	32,195	21,891
Deferred revenue	9,579	7,336
Total accrued costs and other liabilities	$ 111,613	$ 65,109
Other Long-Term Liabilities		
Unrecognized tax benefits	$ 2,170	$ 1,020
Other	4,001	4,167
Total other long-term liabilities	$ 6,171	$ 5,187

10. Income Taxes

The Company's income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best assessment of current and future taxes to be paid in the various jurisdictions in which we operate. Significant judgments and estimates are required in determining the income tax expense or benefit.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their financial statement amounts, which will result in taxable or deductible amounts in the future. In evaluating the Company's ability to recover deferred tax assets, we consider available positive and negative evidence including historical income and losses, reversals of temporary differences, and projected future income, which requires significant estimates and judgment. A valuation allowance is recorded for any portion of deferred tax assets that are not considered more likely than not to be realized. The effect of a rate change on deferred tax assets and liabilities is recognized as expense or benefit when applicable.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax laws across multiple jurisdictions. We record a liability for unrecognized tax benefits for a tax position based on its technical merits. The Company also records related interest and penalties in the tax provision. Because of the complexities of these uncertainties, the ultimate resolution may result in a material difference from our estimate which would require a payment and income tax expense. As such, the liability for unrecognized tax benefits and uncertain tax positions is management's best estimate of future events.

The following table summarizes the Company's income tax (benefit) provision (in thousands):

	Successor		Predecessor
	Fiscal Year Ended January 29, 2016	12 Weeks Ended January 30, 2015	40 Weeks Ended November 7, 2014
Current:			
Federal	$ 16,648	$ 18,372	$ (6,369)
State	1,475	823	(318)
Foreign	33	-	-
Total current income tax provision (benefit)	18,156	19,195	(6,687)
Deferred:			
Federal	(28,889)	(9,625)	(785)
State	542	(348)	(190)
Total deferred income tax provision (benefit)	(28,347)	(9,973)	(975)
Total income tax (benefit) provision	$ (10,191)	$ 9,222	$ (7,662)

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

A reconciliation of our effective income tax rate compared to the statutory federal income tax rate for the fiscal year ended January 29, 2016, the twelve weeks ended January 30, 2015, and the forty weeks ended November 7, 2014 is as follows (in thousands):

	Successor		Predecessor
	Fiscal Year Ended January 29, 2016	12 Weeks Ended January 30, 2015	40 Weeks Ended November 7, 2014
Statutory federal income tax rate	35.0%	35.0%	35.0%
Transaction costs	(2.4)	0.3	(6.3)
Uncertain tax positions	(1.1)	-	2.3
Prior year income and equity compensation	0.2	-	1.8
State income taxes, net of federal benefit	(3.5)	1.2	1.2
Other, net	(0.8)	-	(0.2)
Effective income tax rate	27.4%	36.5%	33.8%

Recurring items such as state income taxes and various permanent items such as nondeductible stock costs affect our effective income tax rate. Discrete items that are evaluated each year based on uncertain tax positions also may affect the effective income tax rate.

The following table summarizes the components of the Company's deferred tax assets and liabilities (in thousands):

	January 29, 2016	January 30, 2015
Assets:		
Accrued compensation	$ 9,603	$ 6,522
Allowance for doubtful accounts	5,192	6,596
Deferred revenue	1,842	-
Inventory	13,114	5,663
Returns reserve	3,108	1,291
Net other deferred assets	4,444	4,123
Total deferred tax assets	37,303	24,195
Liabilities:		
Trade names	95,765	79,948
Customer relationships	73,075	57,167
Depreciation and amortization expense	8,541	5,503
Deferred advertising	11,663	2,783
Finance charge income not currently taxable	939	1,841
Net other deferred liabilities	1,748	2,158
Total deferred tax liabilities	191,731	149,400
Net deferred tax liabilities	$ (154,428)	$ (125,205)

At January 29, 2016, the Company recorded approximately $1.6 million in unrecognized tax benefits. A reconciliation of the beginning and ending balance of unrecognized tax benefits for the fiscal year ended January 29, 2016, the twelve weeks ended January 30, 2015 and the forty weeks ended November 7, 2014 is as follows (in thousands):

	Successor		Predecessor
	Fiscal Year Ended January 29, 2016	12 Weeks Ended January 30, 2015	40 Weeks Ended November 7, 2014
Balance at beginning of fiscal period	$ 949	$ 949	$ 1,452
Acquisitions	295	-	-
Additions based on tax position related to prior years	904	-	-
Reductions for tax position related to prior years	(564)	-	(503)
Balance at end of fiscal period	$ 1,584	$ 949	$ 949

Of the $1.6 million liability for unrecognized tax benefits at January 29, 2016, the entire amount could impact the Company's effective tax rate in future periods.

The Company recognized a liability of approximately $0.6 million and $0.1 million attributable to interest and penalties as of January 29, 2016 and January 30, 2015, respectively. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. Related to the unrecognized tax benefits noted above, the Company recognized an increase of $0.5 million of gross interest and penalties in the fiscal year ended January 29, 2016 and did not recognize any interest and penalties related to the unrecognized tax benefit for the twelve weeks ended January 30, 2015 or the forty weeks ended November 7, 2014.

The Company operates in multiple tax jurisdictions within the United States. Accordingly, the Company is, from time to time, under examination in certain tax jurisdictions and remains subject to examination until the statute of limitations expires for the respective jurisdiction. The following table summarizes the tax years that remain subject to examination in the Company's major tax jurisdictions as of January 29, 2016:

United States — federal	2012-2015
United States — states	2009-2015

Based upon the expiration of statutes of limitation and/or conclusion of tax examinations in several jurisdictions, management does not believe that it is reasonably possible that any of the previously unrecognized tax benefits as of January 29, 2016 for the items discussed above will decrease materially within the next 12 months.

11. Capital Stock

On November 7, 2014, in conjunction with the Acquisition, the Company merged with and into Merger Sub with the Company surviving the merger. As a result of the Acquisition, Holdings, Inc., which is a direct subsidiary of Bluestem Group Inc., owns one share of common stock with a $0.00001 par value in the Company. As of January 29, 2016 and January 30, 2015, the Company had 100 shares of common stock authorized and one share issued and outstanding. The Bluestem Group Inc. Board of Directors approved the 2014 Equity Incentive Plan, which allowed Bluestem Group Inc. to grant stock options, stock appreciation rights, restricted stock, restricted stock units or stock awards that are payable in common stock of Bluestem Group Inc. to the Company's officers and key employees.

12. Stock-Based Compensation

The Company compensates officers and key employees with stock-based compensation under an Equity Incentive Plan administered by Bluestem Group Inc. The Equity Incentive Plan was adopted in November 2014 to further align the interests of eligible participants with those of Bluestem Group Inc.'s stockholders by providing long-term incentive compensation opportunities tied to the performance of the Company and its common stock. During the fiscal year ended January 29, 2016 and the twelve weeks ended January 30, 2015, 3,131,900 and 18,827,761, respectively, stock options were granted under the Equity Incentive Plan and vest to recipients upon both the passage of time and the Bluestem Group Inc.'s attainment of specified performance measurements and the passage of time, subject to continued service with the Company. The time-based portion of the awards generally vest proportionally (20% per year) over a five-year period from the grant date and all options awarded under the plan expire after ten years. Fifty percent of the performance-based award vests if the fair market value of the common stock, valued at a five percent discount from such fair market value, is at least $8.25 and the Company is listed on a Securities and Exchange Commission ("SEC") stock exchange. The remaining fifty percent of the performance based awards vest if the fair market value of the common stock, valued at a five percent discount from such fair market value, is at least $9.50 and the Company is listed on an SEC stock exchange.

Compensation expense, net of estimated forfeitures, related to stock options with a service condition is recognized in an amount equal to the fair value on the date of the grant and is recognized on a straight-line basis over the period the employees are required to provide service in exchange for the stock-based award. Compensation expense, net of estimated forfeitures, related to stock options with a market or performance based condition is recognized in an amount equal to the fair value on the date of the grant and is recognized over the vesting period of the award if the market or performance condition is considered probable. Any previously recognized compensation cost would be reversed if the market or performance condition is not satisfied or if it is not probable that the market or performance condition will be achieved. Any previously recognized compensation cost would be reversed if the market or performance condition is not satisfied or if it is not probable that the market or performance condition will be achieved.

The estimated number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, such amounts are recorded as cumulative adjustments in the period estimates are revised.

A summary of stock option activity under the 2014 Equity Incentive Plan is provided below:

	Fiscal Year Ended January 29, 2016					
	Performance-Based Stock Options			Time-Based Stock Options		
	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding as of January 30, 2015	11,296,658	$ 4.62	9.8	7,531,103	$ 4.62	9.8
Granted	1,879,140	5.52	9.6	1,252,760	5.52	9.6
Exercised	-	-	-	(4,205)	4.60	-
Forfeited or cancelled	(1,419,459)	4.76	-	(825,284)	4.77	-
Outstanding as of January 29, 2016	11,756,339	$ 4.74	8.9	7,954,374	$ 4.74	8.9
Exercisable as of January 29, 2016	-			1,365,988		

	Twelve Weeks Ended January 30, 2015					
	Performance-Based Stock Options			Time-Based Stock Options		
	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding as of November 7, 2014	-	-	-	-	-	-
Granted	11,296,658	$ 4.62	9.8	7,531,103	$ 4.62	9.8
Outstanding as of January 30, 2015	11,296,658	$ 4.62	9.8	7,531,103	$ 4.62	9.8
Exercisable as of January 30, 2015	-			-		

The weighted-average grant date fair value of the stock options granted during the fiscal year ended January 29, 2016 and the twelve weeks ended January 30, 2015 was $2.69 and $1.06, respectively, per share. Stock compensation expense associated with these awards of $4.1 million and $0.8 million was recognized for the fiscal year ended January 29, 2016 and the twelve weeks ended January 30, 2015, respectively. At January 29, 2016, there was approximately $19.8 million of unrecognized stock compensation expense related to stock options that was expected to be recognized over a weighted-average period of approximately 8.9 years. At January 30, 2015, there was approximately $18.2 million of unrecognized stock compensation expense related to stock options that was expected to be recognized over a weighted-average period of approximately 9.8 years.

The fair value of stock options granted and Warrants outstanding prior to the third quarter of fiscal year 2015 were estimated using the Black-Sholes-Merton (“BSM”) option-pricing model. During the third quarter of fiscal year 2015 the Company changed from the BSM option-pricing model to a Monte Carlo simulations model as the Company believes the change would result in a better estimate of fair value. The change in valuation methodology is applied prospectively as a change in accounting estimate. The Company does not expect a material difference in future valuations as a result of the change in models.

Predecessor Stock Options and Restricted Stock Awards

The Company compensated officers, directors, and key employees with stock-based compensation under the Predecessor Equity Incentive Plans approved by Predecessor stockholders in 2003, 2005, 2008 and 2011 and administered under the supervision of the Board.

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

A summary of Predecessor stock option activity is as follows:

	Forty Weeks Ended November 7, 2014		
	Predecessor Stock Options		
	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding as of January 31, 2014	3,730,390	$ 6.99	8.1
Granted	250,000	13.06	
Exercised	(107,035)	5.29	
Forfeited	(38,098)	8.30	
Cancelled	(3,835,257)	7.42	
Outstanding as of November 7, 2014	-	$ -	-
Exercisable as of November 7, 2014	-		

Other information pertaining to Predecessor options is as follows (in thousands, except per share amount):

	Predecessor
	40 Weeks Ended November 7, 2014
Weighted-average grant date per share fair value of Predecessor stock options granted	$ 13.06
Cash received from the exercise of Predecessor stock options	566
Stock-based compensation expense	35,363

A summary of Predecessor restricted stock activity is as follows:

	Predecessor	
	Restricted Stock	Weighted-Average Grant Date Fair Value
Outstanding as of January 31, 2014	285,960	$ 6.84
Vested	(285,960)	6.84
Outstanding as of November 7, 2014	-	$ -

A third party valuation advisor was utilized to assist management in determining the fair value of options granted using the Monte Carlo simulations model based on the grant price and assumptions regarding the expected term, expected volatility, dividends, and risk-free interest rates. A description of significant assumptions used to estimate the expected volatility, expected term, risk-free interest rate, and forfeiture rate are as follows:

- *Expected Volatility* — Expected volatility was determined based on historical volatility of stock prices of a public company peer group.
- *Expected Term* — Expected term represents the period that stock-based awards are expected to be outstanding and was determined based on historical experience and anticipated future exercise patterns, considering the contractual terms of unexercised stock-based awards.
- *Risk-Free Interest Rate* — The risk-free interest rate was based on the implied yield currently available on U.S. Treasury zero-coupon issues with a term equal to the expected term.
- *Forfeiture Rate* — Historical data was used to estimate forfeitures.

The weighted-average assumptions used to calculate the fair value of awards granted were as follows:

	Successor		Predecessor
	Fiscal Year Ended January 29, 2016	12 Weeks Ended January 30, 2015	40 Weeks Ended November 7, 2014
Expected volatility	64.4%	35.0%	45.0%
Expected term (years)	6.5	6.5	6.3
Risk-free interest rate	1.98%	2.0%	2.1%
Forfeiture rate	5.0%	5.0%	5.0%
Expected dividend yield	-	-	-

13. Employee Benefit Plans

Retirement Benefits

The Company maintains three defined contribution plans.

The Bluestem Brands 401(k) Retirement Savings Plan (the "Bluestem 401(k) Plan") operates on a calendar year basis and is open to eligible Bluestem Legacy Portfolio employees who have attained age 21. Bluestem Legacy Portfolio employees covered by a collective bargaining agreement are not eligible for participation. The Bluestem 401(k) Plan allows for employee pretax contributions up to the Internal Revenue Code contribution limit. The first 3% of employee contributions are matched by the Company at a rate of 100%, and the

next 2% of employee contributions are matched by the Company at a rate of 50%, up to a total maximum company matching annual contribution of $10,600. Employees are 100% vested in their pretax contributions at all times and are fully vested in the employer matching contribution when made. Contributions are expensed as incurred and were $2.6 million, $0.6 million, and $1.7 million for the fiscal year ended January 29, 2016, the twelve weeks ended January 30, 2015, and the forty weeks ended November 7, 2014, respectively.

In addition, the Company has two other employee benefit plans for eligible employees. Bluestem participates in a multiemployer retirement plan, Unite Here National Retirement Plan (the "Retirement Plan"). The Retirement Plan is open to eligible union employees at Bluestem's St. Cloud, Minnesota, distribution center. Orchard has a 401(k) Plan which operates on a calendar year basis and is available to all Orchard employees who meet certain eligibility requirements as provided in the plan documents and applicable laws. Company contributions and related expenses for these plans were $1.0 million, $0.1 million, and $0.2 million for the fiscal year ended January 29, 2016, the twelve weeks ended January 30, 2015, and the forty weeks ended November 7, 2014, respectively.

14. Commitments and Contingent Liabilities

Operating Lease Commitments

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

Rent expense is recognized on a straight-line basis over the lease term after consideration of rent escalations and rent holidays. The difference between the straight-line rent amounts and amounts payable under the leases is recorded as deferred rent. The lease term for purposes of the calculation begins on the earlier of the lease commencement date or the date the Company takes possession of the property. Leasehold improvements that are funded by landlord incentives or allowances under an operating lease are recorded as deferred rent and amortized as reductions to rent expense over the lease term.

The Company has operating lease commitments for equipment and facilities that expire on various dates through 2026. Rental expense was $11.6 million, $1.6 million and $4.6 million for the fiscal year ended January 29, 2016, the twelve weeks ended January 30, 2015 and the forty weeks ended November 7, 2014, respectively. Rent expense related to distribution centers and international sourcing is included in cost of goods sold, rent expense for retail stores is included in sales and marketing expenses and all other rent expense is included in general and administrative expenses in the Consolidated Statements of Comprehensive Income.

The Company leases a building for Bluestem's headquarters in Eden Prairie, Minnesota under a lease effective June 1, 2008, with an initial term of 124 months, including a four-month rent holiday. Payments began October 1, 2008 and increase 2% per annum. The Company is responsible for all operating expenses. In May 2015, the Company terminated the lease agreement effective May 31, 2016 and paid a termination fee of $3 million which is included in general and administrative expenses in the Consolidated Statements of Comprehensive Income.

During October 2015, the Company executed a lease agreement effective March 1, 2016 for a new corporate headquarters in Eden Prairie, Minnesota. The lease is for approximately 345,000 square feet with an initial term of 120 months, including a seven-month rent holiday and other lease incentives, with payments beginning on October 1, 2016. Rent expense will be recorded on a straight-line basis over the lease term. The Company is responsible for all operating expenses.

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

In connection with the Orchard acquisition, the Company acquired certain operating lease obligations for retail and office facilities having initial or remaining terms of more than one year. Many of these leases require payment of taxes, maintenance, insurance and certain other operating expenses applicable to leased properties. Rental payments under the terms of some store facility leases include contingent rents based on sales levels and some are the greater of a minimum rental payment or a percentage of the store's gross receipts. The original lease terms under existing arrangements range from one to six years and may or may not include renewal options, rent escalation clauses and landlord leasehold improvement incentives. The resulting rent expense is recorded on a straight-line basis over the lease term, and accordingly, a deferred lease liability of $0.2 million has been recorded at January 29, 2016. In addition, Orchard has lease commitments for various office and warehouse equipment.

Lease Commitments

The Company holds assets under capital lease commitments, principally computer hardware used for corporate data storage, software and equipment, and is obligated under existing capital lease commitments to make future payments, including interest.

The aggregate minimum rental commitments under operating leases and future maturities of capital leases as of January 29, 2016, were as follows (in thousands):

Fiscal Years	Operating	Capital
2016	$ 11,345	$ 2,416
2017	10,805	1,563
2018	9,489	719
2019	7,995	272
2020	7,801	-
Thereafter	22,989	-
Total future minimum lease payments	$ 70,424	$ 4,970
Less: Amount representing Interest		(203)
Present value of future minimum lease payments		$ 4,767

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

Inventory Purchase Commitments

Orchard enters into a number of non-cancelable commitments which, typically, are for less than a year in duration and are principally focused on the procurement of inventory. Preliminary commitments with merchandise vendors typically are made five to twelve months in advance of the planned receipt date. Inventory purchase commitments at January 29, 2016 were approximately $153.4 million.

Indemnities and Guarantees

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

Escheatment Liability

Management has assessed exposure for unclaimed property which has not been remitted to applicable states. The unclaimed property exposure relates primarily to refund checks that have not been cashed by customers. At January 29, 2016, the liability recorded, including interest, amounted to $3.1 million. These amounts are included in accrued costs and other liabilities in the Consolidated Balance Sheets.

Letters of Credit

The Company had $5.2 million and $0.5 million of outstanding letters of credit at January 29, 2016 and January 30, 2015, respectively. Letters of credit are primarily used to support the Company's customs brokerage and worker's compensation insurance.

Telephone Consumer Protection Act

Bluestem Brands, Inc. entered into an agreement to settle certain claims relating to allegations that it failed to comply with certain requirements of the Telephone Consumer Protection Act. A preliminary order approving the settlement was entered by the court in December 2015. The Company recorded a $3.7 million liability and a $1.2 million receivable from a third-party collection company related to the settlement as of January 29, 2016. Final approval of the settlement is expected to occur and Bluestem Brands expects to begin making payments to class members during fiscal year 2016.

Litigation

Bluestem is party to two putative class action lawsuits filed in federal court in the United States alleging violations of various state and federal laws arising from finance charges allegedly included in the price of goods sold under the Fingerhut brand. The named plaintiffs in these cases seek, among other relief, unspecified monetary damages and an order enjoining Bluestem from continuing the allegedly unlawful practices. Bluestem also is a third party defendant in a putative class action lawsuit filed in West Virginia state court alleging violations of various state laws based on the theory that Bluestem is the lender to Fingerhut customers who open credit accounts with WebBank. The named third-party plaintiff in this lawsuit seeks unspecified monetary damages. Each of these putative class action suits is

in its early stages, and the likelihood of any material loss in connection with each case cannot be determined at this time. As a result, no amount was recorded related to any of these matters as of January 29, 2016.

The Company and, former officers, directors and employees of the Company (collectively, the “BBI Parties”) may be subject to potential liability under laws and government regulations, and various pre-petition and post-petition claims, as applicable, and other legal actions that are pending or may be asserted against it. The BBI 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 BBI Parties also receive numerous requests, subpoenas, and orders seeking documents, testimony, and other information in connection with various aspects of their pre-petition and post-petition businesses. In addition, the Company is periodically involved in legal proceedings arising in the ordinary course of business, including, among others, claims relating to collection activities. As of January 29, 2016, 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 legal proceedings, 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, and it is possible that litigation, claims or legal proceedings could have a material adverse effect on its results of operations in any particular period. Legal costs for these matters are expensed as incurred. Predecessor shareholders of Bluestem Brands, Inc. are responsible for certain litigation matters per terms of the agreement dated September 28, 2014, whereby the Company acquired Bluestem on November 7, 2014.

15. Subsequent Events

These financial statements include consideration of subsequent events through April 15, 2016, the date the consolidated financial statements were issued.