Bluestem Group 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 GROUP INC.

6509 Flying Cloud Drive
Eden Prairie, Minnesota 55344

BLUESTEM GROUP INC.

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FORWARD-LOOKING STATEMENTS

This report contains statements that are “forward-looking statements”. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. All statements contained herein that are not clearly historical in nature are forward-looking. In some cases, you can identify these statements by use of forward-looking words, such as “may,” “will,” “should,” “anticipate,” “estimate,” “expect,” “plan,” “believe,” “predict,” “potential,” “project,” “intend,” “could,” or similar expressions. In particular, statements regarding Bluestem Group Inc. and its consolidated subsidiaries’ plans, strategies, prospects, and expectations regarding its business are forward-looking statements. You should be aware that these statements and any other forward-looking statements in this document only reflect Bluestem Group Inc. and its consolidated subsidiaries’ beliefs, assumptions, and expectations and are not guarantees of performance. These statements involve risks, uncertainties, and assumptions. Many of these risks, uncertainties, and assumptions are beyond Bluestem Group Inc. and its consolidated subsidiaries’ control and may cause actual results and performance to differ materially from Bluestem Group Inc. and its consolidated subsidiaries’ expectations. Important factors that could cause our actual results to be materially different from our expectations include the risks and uncertainties set forth below under “Risk Factors”.

Forward-looking statements are based on Bluestem Group Inc. and its consolidated subsidiaries’ beliefs, assumptions and expectations of its future performance, taking into account all information currently available to Bluestem Group Inc. and its consolidated subsidiaries. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to Bluestem Group Inc. and its consolidated subsidiaries or are within its control. If a change occurs, Bluestem Group Inc. and its consolidated subsidiaries’ business, financial condition, and liquidity may vary materially from those expressed in its forward-looking statements.

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

BUSINESS

As used in this report:

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

The Company

Bluestem Group Inc. is a holding company whose businesses include Bluestem, 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 group 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 a private label credit card. Bluestem Group Inc. also includes Commercial Real Estate which is focused on managing a commercial real estate-related business and existing assets, including monetizing these assets when appropriate.

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. Except as described in Note 6, *Serviced Credit Portfolio*, of our Notes to Consolidated Financial Statements, Bluestem sells 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." 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 and the PayCheck Direct receivables, which are not originated by WebBank. Bluestem bears risk of loss due to uncollectibility on Nonstandard Receivables and any existing Standard Receivables not purchased by SCUSA. SCUSA bears risk of loss due to uncollectibility of the Standard Receivables it purchases. Bluestem services the credit accounts and related receivables as WebBank's and/or SCUSA's agent. In consideration of Bluestem'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 Bluestem. See Note 6, *Serviced Credit Portfolio*, of our Notes to Consolidated Financial Statements for more information on SCUSA-owned and Bluestem-owned accounts receivable.

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

On November 7, 2014, a subsidiary of BGI acquired all of the outstanding common shares and voting interests of Bluestem Brands, Inc. for $565 million in cash, subject to various pre-closing and post-closing adjustments. We funded the purchase price and associated transactional expenses with $136 million of cash on hand, $136 million of proceeds from the exercise of Warrants by Centerbridge pursuant to the terms of the Investment Agreement, and a $300 million term loan facility issued by Bluestem (the "Initial Term Loan").

Certain members of Bluestem's management team also provided capital for the transaction through the purchase of our 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 an indirect wholly-owned subsidiary of Bluestem Group Inc. The results of Bluestem Brand, Inc.'s operations have been included in the consolidated financial statements since the date of acquisition.

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

On July 10, 2015, a subsidiary of Bluestem Brands, Inc. acquired all of the outstanding common shares and voting interests of Orchard Brands Corporation, which operates the Orchard Portfolio, for $410 million in cash, subject to various pre-closing and post-closing adjustments. We 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. Orchard Brands Corporation is a Delaware corporation and became an indirect wholly-owned subsidiary of Bluestem Group Inc.

Bluestem operates on a fiscal calendar widely used by the retail industry which results in fiscal years consisting of a 52- or 53-week period ending on the Friday closest to January 31 of the following year. In these consolidated statements, including the notes thereto, financial results are for fiscal years ended January 29, 2016 ("fiscal year 2015") and January 30, 2015 ("fiscal year 2014").

The Company is a Nevada corporation which was incorporated on April 17, 1998 and is headquartered in Eden Prairie, Minnesota. As of January 29, 2016, we had approximately 3,900 employees, including employees of Orchard Brands Corporation. As of January 30, 2015, we had 1,289 employees. Our recent annual reports, quarterly reports, Bluestem Brands, Inc. stand-alone reports and other periodic filings are available free of charge on our website, www.bluestem.com.

Board of Directors and Chief Executive Officer

Steven H. Nave serves as our President and Chief Executive Officer. Our Board of Directors is composed of Charles H. Cremens, Eugene I. Davis, Thomas L. Fairfield, Matthew Kabaker, Thomas F. Maher, Jason Mozingo, Steven H. Nave, Alberto Sanchez, and Scott A. Schroepfer.

Market Information

Our common stock, par value $0.01 per share, is quoted on the over-the-counter market under the symbol "BGRP." American Stock Transfer & Trust Company, LLC, serves as our registrar and transfer agent for our common stock and preferred stock and can be reached at 6201 15th Avenue, Brooklyn, NY 11219, attention: Shareholder Services.

Nature and Extent of Facilities

We lease our corporate headquarters located at 6509 Flying Cloud Drive, Eden Prairie, Minnesota and we lease additional offices in Irvine, California, Middleton, Massachusetts, Mahwah, New Jersey, Hillsboro, Oregon, Horsham, Pennsylvania, Madison, Wisconsin, Kowloon, Hong Kong and Uttar Pradesh, India. We operate the Bluestem Legacy Portfolio out of our corporate headquarters and a second, leased office location in Eden Prairie, Minnesota. We operate warehouse and distribution centers at owned facilities in Eatonton, Georgia and Irvine, Pennsylvania, and a leased facility in St. Cloud, Minnesota. We operate call centers from leased locations in St. Cloud, Minnesota and Eerie, Pennsylvania. In October 2015, we entered into a 10-year lease to move our corporate headquarters to 7075 Flying Cloud Drive, Eden Prairie, Minnesota. We expect the move to be complete in the second quarter of fiscal 2016.

Executive Business Summary

Highlights for fiscal year 2015 were:

- On July 10, 2015, we acquired Orchard Brands Corporation. The operating results of Orchard have been included in our consolidated financial statements since the date of acquisition.
- Effective September 1, 2015, Bluestem and SCUSA amended certain terms of the receivables sales agreement ("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 and/or to retain up to 20% of Standard Receivables on newly originated revolving credit accounts that otherwise would be sold to SCUSA. Bluestem is seeking additional partners to finance the receivables purchasable from SCUSA by Bluestem.
- Effective November 1, 2015, in accordance with the Standard Receivables Sale Agreement between Bluestem and SCUSA, sales of Standard Receivables to SCUSA began being made at a discount to par. The discount rate is determined based on Bluestem's

forecasted risk adjusted margin ("RAM"), with forecasts being updated each January, April, July, October, and at the option of SCUSA, December. In the event that a future RAM forecast predicts RAM to be at or above the applicable percentage, Bluestem will no longer be obligated to apply the discount rate.

- During the fourth quarter of fiscal year 2015, we decided to reposition our Gettington business to focus on selling off-price merchandise to customers using Gettington's proprietary credit decision-making technologies. Off-price merchandise segments are growing faster than general retail and currently do not well serve consumers who want the ability to buy now and pay over time. This new business model is expected to launch during fiscal year 2016 and will continue to operate under the Gettington name. During the fourth quarter of fiscal year 2015, the repositioning resulted in an impairment of $20.2 million of Gettington's tradename and a change in the useful life of Gettington's customer relationships, which resulted in $3.1 million of accelerated amortization.

- Total cash received from asset collections and revenue from commercial real estate-related assets and businesses was $97.5 million. This included $39.8 million from the full redemption of the equity investment in the capital stock of the Federal Home Loan Bank of Seattle ("FHLB") and $34.4 million of distributions from real estate equity and debt funds.

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

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

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

Overview and Basis of Presentation

Bluestem Group Inc. is a holding company whose businesses include Bluestem, 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 group 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. Bluestem Group Inc. also includes Commercial Real Estate which is focused on managing a commercial real estate-related business and existing assets, including monetizing these assets when appropriate.

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

Fingerhut

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

Important drivers of Fingerhut's business performance include growth in new customer credit accounts, average order size, existing customer repurchase rates, the mix of merchandise sold, access to liquidity to finance customer purchases, the overall performance and credit quality of the customer accounts receivable portfolio, and promotional strategies.

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

Orchard

Orchard is a national multi-channel retailer offering apparel, accessories, and home products for women and men principally in the boomer and senior demographic, generally considered age 50 and older. Orchard offers its product assortments through various platforms including online, direct mail, and in retail and outlet stores. The products are offered under the brands Appleseed's, Bedford Fair, Blair, Draper's &

Damon’s, Gold Violin, Haband, LinenSource, Norm Thompson, Old Pueblo Traders, Sahalie, Solutions, Tog Shop, and WinterSilks.

Important drivers of Orchard’s business performance include growth in new customers, average order size, existing customer repurchase rates, the mix of merchandise sold, and promotional strategies.

Orchard has an extensive proprietary database of customer information for over 32 million households, including customer demographics and purchasing history. Orchard is able to design its marketing programs using this information. Marketing strategies are designed to grow lifetime value with customers by using the strength of its brand portfolio to meet more of its customers’ needs. Multiple Orchard brand relationships are fostered through circulation strategies, the design of its web universal cart, and its use of a third-party private label credit platform across all brands. The purchase of Orchard Brands broadened and diversified the customer base and retail capabilities of Bluestem.

Commercial Real Estate

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

Other

As a result of not meeting the quantitative threshold requirements, two smaller operating segments within the Bluestem Legacy Portfolio, Gettington and PayCheck Direct, are included within Other. Other’s sales and expenses primarily relate to Gettington.

Gettington offers a wide assortment of merchandise and recognized brand names with a focus on the online shopping experience with customized payment plans. During the fourth quarter of fiscal 2015, we decided to reposition our Gettington business to focus on selling off-price merchandise to customers using Gettington’s proprietary credit. Off-price merchandise segments are growing faster than general retail and currently do not well serve consumers who want the ability to buy now and pay over time. We believe transitioning the Gettington business to fill this void is a natural fit, allowing us to leverage the existing Gettington retail platform and our 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 and will continue to operate under the Gettington name. As part of repositioning Gettington’s business, we will market merchandise to existing Gettington customers and to a new customer base that is substantially similar to Fingerhut’s customer base.

PayCheck Direct is an employee benefit program that is offered directly through employers or organizations as a voluntary benefit to employees and members. It allows consumers to purchase products with the convenience of paying over 12 months through payroll deductions or automatic bank withdrawals.

Corporate

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

Results of Operations

Consolidated Results of Operations

The following table provides our consolidated results of operations (in thousands):

	Fiscal Years Ended	
	January 29, 2016 [(1)]	January 30, 2015 [(2)]
Net sales and revenue		
Net retail sales	$ 1,720,189	$ 432,392
Commercial real estate revenue:		
Net interest income	2,732	6,609
Net gains on investments available-for-sale	722	15,978
Other noninterest income	19,398	23,505
Total net sales and revenue	**1,743,041**	**478,484**
Costs and expenses		
Retail cost of goods sold	937,841	256,885
Retail sales and marketing expenses	412,234	69,128
Retail net credit expense	64,035	18,011
Commercial real estate operating expenses	2,158	4,901
General and administrative expenses	211,686	85,289
Amortization and depreciation not included in retail cost of goods sold	98,383	21,627
Loss on derivatives in our own equity	183	15,353
Total costs and expenses	**1,726,520**	**471,194**
Operating income	16,521	7,290
Retail interest expense	43,920	7,091
(Loss) income from continuing operations before income tax benefit	**(27,399)**	**199**
Income tax benefit	(41,614)	(69,770)
Income from continuing operations after income tax benefit	**14,215**	**69,969**
Income from discontinued operations, net of tax	-	33,037
Net income	**14,215**	**103,006**
Net loss attributable to noncontrolling interests	-	5,930
Net income attributable to Bluestem Group Inc.	**$ 14,215**	**$ 108,936**
Other comprehensive loss		
Net change in unrealized gains (losses) on investment securities, net of tax	(633)	(737)
Comprehensive income attributable to Bluestem Group Inc.	**$ 13,582**	**$ 108,199**

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(1) Orchard Portfolio results are included for the period from July 10, 2015 through January 29, 2016.

(2) Bluestem Legacy Portfolio results are included for the period from November 7, 2014 through January 30, 2015.

Results of Operations by Segment

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

	Fiscal Year Ended January 29, 2016					
	Fingerhut	Orchard [(1)]	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue						
Net retail sales	$ 1,033,081	$ 535,945	$ -	$ 151,163	$ -	$ 1,720,189
Commercial real estate revenue						
Net interest income	-	-	2,732	-	-	2,732
Net gains on investments available-for-sale	-	-	722	-	-	722
Other noninterest income	-	-	19,398	-	-	19,398
Total net sales and revenue	**1,033,081**	**535,945**	**22,852**	**151,163**	**-**	**1,743,041**
Costs and expenses						
Retail cost of goods sold	584,249	243,280	-	110,312	-	937,841
Retail sales and marketing expenses	189,655	199,561	-	23,018	-	412,234
Retail net credit expense	55,568	-	-	8,467	-	64,035
Commercial real estate operating expenses	-	-	2,158	-	-	2,158
General and administrative expenses	-	56,398	-	-	155,288	211,686
Amortization and depreciation not included in retail cost of goods sold	-	9,550	-	-	88,833	98,383
Loss on derivatives in our own equity	-	-	-	-	183	183
Total costs and expenses	**829,472**	**508,789**	**2,158**	**141,797**	**244,304**	**1,726,520**
Operating income (loss)	**$ 203,609**	**$ 27,156**	**$ 20,694**	**$ 9,366**	**$ (244,304)**	**$ 16,521**

	Fiscal Year Ended January 30, 2015					
	Fingerhut [(2)]	Orchard	Commercial Real Estate	Other [(2)]	Corporate [(2)]	Total
Net sales and revenue						
Net retail sales	$ 382,584	$ -	$ -	$ 49,808	$ -	$ 432,392
Commercial real estate revenue						
Net interest income	-	-	6,609	-	-	6,609
Net gains on investments available-for-sale	-	-	15,978	-	-	15,978
Other noninterest income	-	-	23,505	-	-	23,505
Total net sales and revenue	**382,584**	**-**	**46,092**	**49,808**	**-**	**478,484**
Costs and expenses						
Retail cost of goods sold	218,447	-	-	38,438	-	256,885
Retail sales and marketing expenses	62,669	-	-	6,459	-	69,128
Retail net credit expense	17,075	-	-	936	-	18,011
Commercial real estate operating expenses	-	-	4,901	-	-	4,901
General and administrative expenses	-	-	-	-	85,289	85,289
Amortization and depreciation not included in retail cost of goods sold	-	-	-	-	21,627	21,627
Loss on derivatives in our own equity	-	-	-	-	15,353	15,353
Total costs and expenses	**298,191**	**-**	**4,901**	**45,833**	**122,269**	**471,194**
Operating income (loss)	**$ 84,393**	**$ -**	**$ 41,191**	**$ 3,975**	**$ (122,269)**	**$ 7,290**

[(1)] Orchard Portfolio results are included for the period from July 10, 2015 through January 29, 2016.

[(2)] Bluestem Legacy Portfolio results are included for the period from November 7, 2014 through January 30, 2015.

Fingerhut

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

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

	Fiscal Year Ended January 29, 2016	November 7, 2014 - January 30, 2015
Sales by category:		
Home	$ 441,940	$ 131,050
Entertainment	456,840	194,955
Fashion	187,024	75,333
Total sales	1,085,804	401,338
Returns and allowances	(72,461)	(24,366)
Commissions and other revenue	19,738	5,612
Net retail sales	1,033,081	382,584
Retail cost of goods sold	584,249	218,447
Retail gross profit	$ 448,832	$ 164,137
Retail gross profit percentage	43.4%	42.9%

Net Retail Sales

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

Sales to existing customers for the fiscal year ended January 29, 2016 were driven by our ability to retain customers through the use of television advertising, assortment expansion, catalog mailings, and credit line account management strategies. New customer accounts were acquired through catalog mailings, digital advertising, television and other mass advertising.

Fingerhut filled 4.6 million orders with an average order size of $235 and added approximately 666 thousand new revolving customers and approximately 258 thousand new FreshStart customers for the fiscal year ended January 29, 2016.

Retail Cost of Goods Sold

Retail cost of goods sold of Fingerhut include 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, rent, occupancy costs and depreciation of our distribution center equipment, charges from third-party distribution centers, and estimates of product obsolescence costs.

Retail Sales and Marketing Expenses

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

	Fiscal Year Ended January 29, 2016	November 7, 2014 - January 30, 2015
Catalog direct mail	$ 108,382	$ 35,975
TV and digital marketing	60,353	17,582
Order entry and customer service	17,441	7,061
Premium (free gift with purchase) and other	3,479	2,051
Total retail sales and marketing expenses	$ 189,655	$ 62,669

Fingerhut's retail sales and marketing expenses primarily include catalog circulation costs and television advertising to drive visibility of our website.

Retail Net Credit Expense

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

	Fiscal Year Ended January 29, 2016	November 7, 2014 - January 30, 2015
Credit management costs	$ 73,116	$ 17,962
Provision for doubtful accounts	22,198	9,972
Finance charge and fee income	(3,446)	(3,417)
Servicing fee income and portfolio profit sharing	(36,300)	(7,442)
Retail net credit expense	$ 55,568	$ 17,075
Retail net credit expense as a percentage of average customer accounts receivable [(1)]	4.6%	6.4%

(1) Annualized for period from November 7, 2014 through January 30, 2015

Retail net credit expense includes finance charge and fee income and a provision for doubtful accounts on Company-owned accounts receivable, servicing fee income and portfolio profit sharing from SCUSA owned accounts receivable, and credit management costs on all customer accounts receivable whether owned by the Company or SCUSA. Finance charges are accrued on Company-owned accounts receivable until the account balance is paid or charged off. A late fee is imposed if the customer does not pay at least the minimum payment by the payment due date and continues until the account is over 90 days delinquent. We maintain an allowance for doubtful accounts at a level intended to absorb probable losses in customer accounts receivable owned by the Company as of the balance sheet date. SCUSA bears risk of loss due to uncollectibility of the Standard Receivables they own, as defined in the Liquidity and Capital Resources section. Fingerhut bears risk of loss due to uncollectibility on Nonstandard Receivables, as defined in the Liquidity and Capital Resources section, and any existing Standard Receivables not purchased by SCUSA.

During the fourth quarter of fiscal year 2015, in accordance with the Standard Receivables Sale Agreement between Bluestem and SCUSA, sales of Standard Receivables to SCUSA were made at a discount to par. The cumulative sales discount in the fourth quarter of fiscal 2015 equated to the merchant fee which was based on forecasted RAM for the period from September 1, 2015 through January 31, 2016. The provision for doubtful accounts was charged $12.1 million related to the merchant fee. See *Transfers and Servicing of Financial Assets — Customer Accounts Receivable* in the Liquidity and Capital Resources section for further information.

As of January 29, 2016, total customer accounts receivable were $1.5 billion, of which $58.9 million was Company-owned. As of January 30, 2015, total customer accounts receivable were $1.3 billion, of which $47.0 million was Company-owned. Credit management costs for the total serviced accounts receivable include statement and payment processing, collections, origination fees paid to WebBank, new account application processing, credit bureau processing costs, and customer service costs. Fingerhut receives a servicing fee and shares in a portion of the profits as compensation for servicing customer accounts receivable owned by SCUSA.

Orchard

The results of Orchard's operations have been included in the consolidated financial statements since the acquisition of Orchard on July 10, 2015. Orchard's net retail sales, retail cost of goods sold, and retail gross profit are summarized below (in thousands):

	July 10, 2015 - January 29, 2016
Sales by category:	
Home	$ 54,750
Fashion	531,033
Total sales	585,783
Returns and allowances	(80,866)
Commissions and other revenue	31,028
Net retail sales	535,945
Retail cost of goods sold	243,280
Retail gross profit	$ 292,665
Retail gross profit percentage	54.6%

Net Retail Sales

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

Sales to existing customers for the fiscal year ended January 29, 2016 were driven by our ability to retain customers through the use of a multi-channel marketing approach, utilizing catalog mailings, internet, mobile and our retail stores. The reactivation and acquisition of new customer accounts were attained through visibility to our website generated by catalog mailings, space media and retail stores.

For the period from July 10, 2015 through January 29, 2016, Orchard filled 7.8 million orders with an average order size of $75 and added approximately 973 thousand gross new customers; the gross house file was approximately 7.8 million active customers as of January 29, 2016.

Retail Cost of Goods Sold

Retail cost of goods sold of Orchard includes the cost of merchandise sold (net of vendor rebates, purchase discounts, and estimated returns), shipping and handling costs, inbound freight costs, payroll and benefits for distribution center employees, depreciation of distribution center facilities and assets, and estimates of product obsolescence costs.

Retail Sales and Marketing Expenses

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

	July 10, 2015 - January 29, 2016
Catalog direct mail	$ 156,563
Digital marketing	8,395
Order entry and customer service	15,202
Retail store	7,182
Premium (free gift with purchase) and other	12,219
Total retail sales and marketing expenses	$ 199,561

Orchard's retail sales and marketing expenses primarily consisted of catalog and mail circulation costs.

General and Administrative Expenses

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

	July 10, 2015 - January 29, 2016
Compensation and benefits	$ 40,617
Professional fees	4,058
Rents and occupancy costs	8,233
Other	3,490
Total general and administrative expenses	$ 56,398

Total general and administrative expenses were $56.4 million for the period from July 10, 2015 through January 29, 2016. Compensation and benefit costs include salaries, wages, benefits, incentive-based compensation, and expenses for severance and retention programs. For the period from July 10, 2015 through January 29, 2016, compensation and benefit costs were $40.6 million, including $3.3 million of expense for severance and retention programs. Professional fees consisted of costs for information technology and third-party legal and other professional services. Rents and occupancy costs related primarily to the various office and retail leases as well as the customer service center. Other general and administrative expenses consisted of costs for supplies and postage expense, employee travel and entertainment, and insurance.

Amortization and Depreciation not Included in Retail Costs of Goods Sold

Amortization and depreciation not included in retail cost of goods sold includes depreciation of our property and equipment including purchased and internally developed software, computer hardware, machinery, and equipment; office furniture; and leasehold improvements. For the period from July 10, 2015 through January 29, 2016, amortization and depreciation not included in retail cost of goods sold was $9.6 million.

Commercial Real Estate

Commercial Real Estate Revenue

Total commercial real estate revenue is summarized below (in thousands):

	Fiscal Years Ended	
	January 29, 2016	January 30, 2015
Net interest income	$ 2,732	$ 6,609
Net gains on investments available for sale	722	15,978
Other noninterest income	19,398	23,505
Total commercial real estate revenue	$ 22,852	$ 46,092

Net Interest Income

Net interest income represents the difference between the amount of interest that we earn on our interest-earning assets, primarily investment securities classified as available-for-sale and loans held-for-sale, and the amount of interest that we pay on our interest-bearing liabilities. The following table presents net interest income, by category (in thousands):

	Fiscal Years Ended	
	January 29, 2016	January 30, 2015
Interest income	$ 4,025	$ 8,409
Interest expense	(1,293)	(1,800)
Net interest income	$ 2,732	$ 6,609

During the fiscal years ended January 29, 2016 and January 30, 2015, interest income was driven primarily by $1.8 million and $2.9 million of interest on investment securities classified as available-for-sale, respectively, and $0.5 million and $2.6 million of deferred interest receivable recognized on loans held-for-sale, respectively. Interest income during the fiscal years ended January 29, 2016 and January 30, 2015 also included $1.3 million and $1.8 million, respectively, of interest on loans held-for-sale that we no longer own, but continue to be recognized on our balance sheet because the transfers of these loans to a third party did not qualify as a sale and, therefore, were accounted for as financings. During the fiscal years ended January 29, 2016 and January 30, 2015, interest expense was driven primarily by $1.3 million and $1.8 million, respectively, of related interest on secured borrowings for transactions that were accounted for as financings.

Net Gains on Investments Available-for-Sale

During the fiscal year ended January 30, 2015, net gains on investments available-for-sale primarily included a realized gain related to the payment of interest shortfalls on several tranches of a commercial mortgage backed security and a realized gain related to the redemption of an interest in a collateralized debt obligation, both classified as available-for-sale.

Other Noninterest Income

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

	Fiscal Years Ended	
	January 29, 2016	January 30, 2015
Net gains on loans	$ 6,388	$ 1,720
Other gains, net	3,663	24
Equity in income of joint ventures and partnerships	8,510	15,061
Net real estate investment and other income	837	6,700
Other noninterest income	$ 19,398	$ 23,505

For the fiscal year ended January 29, 2016, other noninterest income consisted of equity in income of joint ventures and partnerships primarily due to $8.5 million of gains on equity investments in real estate funds resulting from increases in the fair value of assets held by these real estate investment funds and joint ventures. Another component of other noninterest income was net gains on loans which included $3.2 million of realized gains on the disposition of loans held-for-sale and $3.0 million of realized gains on loans held-for-sale related to certain partnerships associated with our former new market tax credit ("NMTC") program that met the derecognition criteria. Other noninterest income also included other gains, net which included $4.0 million related to a settlement with a third-party.

For the fiscal year ended January 30, 2015, other noninterest income primarily consisted of equity in income of joint ventures and partnerships primarily due to $12.1 million of gains on equity investments in real estate funds resulting primarily from increases in the fair value of assets held by these real estate investment funds and joint ventures and $3.0 million of gains on other equity investments. Other noninterest income for the fiscal year ended January 30, 2015 included net gains on loans primarily due to $1.3 million of recapture of losses that were recorded at the initial application of fresh-start accounting on loans held-for-sale that we no longer own, but continue to be recognized on our balance sheet because the transfers of these loans to a third party did not qualify as a sale and were accounted for as financings. Other noninterest income for the fiscal year ended January 30, 2015 also included other gains, net which included $1.4 million of net gains recognized on commercial real estate accounts and other receivables related to the collection of an asset that was previously fully reserved, substantially offset by $1.1 million of net losses associated with foreign currency remeasurement adjustments.

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

	Fiscal Years Ended	
	January 29, 2016	January 30, 2015
Professional fees	$ 827	$ 2,740
Compensation and benefits	1,331	2,161
Commercial real estate operating expenses	$ 2,158	$ 4,901

Professional fees for the fiscal years ended January 29, 2016 and January 30, 2015 consisted of legal service fees for litigation and asset transactions. Compensation and benefits for the fiscal years ended January 29, 2016 and January 30, 2015 consisted of salary and benefits costs for asset management-related personnel and incentive compensation for retention programs.

Other

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

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

	Fiscal Year Ended January 29, 2016	November 7, 2014 - January 30, 2015
Sales by category:		
Home	$ 57,064	$ 14,284
Entertainment	80,669	30,208
Fashion	21,049	7,624
Total sales	158,782	52,116
Returns and allowances	(9,906)	(2,852)
Commissions and other revenue	2,287	544
Net retail sales	151,163	49,808
Retail cost of goods sold	110,312	38,438
Retail gross profit	$ 40,851	$ 11,370
Retail gross profit percentage	27.0%	22.8%

Net Retail Sales
Net retail sales of Other include sales of merchandise, shipping and handling revenue, and commissions earned from third parties that market their products to our customers. Net retail sales of Other primarily relate to the Gettington business driven mainly by sales to existing customers. Merchandise sales and shipping and handling revenue are recorded at the estimated time of delivery to the customer. Merchandise sales are reported net of discounts and estimated sales returns, and exclude sales taxes.

Retail Cost of Goods Sold
Retail cost of goods sold of Other includes the cost of merchandise sold (net of vendor rebates, purchase discounts, and estimated returns), shipping and handling costs, inbound freight costs, payroll and benefits for distribution center employees, rent, occupancy costs, depreciation of our distribution center equipment, charges from third-party distribution centers, and estimates of product obsolescence costs.

Retail Sales and Marketing Expenses

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

	Fiscal Year Ended January 29, 2016	November 7, 2014 - January 30, 2015
Catalog direct mail	$ 14,656	$ 3,387
TV and digital marketing	3,055	1,446
Order entry and customer service	2,145	475
Premium (free gift with purchase) and other	3,162	1,151
Total retail sales and marketing expenses	$ 23,018	$ 6,459

Consistent with the Gettington business transition, we began reducing new customer account catalog mailings and digital marketing programs in December 2015.

Retail Net Credit Expense

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

	Fiscal Year Ended January 29, 2016	November 7, 2014 - January 30, 2015
Credit management costs	$ 5,017	$ 1,075
Provision for doubtful accounts	6,372	539
Finance charge and fee income	31	(19)
Servicing fee income and portfolio profit sharing	(2,953)	(659)
Retail net credit expense	$ 8,467	$ 936
Retail net credit expense as a percentage of average customer accounts receivable [1]	7.2%	3.9%

[1] Annualized for period from November 7, 2014 through January 30, 2015

Other's credit management costs, finance charge and fee income, and servicing fee income and portfolio profit sharing primarily relate to Gettington. Other's provision for doubtful accounts relates primarily to our PayCheck Direct business as all PayCheck Direct customer accounts receivable are owned by Bluestem.

Corporate

Corporate includes select operating expenses for the Fingerhut, Commercial Real Estate, and Other consist of general and administrative expenses, amortization and depreciation not included in retail cost of goods sold, and loss on derivatives in our own equity.

General and Administrative Expenses

These expenses primarily consist of unallocated compensation and benefit costs for corporate and administrative employees, including information technology, legal, human resources, finance, merchandising, supervision of credit servicing, executive leadership, and sales and marketing management; professional fees for investment and acquisition transactions, legal, accounting, and other service providers; occupancy costs of corporate offices; insurance; maintenance; and other overhead costs.

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

	Fiscal Year Ended	
	January 29, 2016	January 30, 2015
Compensation and benefits	$ 93,507	$ 29,976
Professional fees	34,664	46,041
Rents and occupancy costs	16,930	5,533
Other	10,187	3,739
Total general and administrative expenses	$ 155,288	$ 85,289

Compensation and benefit costs include salaries, wages, benefits, and incentive-based compensation. For the fiscal year ended January 29, 2016, salaries, wages, and benefit costs were $75.5 million. The incentive-based compensation expense of $18.0 million included $3.7 million for stock-based compensation and $1.3 million of expense for retention programs for the fiscal year ended January 29, 2016. For the fiscal year ended January 30, 2015, salaries, wages and benefit costs were $21.4 million. The incentive-based compensation expense of $8.6 million included $2.5 million for stock-based compensation expense and $0.2 million of expense for retention programs for the fiscal year ended January 30, 2015.

Professional fees for the fiscal year ended January 29, 2016 included $8.4 million of costs associated with our acquisition of Orchard and $2.4 million of integration costs; third-party audit, tax, and legal expenses of $6.9 million; credit collection consulting expenses of $2.9 million; and information technology expenses of $2.6 million. Professional fees included in general and administrative expenses for the fiscal year ended January 30, 2015 included $20.1 million of stock-based compensation expense associated with Centerbridge's exercise of 33.9 million Warrants in connection with the Bluestem Brands, Inc. acquisition. The Warrants had a performance commitment which was satisfied with the Bluestem Brands, Inc. acquisition. Professional fees also included $9.9 million of costs associated with the acquisition of Bluestem and $5.7 million of costs associated with the Investment Agreement.

See Note 4, *Business Combinations*, of our Notes to Consolidated Financial Statements for further discussion on our recent acquisitions.

Amortization and Depreciation not Included in Retail Costs of Goods Sold

Amortization and depreciation expenses not included in retail cost of goods sold include amortization of our customer relationship intangible assets; depreciation of our property and equipment including purchased and internally developed software, computer hardware, machinery, and equipment; office furniture; property under capital lease; leasehold improvements; and impairment of indefinite-lived assets. For the fiscal year ended January 29, 2016, Corporate's amortization and depreciation expenses not included in retail cost of goods sold were $88.8 million and primarily consisted of $51.9 million of amortization of our customer relationships intangible assets acquired in connection with the Bluestem acquisition and acceleration of amortization due to a change in the useful life of Gettington's customer relationships as a result of repositioning the Gettington business. These assets have estimated useful lives up to six years and are amortized using an accelerated amortization method to match the pattern in which the economic benefits of the assets are expected to be realized.

We assess 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 fully recoverable. The impairment test for indefinite-lived intangible assets consists of a comparison of the fair value of the intangible asset with its carrying value. The fair value of indefinite-lived intangible assets is determined using the relief from royalty approach. Estimating the fair value is judgmental in nature, involves the use of significant estimates and assumptions which could have a significant impact on whether or not an impairment charge is recognized and the magnitude of any such charge. The Gettington tradename had a carrying value which exceeded the estimated fair value of the asset at the date of the most recent impairment test. During the fiscal year ended January 29, 2016, we recorded an impairment charge of $20.2 million on our Gettington tradename which was primarily due to the decision to reposition the business to focus on off-price merchandise to customers using Gettington's proprietary credit.

For the period from November 7, 2014 through January 30, 2015, amortization and depreciation not included in retail cost of goods sold was $21.6 million and primarily consisted of $18.3 million of amortization of our customer relationships intangible asset acquired in connection with the Bluestem acquisition.

Loss on Derivatives in Our Own Equity

Loss from derivatives in our own equity reflects the recognition and subsequent changes in the estimated fair value of the outstanding Warrants that meet the definition of a derivative as the Warrants do not meet the criteria necessary to be considered indexed to the Company's own stock. As of January 29, 2016, Warrants to acquire 9.1 million shares of common stock remain outstanding. The derivative liability is recorded at the estimated fair value of the Warrants. Changes in fair value of the derivative liability are reflected in the Consolidated Statements of Comprehensive Income as gains or losses from derivatives in our own equity. For the fiscal year ended January 29, 2016, losses of $0.2 million were recorded primarily due to the increase in value of equity due to acquisition of Orchard partially offset by the impact of the impairment recognized due to our decision to reposition our Gettington business. As of January 29, 2016, the derivative liability in our own equity was $15.5 million. For the fiscal year ended January 30, 2015, a loss from derivatives in our own equity and a derivative liability of $15.4 million was recorded due to the acquisition of Bluestem.

Retail Interest Expense

Retail interest expense (net of interest income) was $43.9 million for the fiscal year ended January 29, 2016 and $7.1 million for the period from the November 7, 2014 through January 30, 2015. Retail interest expense relates primarily to the Term Loan facility entered into in conjunction with the acquisitions of Bluestem and Orchard, and the Asset Backed Line of Credit. Weighted-average borrowings outstanding as of January 29, 2016, were $462.8 million with a weighted-average interest rate of 8.24%. Weighted-average borrowings outstanding as of January 30, 2015, were $300.5 million with a weighted-average interest rate of 8.33%. See the *"Liquidity and Capital Resources"* section below for additional information.

Income Tax Benefit

For the fiscal year ended January 29, 2016, a $41.6 million income tax benefit was recognized on $27.4 million of loss from continuing operations before income taxes. The income tax benefits were primarily discrete tax adjustments including $35.0 million for the release of our net operating loss deferred asset valuation allowance on the business combination of Orchard Brands and $7.6 million for the impairment of indefinite-lived intangible assets related to the past acquisition of Bluestem. The tax benefit was partially offset by $0.9 million tax expense for current and prior year state and foreign liabilities. Based on our historical and cumulative losses, a tax benefit was recognized only for discrete items and not for the net loss for the fiscal year ended January 29, 2016.

For the fiscal year ended January 30, 2015, our provision for taxes was a benefit of $69.8 million which included favorable discrete items. The discrete tax benefit items included $70.1 million from utilization of our net operating loss and capital loss carryforwards and other releases of our deferred asset valuation allowance. In addition, an $18.6 million benefit was recorded for adjustments to uncertain state tax positions. The tax benefits were partially offset by $17.9 million of tax expense from nondeductible stock transaction expenses and losses from derivatives in our own equity. Based on the Company's historical and cumulative tax losses, a tax benefit for carryforwards offsetting future income was not recognized for the year ended January 30, 2015.

Tax benefits from net operating loss carryforwards are limited to current year income and temporary differences expected to generate future taxable income. Tax benefits from carryforwards offsetting additional income beyond the current year may be recognized in the future which could be material.

Discontinued Operations

On September 30, 2014, we closed the transactions contemplated by the Restructuring and Settlement Agreement ("Ambac RSA") between the Company and Ambac Assurance Corporation ("Ambac") relating to certain low-income housing tax credit ("LIHTC") funds for which Ambac issued surety bonds to investors ("Ambac Funds"). On October 14, 2014, we closed the transactions contemplated by the agreement with Hunt Companies, Inc. and its affiliate to restructure certain guaranteed LIHTC funds for which JP Morgan Chase Bank, N.A. and certain of its affiliates were the investors ("JPM Funds") and settle the claims related to the JPM Funds in our bankruptcy. Following the completion of these transactions we no longer had any material LIHTC-related assets or liabilities.

Income from discontinued operations of $33.0 million for the fiscal year ended January 30, 2015, is primarily due to the gain on the sale of discontinued operations assets of $35.5 million from the closing of the Ambac RSA and the related subsequent asset sale related to the Ambac Funds, partially offset by approximately $4.4 million of fees and expenses related to the Ambac RSA and subsequent asset sale.

Noncontrolling Interests

The net loss attributable to noncontrolling interests of $5.9 million for the fiscal year ended January 30, 2015 was due primarily to the portion of the loss attributable to third-party investors in certain LIHTC partnerships that were consolidated under applicable accounting guidance. There were no noncontrolling interests for of the fiscal year ended January 29, 2016.

Liquidity and Capital Resources

As of January 29, 2016, we had $208.5 million in total cash and cash equivalents (including $8.9 million credit card receivables due from third-party financial institutions and $22.6 million restricted cash) on hand. Our primary sources of liquidity are (1) proceeds from the sales of customer accounts receivables to SCUSA, (2) cash flows from operations, (3) available capacity on our Asset Backed Line of Credit, (4) cash on hand, (5) distributions received from our real estate related equity investments, and (6) collections on and sales of other assets in our portfolio.

Our retail operations require a significant amount of capital to grow and fund operations. Ensuring adequate liquidity is, and will continue to be, at the forefront of our business objectives. Our primary uses of cash are purchases of inventory, purchases and production of promotional materials and other general working capital needs. A majority of Bluestem Legacy Portfolio's retail sales occur on revolving customer credit accounts. We sell all of the eligible Fingerhut and Gettington revolving customer accounts receivable to SCUSA on the day we purchase the customer accounts receivable from WebBank. As a result, working capital is improved due to the quicker turn around than if those accounts receivable were held. We utilize working capital to fund receivables for FreshStart, PayCheck Direct, and other receivables that are not sold to SCUSA. Growth in PayCheck Direct and other strategies including the repositioning of the Gettington brand may increase the use of working capital to fund growth. We may pursue funding alternatives for receivables not sold to SCUSA. Orchard offers its customers financing through its private label credit cards, which are issued and managed by a third-party bank. Approximately, 17% of Orchard's sales occur on these cards, resulting in a short-term use of working capital until the receivables are collected, typically within five business days or less. Orchard's remaining sales primarily occur on third-party debit and credit cards in which the cash is typically received within three to five business days. We actively manage payable terms with vendors in an effort to achieve a cost-effective balance between discounts and working capital.

The Bluestem Legacy Portfolio's cash requirements are seasonal, with peak needs occurring from September through November as marketing efforts increase and inventory grows in advance of the holiday season. The Orchard Portfolio's cash requirements are also seasonal in nature, peaking in the first and third quarters due to the purchase of inventory and the production of promotional materials in advance of the Spring and Fall seasons. During these peaks, we increase utilization of our Asset Backed Line of Credit. Availability is dependent on eligible collateral for the borrowing base and outstanding borrowings. The borrowing base is primarily comprised of inventory and other non-customer receivables.

Additional cash requirements relate to debt service for the term loan, capital investments in our business and other general working capital needs. Excess Cash Flow (as defined in the Term Loan agreement) is used to paydown our Term Loan and we also may use cash to prepay amounts payable under our Asset Backed Line of Credit. We do not anticipate making dividends to stockholders in the near future.

On March 28, 2016, the Board of Directors authorized the repurchase of up to 4.5 million shares of its outstanding common stock in one or more transactions occurring on or prior to March 28, 2017. The Company expects to finance the purchases with existing cash on-hand. Shares of common stock acquired through the repurchase authorization will be retired and restored to the status of authorized and unissued shares. The repurchase authorization may be suspended or discontinued at any time.

During fiscal year 2015, we received $97.5 million of proceeds from Commercial Real Estate assets. We do not have any debt service needs at the BGI Holding Company and use the cash for Commercial Real Estate operating, general, and administrative expenses. Cash flows from Commercial Real Estate are dependent, in part, on our ability to monetize assets, as well as on the changes in the values of our real estate-related assets, which impact the levels of net gains or losses and interest income that we recognize. The gains or losses realized on sales of assets and the interest income generated on interest-earning assets are subject to various factors. These factors include changes in the interest rate environment, commercial real estate prices, the level of supply and demand for commercial real estate and real estate-related investments, and the condition of local and national economies.

Excess cash is invested approximately 50% in domestic or dollar-denominated foreign commercial paper and approximately 50% in money market funds. We purchase money market funds which invest in U.S. dollar-denominated money market securities of domestic and foreign issues rated in the highest categories or in diversified portfolios of high quality, short-term dollar-denominated debt securities issued or guaranteed by the U.S. government or its agencies.

We believe our sources of liquidity will be sufficient to meet our liquidity needs over the next 12 months, including our working capital, capital expenditures, and debt service needs.

Sources and Uses of Cash

The following table represents a comparison of the net cash provided by operating activities, investing activities, and financing activities (in thousands):

	Fiscal Years Ended	
	January 29, 2016	**January 30, 2015**
Continuing Operations		
Net cash provided by operating activities	$ 95,173	$ 99,050
Net cash used in investing activities	$ (343,891)	$ (408,727)
Net cash provided by financing activities	$ 180,620	$ 335,340

Operating cash flows resulted primarily from sales of products to our customers offset by cash payments for purchases of inventories, purchases and production of promotional materials, employee compensation, credit management costs, operating leases, interest payments on our debt obligations, and general working capital needs. The decrease in cash provided by operating activities in fiscal year 2015 compared to fiscal year 2014 was primarily due to decreased income from continuing operations and an increase in working capital. The increase in working capital was due primarily to the acquisition of Orchard and growth in the Bluestem Legacy Portfolio.

Investing cash flows resulted primarily from purchases of customer accounts receivable from WebBank, the acquisition of Orchard, and purchases of property and equipment, offset by proceeds from sales of our customer accounts receivable to SCUSA. The decrease in cash used for investing activities in fiscal year 2015 compared to fiscal year 2014 was primarily due to decreased cash spent on acquisitions partially offset by increased investments in software.

Financing cash flows resulted primarily from proceeds from the issuance of Incremental Loans under the Term Loan (as defined below in *"Debt and Financing Arrangements"* section) and proceeds of borrowings on our Asset Backed Line of Credit as part of the Orchard acquisition, offset by payments on the outstanding Term Loan balances and a decrease in collateralized borrowings due to certain NMTC partnerships that met the derocognition criteria. The decrease in cash provided by financing activities in fiscal year 2015 compared to fiscal year 2014 was primarily due to lower borrowings of debt as a result of decreased cash spent on acquisitions.

Transfers and Servicing of Financial Assets — Customer Accounts Receivable

Bluestem is a party to a series of transactions with WebBank and SCUSA related to revolving Fingerhut and Gettington customer accounts receivable. 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. See Note 6, *Serviced Credit Portfolio,* of our Notes to Consolidated Financial Statements for a description of our agreements with WebBank and SCUSA (collectively the "A/R Program Agreements").

Effective September 1, 2015, Bluestem and SCUSA amended certain terms of the Standard Receivables Sale Agreement. The amendments included changes to the annual profit sharing splits between the Bluestem and SCUSA and modifications to SCUSA's exclusivity rights, which permit Bluestem, at Bluestem's option, to purchase from SCUSA on a one-time basis up to 9.99% of the SCUSA-owned accounts receivable and/or to retain up to 20% of Standard Receivables on newly originated revolving credit accounts that otherwise would be sold to SCUSA. In the first quarter of fiscal year 2016, Bluestem began the process of identifying additional potential partners to diversify its sources of receivables funding with the receivables that Bluestem has an option to purchase from SCUSA pursuant to the September 1, 2015 amendment providing a possible initial portfolio for a funding diversification transaction.

On October 29, 2015, SCUSA announced that it reclassified its personal loan portfolio as "held for sale", which included the Standard Receivables SCUSA has purchased from Bluestem under the Standard Receivables Sales Agreement. SCUSA remains obligated to purchase Standard Receivables from Bluestem in accordance with the terms of the Standard Receivables Agreement, and Bluestem maintains a consent right over any assignment by SCUSA of SCUSA's forward purchase obligation under the Standard Receivables Sales Agreement. The term of the Standard Receivables Sales Agreement for the forward purchase of Standard Receivables by SCUSA and servicing of Standard Receivables by Bluestem extends into 2020, and Bluestem may, in its sole discretion, extend the term of the Standard Receivables Sales Agreement through April 19, 2022, and the agreement automatically renews for additional two-year terms thereafter unless terminated by either party. As part of the process of seeking to find additional receivables funding partners for Bluestem discussed above, Bluestem and SCUSA are cooperating to find potential purchasers for the Bluestem receivables portfolio owned by SCUSA.

During the fourth quarter of fiscal year 2015, in accordance with the Standard Receivables Sale Agreement between Bluestem and SCUSA, sales of Standard Receivables to SCUSA were made at a discount to par. The Standard Receivables Sale Agreement states if the 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 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. The average merchant discount was 2.54% for sales of Standard Receivables between November 1, 2015 and January 29, 2016. 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 merchant fee was based on forecasted RAM for the period from September 1, 2015 through January 31, 2016.

Debt and Financing Arrangements

Term Loan

On November 7, 2014, Bluestem entered into a $300 million Initial Term Loan with a syndication of investors which matures on November 7, 2020. Proceeds from the Initial Term Loan were used to finance the purchase of Bluestem. See Note 4, *Business Combinations,* of our Notes to Consolidated Financial Statements for further information.

On July 10, 2015, Bluestem entered into the First Amendment and Incremental Agreement to the Term Loan and borrowed an incremental $280 million. There were no changes to the payment terms, interest rate or financial covenants in connection with the Incremental Loans, except Orchard's results are now included in the calculation of minimum liquidity and total leverage ratio and the quarterly principal payments increased from $3.8 million to $7.5 million. Proceeds from the Incremental Loans were used to finance the purchase of Orchard. See Note 4, *Business Combinations,* of our Notes to Consolidated Financial Statements for further information.

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

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. The final principal payment may be reduced by the excess cash flow mandatory prepayment which is calculated at the end of each fiscal year. In addition, Bluestem is obligated to make mandatory prepayments of principal on an annual basis under certain circumstances. The Term Loan is secured by a first lien on unencumbered Bluestem property and equipment and a second lien on Bluestem's inventory and customer accounts receivable not otherwise pledged or sold. Bluestem is subject to minimum liquidity and leverage ratio financial covenants under the Term Loan. Failure to comply with these financial covenants is an event of default, subject to certain cure rights. As of January 29, 2016, the outstanding balance of the Term Loan was $536.7 million and no excess cash flow payment was due. Bluestem was in compliance with all financial covenants as of January 29, 2016. See Note 11, *Debt and Other Financing*, of our Notes to Consolidated Financial Statements for additional information on our secured borrowing.

Asset Backed Line of Credit

Bluestem has an Asset Backed Line of Credit, as amended on July 10, 2015, 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.

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 applicable margin is subject to adjustment based on the historical excess availability under the Asset Backed Line of Credit.

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. Any increase in commitments or incremental term loans will be subject to certain conditions and 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.

The Asset Backed Line of Credit contains a financial covenant requiring minimum liquidity of $40.0 million on the last day of each fiscal month, which is based on Bluestem's stand-alone financial results. As of January 29, 2016, Bluestem was in compliance with all provisions of the Asset Backed Line of Credit Agreement. See Note 11, *Debt and Other Financing*, of our Notes to Consolidated Financial Statements for additional information on our Asset Backed Line of Credit.

As of January 29, 2016, outstanding borrowings on the Asset Backed Line of Credit were $20.8 million and $115.4 million was available. We 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.

Contractual Obligations and Commitments

The following table summarizes our material contractual cash obligations and commitments as of January 29, 2016:

	Payments due by Period (in thousands)				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**
Recorded contractual obligations:					
Term Loan [1]……	$ 632,597	$ 30,042	$ 60,084	$ 542,471	$ -
Asset Backed Line of Credit……	20,790	20,790	-	-	-
Capital lease obligations……	4,970	2,416	2,282	272	-
Unrecorded contractual obligations:					
Commitments to provide equity to equity method investees……	15,020	7,170	7,850	-	-
Estimated Term Loan interest payments……	183,364	46,010	78,074	59,280	-
Operating lease obligations……	70,864	11,654	20,425	15,796	22,989
Letters of credit……	5,238	5,238	-	-	-
Inventory purchase commitments [2]……	140,801	140,801	-	-	-
Total……	$ 1,073,644	$ 264,121	$ 168,715	$ 617,819	$ 22,989

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(1) The Term Loan is subject to mandatory prepayments of annual excess cash flow as defined in the Term Loan Agreement.

(2) The Orchard Portfolio enters into a number of non-cancelable inventory purchase commitments. See Note 20, *Commitments and Contingent Liabilities,* of our Notes to Consolidated Financial Statements for further discussion.

Off-Balance-Sheet Arrangements

Information regarding derivative liabilities in our own equity is included in Note 17, *Fair Value of Assets and Liabilities* and Note 18, *Stock-Based Compensation* of our Notes to Consolidated Financial Statements. We do not have any guarantee contracts, contingent interest in assets transferred, or variable interest entities that qualify as off-balance-sheet arrangements.

Risk Factors

The Company’s business, operations and financial condition are subject to various risks and uncertainties. The following are the significant factors that may adversely affect the Company’s business, operations, financial performance and condition.

Risks Related to our Bluestem Business

Substantially all of the Bluestem Legacy Portfolio’s sales are made on credit, and we are dependent upon the availability of a single third party financial institution to issue credit accounts to our Fingerhut and Gettington customers.

We have agreements with WebBank that permit our Fingerhut and Gettington customers to establish credit accounts that may be used exclusively to purchase products and services from us. Approximately 70% of our total net sales for our 2015 fiscal year were originated by credit extended through WebBank, and therefore, we are dependent on WebBank to provide financing for a substantial portion of our sales. Under our agreements with WebBank, we are responsible for marketing credit programs and products, applying WebBank’s underwriting criteria and ongoing administration of the credit programs and products. In that regard, we are required to process all applications for credit accounts, determine whether WebBank’s eligibility criteria are satisfied, and perform certain administrative, processing, custodial, and collection services. We are also required to purchase from WebBank our customers’ accounts receivable after a contractual holding period, generally three business days while WebBank retains full ownership of all accounts. If we fail to perform these obligations or otherwise are in default under our agreements with WebBank, it can, among other things, terminate our agreements and stop lending to our Fingerhut and Gettington customers.

WebBank is itself exposed to liquidity, financial, operating, and regulatory risks that may adversely affect its ability to fulfill its obligations to us and to meet our needs, particularly issuing credit accounts to our Fingerhut and Gettington customers at levels necessary to operate these businesses profitably or to grow the businesses, and to meet the needs of our customers. Should WebBank refuse, become unable, limit availability, or otherwise cease to provide credit to some or all of our Fingerhut or Gettington customers, we may not be able to find replacements for WebBank. This is complicated by the very small pool of financial institutions which we believe might be able and willing to meet the credit needs of our customers. Because we do not have a bank charter, our ability to extend credit, other than through agreements with WebBank or another replacement financial institution, is limited unless we were to become licensed in certain states. If we are unable to extend or execute new agreements with WebBank at the expiration of our current agreements, or if our existing or new agreements with WebBank were terminated or otherwise disrupted, there is a risk that we would not be able to enter into agreements with an alternate provider on terms that we consider favorable or in a timely manner without disruption of our business.

We are party to a backup credit issuer agreement with Mid America Bank and Trust Company ("Mid America"), pursuant to which Mid America has agreed to issue credit accounts to our Fingerhut and Gettington customers if our agreements with WebBank terminate. However, any transition to working with Mid America as credit issuer for our customers could result in significant disruption to our business, and operating with Mid America as credit issuer for our Fingerhut and Gettington customers would involve similar risks to our current arrangements with WebBank.

Any of the above adverse events, including our failure to perform under or termination of agreements with WebBank, transition of credit issuance for our Fingerhut and Gettington customers to Mid America or another credit issuer, or adverse regulatory actions could materially and adversely impact our business and results of operations.

We sell substantially all revolving credit receivables originated by WebBank to SCUSA, and we are dependent upon purchase of these receivables by SCUSA as our principal source of cash flow and liquidity.

Pursuant to agreements with SCUSA, SCUSA purchases substantially all revolving credit receivables and related collections that we obtain from WebBank and SCUSA becomes the sole owner of such receivables for all purposes. The loss or material reduction of the SCUSA purchase commitment, or any material increase in the cost of such relationship would materially and adversely affect our ability to support the purchase by our customers of our merchandise under the credit accounts provided by WebBank, our ability to purchase inventory to sell to our customers, our ability to meet our cash flow needs, and our results of operations.

A loss or material reduction of the SCUSA purchase commitment would cause Bluestem Brands to remain the owner of any receivables purchased from WebBank, with direct responsibility for the related collections. To the extent Bluestem Brands maintains ownership of the receivables, Bluestem Brands would no longer benefit from the receipt of upfront cash at the time of sale and would bear the resulting account collection risk over the life of the receivable in addition to having to self-fund customer receivables to maintain growth. As of January 29, 2016, we had $208.5 million in total cash and cash equivalents (including $8.9 million credit card receivables due from third-party financial institutions and $22.6 million restricted cash) on hand.

We have been retained by SCUSA to act as the servicer of its receivables. Our services are detailed in our agreements, and we are obligated to undertake services in accordance with service level standards and other consumer-facing and servicing materials approved by WebBank and SCUSA. SCUSA has retained the right to enter into a loan or securitization with respect to the receivables that it purchases, and we have certain obligations to cooperate with SCUSA with respect to any such securitization that may be pursued in the future, which may result in increased demands on time and resources and negotiation and execution of certain amendments to related agreements.

In October 2015, SCUSA announced that it had reclassified its entire personal loan portfolio, including the Bluestem receivables owned by SCUSA, as "held for sale." Bluestem's current agreement with SCUSA has an initial term that expires in April 2020 and the term may be extended through April 2022 at Bluestem's sole discretion. Although SCUSA has informed the Company that it intends to continue to perform in accordance with the terms and provisions of the current agreement with Bluestem, Bluestem expects that it will need to find an alternative receivables financing partner upon the expiration or termination of the current agreement with SCUSA, and Bluestem is in the process of seeking to identify other potential receivables financing partners. The Company cannot assure you that it will be able to conclude a transaction with any such alternative partner.

Our agreements with SCUSA and WebBank are interdependent and a material reduction or termination of either SCUSA or WebBank's participation may lead to a similar determination by the other party.

Because of the interdependence among our agreements with SCUSA and WebBank, a material modification or termination of our arrangements with WebBank could materially adversely affect our ability to maintain our relationship and level of activity with SCUSA. If WebBank determined to materially reduce or terminate its role in originating receivables for Bluestem Brands, then it would be necessary for Bluestem Brands to engage a replacement originator in order to maintain the SCUSA relationship.

Under our agreements with WebBank and SCUSA, we undertake substantial commitments to comply with, or are affected significantly by, the regulatory regimes affecting consumer credit and the operations of banks and other financial institutions such as WebBank and SCUSA.

Our operations, and the operations of WebBank and SCUSA, are or may be subject to the jurisdiction of federal, state, and local government authorities, including the Consumer Financial Protection Bureau (the "Bureau"), the Securities and Exchange Commission, the FDIC, the Office of the Comptroller of the Currency, the Federal Trade Commission (the "FTC"), state regulators having jurisdiction over financial institutions and debt origination and collection, and state attorneys general. Because we act as a service provider to WebBank and SCUSA, our business practices, including the terms of our marketing, servicing, and collection practices, may be subject to both periodic and special reviews by these regulatory and enforcement authorities. These reviews could range from investigations of specific consumer complaints or concerns to broader inquiries into our practices generally. For example, on January 19, 2016, Bluestem received a Civil Investigative Demand (the "CID") from the Bureau related to debt collection and the selling of debt portfolios. If, as part of the CID or any other reviews, the regulatory authorities conclude that we are not complying with applicable law, they could request or impose a wide range of remedies including requiring changes in advertising and collection practices, changes in the terms of our products (such as decreases in interest rates or fees), the imposition of fines or penalties, or the paying of restitution or the taking of other remedial action with respect to affected customers. They also could require us to stop offering some of our products, either nationally or in selected states. In addition, an action by regulators may give rise to a right of termination by WebBank and SCUSA under our agreements.

To the extent that these remedies are imposed on WebBank or SCUSA, under certain circumstances, we are responsible for the remedies as a result of our indemnification obligations with WebBank and SCUSA. We also may elect to change practices or products that we believe are compliant with law in order to respond to regulatory concerns, although a change in our policies and practices may be subject to prior approval by WebBank and SCUSA. Furthermore, negative publicity relating to any specific inquiry or investigation could hurt our ability to conduct business with various industry participants or to attract new customers and could negatively affect our stock price, which would adversely affect our ability to raise additional capital and would raise our costs of doing business. If any deficiencies or violations of law or regulations are identified by us or asserted by any regulator, or if any regulator requires us to change any of our practices, the correction of such deficiencies or violations, or the making of such changes, could have a material adverse effect on our financial condition, results of operations, or business. We face the risk that restrictions or limitations resulting from the enactment, change, or interpretation of laws and regulations could negatively affect our business activities or effectively eliminate some of the credit products currently offered to our customers. In addition, whether or not we modify our practices when a regulatory or enforcement authority requests or requires that we do so, there is a risk that we or other industry participants may be named as defendants in litigation involving alleged violations of federal and state laws and regulations, including consumer protection laws. Any failure to comply with legal requirements by us, WebBank, or SCUSA in connection with the issuance of those products, or by us or our agents as the servicer of accounts and receivables, could significantly impair our ability to collect the full amount of outstanding receivable balances. The institution of any litigation of this nature, or any judgment against us or any other industry participant in any litigation of this nature, could adversely affect our business and financial condition in a variety of ways.

We have agreed to perform many functions related to making credit available to our customers under our agreements with WebBank, subject to the oversight of WebBank and its regulators, including maintaining compliance with certain applicable laws, sourcing prospective borrowers, applying WebBank's underwriting criteria for new applicants, setting up account files, and maintaining bookkeeping. As a result, we may be liable to WebBank, or our agreements with it may be subject to termination, in the case of violations of such laws. Moreover, our dependence on WebBank exposes us to the risks related to the failure by WebBank to materially comply with legal or regulatory requirements.

Consumer credit protection laws and regulations regularly undergo significant changes and continue to develop as the Dodd-Frank Act continues to be implemented. For example, the Bureau has begun to impose more oversight over credit issuers, collection activity, the sale of debt, and credit bureau reporting. State regulators such as the New York State Department of Financial Services have also begun to impose more oversight and issue more regulatory requirements over collection activity and the sale of debt. Litigation under the Telephone Consumer Protection Act (the "TCPA") has increased rapidly, exposing us to the increased costs of litigating and settling TCPA claims. The Bureau has also announced that it is considering banning arbitration provisions in consumer financing agreements under certain circumstances. These provisions can prevent the Company from defending class action lawsuits under the TCPA and other laws in some cases. These changes, as well as new regulations and guidance issued by federal and state authorities from time to time, can have significant effects and may change interpretation of existing laws and rules and regulations, some of which may be materially adverse, on our product offerings, services, and results of operations.

We are party to a putative class action lawsuit alleging that we are the lender-in-fact to our Fingerhut customers and we are in violation of several state laws governing consumer credit. If this lawsuit, or any similar suit in the future, results in our arrangements with WebBank being disregarded, the receivables we purchased from WebBank could be unenforceable, and we could be required to make changes to our current business practices that could materially and adversely affect our financial condition, results of operations and prospects.

The laws of many states require entities that engage in consumer credit-related activities to be licensed and, in some cases, examined by state regulators. As a result of federal preemption, WebBank and other similar chartered financial institutions subject to federal law may extend credit without complying with many state laws, including rate and fee limitations of states other than those from which the credit issuer extends credit. We are not chartered as a financial institution, we are not licensed to extend credit to our customers in any state, and we rely on WebBank to extend credit to our customers nationwide. We are party to a putative class action lawsuit in West Virginia state court alleging, among other claims, that we, not WebBank, issue credit to our Fingerhut customers, resulting in violation of West Virginia laws relating to late fees, interest rate caps and regulatory notification requirements. If the third-party plaintiff that brought the putative class action against us is successful, or if a similar lawsuit against us is successful in the future, we would be subject to additional federal or state consumer protection laws. In that event, the receivables purchased from WebBank could be voidable or unenforceable, and we could be subject to other penalties. In addition, we could be subject to enforcement actions and penalties by regulators or state attorneys general, and we could be forced to discontinue the manner in which our Fingerhut and Gettington customers currently obtain credit, materially modify or terminate our relationships with WebBank and SCUSA, materially modify rates, fees, and other terms of credit extended to our customers, or be required to register or obtain licenses or regulatory approvals in the states in which we do business. These actions could force us to restructure aspects of our business, which would impose a substantial cost and compliance burden on us and, if we did not have sufficient lead time to accomplish this, could interrupt our ability to make sales.

The Company undertakes collections activities pursuant to our agreement with WebBank and subject to WebBank's oversight. The Company believes it is not subject to the Fair Debt Collection Practices Act ("FDCPA") or state laws requiring licensing and registration of third-party debt collectors. However, regulators could change their interpretation of existing laws, rules, and regulations governing collections such that the Company could be determined to be a third-party collector subject to various laws, rules, regulations. In addition, new laws and regulations governing debt collections could be enacted which would require us to register as a third-party debt collector and subject us to the FDCPA. If, as a result of a change in the interpretation of existing laws or enactment of new laws, we were deemed a third-party collector, we could be subject to enforcement actions and penalties by regulators or state attorneys general for failure to register as third-party collectors, be required to register or obtain licenses or approvals in certain states, and we could be forced to discontinue the manner in which we currently collect debt. Collecting as a third party could force us to restructure aspects of our business, which would impose a substantial cost and compliance burden on us and, if we did not have sufficient lead time to accomplish this, could interrupt our ability to collect, which would have a material impact on our business, including our ability to meet our obligations to SCUSA.

We have completed two significant acquisitions since November 2014. These acquisitions and, other acquisitions, significant investments in new businesses, or strategic transactions in which we may engage in the future, may result in a variety of risks, any of which could adversely affect our business.

In November 2014, we merged with Bluestem Brands and in July 2015, Bluestem Brands merged with Orchard Brands Corporation. These mergers, and any future acquisitions, investments or strategic transactions, expose us to risks commonly encountered in acquisitions of businesses, which include:

- failure to achieve the financial and strategic goals for the acquired and combined business;
- overpayment for the acquired companies or assets;
- difficulty integrating the operations and personnel of the acquired businesses;
- disruption of our existing business;
- distraction of management from our ongoing business;
- dilution of our existing stockholders and earnings per share;
- incurrence of substantial indebtedness, which could limit our ability to invest in our businesses and execute our growth plan due to the need to service the indebtedness and comply with restrictive covenants in loan agreements;
- potential impairment charges due to the substantial amount of the acquisition purchase price allocated to goodwill and other identifiable intangible assets;
- unanticipated liabilities, legal risks and costs;
- increased regulatory and compliance requirements;
- retention of key personnel; and
- impairment of relationships with employees, customers and other business partners as a result of integration of new management personnel.

These risks could harm our business, financial condition or results of operations, particularly if they occur in the context of a significant acquisition.

We do not collect state or local sales, use, or other transaction-based taxes for all retail brands in all states. Any determination that we should have collected such taxes in the past could subject us to liability that could negatively impact our financial results, and any future development requiring us to collect such taxes could adversely affect our results of operations and prospects.

We generally do not collect state or local sales, use, or other transaction-based tax on sales of goods shipped to customers located in states where we have determined we have no physical presence. If our interpretation of applicable tax regulations and judicial rulings is not correct, or if legislation or future judicial rulings alter the law, including recent state law changes to an “economic nexus” standard for collection requirements, and bills currently pending in the U.S. Congress, then we could be required to collect sales and use taxes in the future from customers in additional jurisdictions. In some cases, such obligations could be retroactive and material. In addition, future changes in our operations could be deemed to create a physical presence in other states and thus require us to collect sales and use taxes from customers in additional states.

Our customers may be obligated to file use tax returns and pay use tax on taxable purchases of items that we sell when we do not collect the tax. However, we cannot reasonably ensure that use tax returns are filed. Some states have enacted, and other states may be considering, legislation requiring us to notify our customers of their possible use tax liability and provide the state with information about customer purchases. We have not fully complied with such laws and could face adverse consequences as a result of such noncompliance. If we were required to collect and remit tax in additional jurisdictions, our customers in those jurisdictions might perceive the tax to be in the nature of a price increase, which could negatively impact our sales. In that case, we may also become less competitive with retailers that currently are collecting, reporting, and remitting sales and use taxes, depending on their base pricing levels. Since customer spending is constrained by credit availability, funds spent on taxes are otherwise unavailable for making purchases from us. Consequently, sales-related tax impositions could directly and adversely impact revenues. Collecting the tax would also impose additional administrative burdens on us.

Some states have enacted, and other states may be considering, legislation requiring the collection of sales and use taxes from customers if a seller has commission agreements with Internet advertisers located in the state. We have terminated our relationships with Internet advertisers located in the states that have enacted such laws if we do not already collect sales and use tax for other reasons. If other states adopt similar laws, we may decide to terminate our Internet advertisers in those states as well. Such terminations could harm our business by reducing our advertising on the Internet.

We may have exposure to greater than anticipated income tax liabilities.

The Company and other online retailers are the focus of a number of U.S. states attempting to increase corporate tax revenues by taking an expansive view of corporate presence to impose corporate income taxes and other direct business taxes on companies that have no physical presence in their state. Many states are also altering their apportionment formulas to increase the amount of taxable income/loss attributable to their state from certain out-of-state businesses. If taxing authorities are successful in applying direct taxes to online retail companies that do not have a physical presence in the jurisdiction, this will increase our effective tax rate, and, in some cases, the applicability of additional taxes could be retroactive and material.

The determination of our provision for income taxes requires estimation and significant judgment, where the ultimate tax determination is uncertain. Like many other corporations, we are subject to tax in multiple tax jurisdictions and have structured our operations to reduce our effective tax rate. In addition, our U.S. taxable income is offset by utilization of our prior year net operating and capital loss carryforwards. Governments are focused on ways to increase revenues, which has contributed to an increase in audit activity and stances of expansive applicability of tax laws taken by tax authorities. Our determinations of our tax liability are subject to audit and review by numerous tax authorities. Any adverse outcome of any such audit or review could have a negative effect on our business, operating results and financial condition, and the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements and may materially affect our financial results in the period or periods for which such determination is made.

Our sales are highly dependent on consumer discretionary spending.

The extent to which our customers can engage in discretionary spending has a very significant impact on our net sales and results of operations. This is particularly true for us since many of our customers have low-to-middle income and most of the purchases made from us could be considered discretionary in nature. Most factors affecting discretionary spending are beyond our control, including unfavorable general business conditions, increases in gas and energy prices, higher interest rates, and inflation. Consumer debt levels, the availability of consumer credit, increased taxation, adverse unemployment trends, declining consumer confidence, war, terrorism or fears of war or terrorism are further examples. Increased borrowing costs due to adverse mortgage rate adjustments, credit card liability, or other debt service obligations also reduce available consumer discretionary spending. Deterioration in economic conditions or increasing unemployment levels or interest rates, or consumer concerns over future employment levels or interest rates, may reduce the level of consumer spending and inhibit consumers' use of credit, which may adversely affect our business, financial condition and results of operations.

Our customer base is largely composed of low-to-middle income consumers who depend on credit provided by third parties and who might not want or be able to purchase our products if adverse economic conditions arise or access to credit tightens.

Our customer base is largely composed of low-to-middle income consumers that utilize the credit provided by third parties such as WebBank, in the case of Fingerhut and Gettington customers, and Comenity Bank and its affiliates ("Comenity"), in the case of Orchard Portfolio customers using our private label credit cards. The nature of our customer base makes our business sensitive to adverse changes in economic conditions. If general economic conditions worsen, our customers might become less willing to make purchases on credit. An adverse economic environment also could restrict the ability of our customers to meet underwriting standards established by third party credit providers such as Comenity or that WebBank establishes with our consent. As a result, during periods of adverse economic conditions, we may experience decreases in the growth of new customers or purchases by existing customers, which would adversely affect our net sales and profitability.

Our customer base is largely composed of low-to-middle income consumers who present a greater risk of default for nonpayment and collection of receivables that are owned or serviced by us.

Our Bluestem Legacy Portfolio customer base is largely composed of low-to-middle income consumers that utilize the proprietary credit products that we market to purchase our products in connection with the credit accounts originated by WebBank. These customers are at greater risk for credit delinquency and default than those with higher incomes and less dependency on credit. We purchase receivables generated by WebBank in respect of Fingerhut and Gettington customer accounts on a daily basis. We sell all receivables purchased from WebBank related to revolving credit accounts to SCUSA on the same business day. While SCUSA bears the risk of nonpayment on accounts purchased from us, our cost to service the portfolio generally increases and our servicing compensation generally decreases as the performance of the portfolio deteriorates.

A significant portion of our Orchard Portfolio customers are retirees with fixed incomes who rely on Social Security benefits to supplement their income. The recent reduction or lack of increases to Social Security benefits could adversely affect demand for our products from these Orchard Portfolio customers.

Customers of our Orchard Portfolio primarily are part of the boomer and senior demographic group. People in this group are more likely to rely on Social Security benefits as an important part of their income than other demographic groups. Increases to Social Security benefits are based on the level of inflation reflected in a Consumer Price Index maintained by the U.S. Bureau of Labor Statistics. Due to low inflation in recent periods, increases to Social Security benefits have been small and, for certain recent periods, there have been no increases at all. Low or non-existent increases to Social Security benefits adversely affect the purchasing power of a significant portion of our Orchard Portfolio customers and could adversely affect our net sales and profitability.

We rely on internal models to manage risk, to provide accounting estimates and to make other business decisions. Our results could be adversely affected if those models do not provide reliable estimates or predictions of future activity.

The accurate modeling of risks is critical to our business, particularly with respect to managing underwriting for credit extensions made by WebBank. Our expectations regarding response rates, customer repayment levels, and other accounting estimates are based in large part on internal modeling. We also rely heavily on internal models in making a variety of other decisions crucial to the successful operation of our business. It is therefore important that our models are accurate, and any failure in this regard could have a material adverse effect on our results.

Models are inherently imperfect predictors of actual results because they are based on historical data available to us and our assumptions about factors such as credit demand, payment rates, default rates, delinquency rates, and other factors that may overstate or understate future experience. Our models could produce unreliable results for a number of reasons, including the limitations of historical data to predict results due to unprecedented events or circumstances, invalid or incorrect assumptions underlying the models, the need for manual adjustments in response to rapid changes in economic conditions, incorrect coding of the models, incorrect data being used by the models, or inappropriate application of a model to products or events outside of the model's intended use. In particular, models are less dependable when the economic environment is outside of historical experience, as has been the case in recent years.

Due to the factors described above, we may, among other things, experience unanticipated deterioration of our owned and serviced credit portfolio that may result in lower profit sharing in connection with our receivables sale arrangements with SCUSA, actual charge-offs that exceed our estimates and possibly are greater than our allowance for doubtful accounts or require material adjustments to the allowance, adversely affect our profitability and financial condition and adversely affect our ability to finance our business.

New initiatives, adding new customers and an evolving business model are important to our growth strategy and may not be successful.

We have limited experience introducing new brands, entering new markets and introducing new credit products or services. Consequently, whenever we attempt new projects there is no assurance of success, if any, or of our ability to recoup our investments. New initiatives we currently are focusing on include the repositioning of our Gettington business to an off-price model and the introduction of new credit products for our customers.

We cannot assure you that we will be able to launch new initiatives on the timeline expected or at all. If we do not launch new initiatives we are working on, our investments in the initiatives will be lost. New initiatives that we do launch may be less profitable than our current businesses or fail to generate profits at all. There are numerous factors that could affect the profitability of new initiatives. With respect to the repositioning of our Gettington business, we will be competing against other companies who have significantly greater experience operating this type of business than we do. We also might lose existing Gettington customers without acquiring a sufficient number of new Gettington customers due to the changes in merchandise this business will offer. If existing customers chose not to continue purchasing from Gettington, those customers also might choose not to pay existing balances on their credit accounts with WebBank, which could adversely affect the performance of our serviced credit portfolio. Any failure of new initiatives could damage our reputation, limit our growth and adversely affect our operating results.

The introduction of new credit products may also require WebBank, SCUSA, and us to comply with additional regulatory and licensing requirements. These requirements may entail additional investment of time and capital, including additional marketing expenses, legal costs, and other incremental operating costs or restrict our ability to leverage existing marketing and customer acquisition strategies. Any failure to comply with applicable regulations could result in fines, suspensions, or legal actions against WebBank, SCUSA, and/or us or limit our ability to grow new accounts and sales and could have a material adverse effect on our business, prospects, results of operations, and financial condition. Our failure to offer new products in an efficient manner, or low customer demand for any of these new products, could have a material adverse effect on our business, prospects, results of operations and financial condition.

We also seek to grow our business by acquiring new customers. The costs of acquiring new customers are frequently not recovered until years subsequent to account activation. Newer customers also present a higher risk of delinquency and default than established accounts. As a result, we anticipate an increase in historical levels of delinquency and default rates as we grow our new customer base. If we fail to appropriately manage the customer acquisition costs, default and collection risks associated with our growing base of new customers, it could have significant adverse effects on our business and results of operations.

In addition, while our catalogs continue to comprise a significant sales driver of our merchandise, we have an evolving business model. In particular, we have increased and will seek to continue to increase the proportion of our net sales that come through non-catalog marketing initiatives like TV and digital. However, we may not be successful in our efforts to grow sales through these channels, and our actions taken in furtherance of this goal could negatively impact our catalog sales and have other adverse effects on our business and results of operation.

We face intense competition.

The general merchandise retail industry is highly competitive. We have many competitors, including traditional retailers, catalog merchants and e-commerce services. Credit card issuers, banks and consumer credit agencies also compete with us for consumer lending that is critical to our customer base. Many of our competitors have greater resources and brand recognition than we do. Their more significant purchasing power and higher efficiency may permit them to offer products at more attractive prices and credit terms to customers. In addition, competition may intensify if our competitors target our historical customer base.

Few traditional retailers combine merchandising with convenient consumer access to non-traditional consumer credit in the way our Bluestem Legacy Portfolio does. The entry of such a competitor, particularly if it had significant resources and name recognition, could have a material adverse effect on our business.

Any easing by other lenders in general purpose and private label credit card underwriting standards for low-to-middle income consumers could adversely impact our net sales and profitability in several ways. It would increase credit offers by third parties to our current and prospective consumers, thereby expanding their access to available credit and reducing the effectiveness of our Bluestem Legacy Portfolio business model. It would also increase the direct mailing by others to our customers, affecting our catalog response rate and reducing our marketing efficiency. It could also cause adverse selection for the individuals applying for credit through us. For example, lower risk credit customers might not respond to our offers in the same proportion as higher risk credit customers. More freely available credit to consumers also generally can result in higher overall consumer leverage which impacts their ability to pay for debt incurred in their purchases from us.

The lack of a significant number of traditional brick and mortar storefronts places us at a disadvantage compared to some of our competitors. Some consumers prefer locations where they can view and handle products, make comparisons, make payments and rely on the input of store personnel. Physical storefronts are also preferred by individuals without established banking relationships that rely on a cash based economy, as is the case for many of our target customers. This is particularly true where cultural preferences extend to cash-based commerce.

We could be liable for and suffer damage to our reputation from breaches of security and any failure to protect the security of personal information about our customers.

The nature of our business involves the receipt and storage of personal information about our customers. If we experience a data security breach, we could be exposed to government enforcement actions and private litigation. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to discontinue usage of our services and damage our reputation. In addition, third parties, such as Comenity, maintain personal information about our customers, and any breach of those third parties' systems could damage our reputation and adversely affect our business. Any failure to protect the personal information of our customers, whether by us or our business partners, could lead to lost future sales, adversely affect our results of operations, damage our brand, and require us to expend resources on alterations to our data security systems or business practices. We cannot assure you that the systems and processes we designed to protect consumer information and prevent fraudulent payment transactions and other security breaches will be successful, and any failure to prevent, detect or mitigate such fraud or breaches may adversely affect our operating results and our brand. We have agreements with SCUSA and WebBank regarding each party's obligation to ensure compliance with the Gramm-Leach-Bliley Act and similar laws, rules, and regulations which relate to the use, disclosure, storage, and safeguarding of customer information, but we have indemnification obligations to WebBank and SCUSA with respect to any violations of laws which may occur as a result of a security breach.

Changes in regulations or customer concerns, in particular as they relate to privacy and protection of customer data, could adversely affect our business.

We are subject to laws relating to the collection, use, retention, security and transfer of personally identifiable information about our customers. The interpretation and application of privacy and customer data protection laws are in flux and vary from jurisdiction to jurisdiction. These laws may be interpreted and applied inconsistently and our current data protection policies and practices may not be consistent with those interpretations and applications. Complying with these varying requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. In addition, there is an increased likelihood of passage of federal legislation governing data privacy as well as increased activity and a strong showing of interest in regulating data privacy by the FTC and the Bureau.

Continued access to credit, demographic, purchasing and other information is critical to us, both to identify new customer prospects and to structure marketing efforts encouraging repeat business by existing customers. We identify and collect prospective customers in various ways and rely heavily on a confidential and proprietary database that contains customer and purchasing information. By collecting this data and sharing portions with third parties we can obtain additional prospect information in exchange, greatly leveraging the value of our database. Should regulators restrict data collection and sharing between companies, exchanges and cooperatives in the future, it could adversely affect our marketing capabilities. In addition, initiatives directed at focusing advertising to those most directly interested in our products and services could be at odds with laws and regulations limiting collection and dissemination of the consumer data needed to accomplish such focused marketing. Likewise, if new regulations were adopted limiting our ability to use credit bureau information to pre-select individuals for possible credit extension, or adversely affecting our ability to utilize the Internet and mobile phone communication channels to market our business, it could have a significant adverse effect on our business.

Increasingly we have made use of broadly disseminated advertising, primarily television to promote our products and services, and increased the size of our business through the acquisition of the Orchard Portfolio. This positioning exposes the Company to broader general awareness of consumers and possible regulators of our business which could result in increased complaints, focus and/or enforcement efforts.

Because our services are increasingly Web-based and the fact that we process, store, and transmit large amounts of data, failure to prevent or mitigate data loss, including failures of our vendors' technology and systems, could expose us or our customers to a risk of loss of such information, adversely affect our operating results, result in litigation or potential liability for us, and otherwise harm our reputation and business. We use third party technology and systems for a variety of reasons, including, without limitation, storage, encryption and authentication technology, and other functions. Although we have developed systems and processes that are designed to prevent data loss, including systems and processes designed to reduce the impact of a data loss at a third party vendor, such measures cannot provide absolute data integrity.

Any failure, or perceived failure, by us to comply with our own privacy policies or with any regulatory requirements or orders or other privacy or consumer protection related laws and regulations could result in proceedings or actions against us by governmental entities or others, subject us to significant penalties and negative publicity and adversely affect our operating results.

Challenges in anticipating merchandising trends and forecasting sales may adversely affect our business.

Approximately 76% of our net sales in fiscal 2015 were driven by products we held in inventory. Our success is tied to our ability to anticipate changes in trends and customer expectations. Since we need to order merchandise well in advance of customer orders, we must order our merchandise based on our best projections of consumers' tastes, current trends and anticipated demand. We cannot guarantee that such projections will be accurate, which may impact net sales and customer experience. Conversely, if items do not achieve projected sales projections, we may have surplus or un-saleable inventory that would force us to take significant inventory markdowns, which could impact profitability.

Our ability to accurately predict customer demand also impacts our fulfillment operations and impacts the decision around marketing expenditures, staffing and operations. Shortfalls in sales volume may be reflected in lower than expected margins.

Failure to successfully manage the use of advertising could adversely affect our business.

Our television, email, digital, telephone and catalog advertising are key drivers of our sales. We must create, design, and publish content, communications, and catalogs and create and produce commercials that offer and display merchandise that our customers want to purchase. Our future success depends in part on our ability to anticipate, assess, and react to changing product trends and customer attitudes in our advertising to generate sales. We must also accurately determine the optimal media mix amongst the number of catalogs sent, TV commercials aired, telephone calls made and digital impressions served to be the most effective at driving sales. There can be no assurance that we will be able to identify and react to trends in a timely fashion with a high level of effectiveness justifying our marketing investment.

Increases in postage and paper and other operating costs could negatively affect our results of operation and financial condition.

We are particularly vulnerable to postage and shipping rate increases with respect to catalog mailings, which is a central aspect of our business model, and merchandise deliveries. While some of these variations are cyclical, others have been unpredictable and significant.

Paper and postage represent significant components of our total cost to produce, distribute, and market our products. We use the U.S. Postal Service for distribution of substantially all of our catalogs and other marketing materials. As such, the continued rise in postal rates has increased our costs. Postal rates are dependent on the operating efficiency of the postal service and on legislative mandates imposed upon the postal service. We cannot predict the magnitude of future price changes in postage. The current economic environment is likely to lead to further potential rate increases.

Paper is the principal raw material used in our business for printed products and promotional materials. Paper is a commodity and its price is subject to significant volatility. The price of paper may fluctuate significantly in the future, and changes in the market supply of or demand for paper could affect delivery times and prices. We may need to find alternative sources for paper from time to time. We cannot assure you that we will continue to have access to paper in the necessary amounts or at reasonable prices or that any increases in the cost of paper will not have a material adverse effect on our business. Further, we may not be able to pass such increases on to our customers. Any paper shortage may increase our paper costs, cause us to reduce our catalog circulation and force us to use different weights or grades of paper that could increase our cost, reduce the number of pages per catalog or both. The impact of increases in postage and paper costs or any strategic determination not to pass on all or a portion of these increases to customers could materially and adversely affect our results of operations and financial condition.

Current and future government regulation could substantially harm our business.

We are subject to various laws and regulations, including the Dodd-Frank Act's prohibition of "unfair, deceptive or abusive acts or practices," which is enforced by the Bureau, FTC regulations governing the manner in which customers may be solicited, orders fulfilled and sales consummated, as well as general business regulations and laws such as those relating to interstate commerce generally and use of the Internet in particular. Changes to any of the laws or regulations to which we are subject, as well as changes to interpretations or enforcement of those laws or regulations, or the adoption of new laws or regulations could adversely affect our results of operations and prospects.

For example, in recent years the Bureau has brought numerous enforcement actions focusing on the marketing and sale of debt cancellation and add-on products. If the Bureau's enforcement practices in these or other areas limits or eliminates our ability to sell certain types of products, or increases our cost of operations to continue selling certain products, our results of operations and prospects would suffer. In addition, existing and future regulations and laws could impede the growth of the Internet or other online services, increase taxes charged on sales of our products, restrict imports or exports, increase customs duties or tariffs, increase our obligations to protect user and consumer information, restrict electronic payments or limit broadband residential Internet access. Unfavorable changes to laws in any of these areas or to the interpretation of existing laws in these areas could decrease demand for our products, increase our operating expenses and adversely affect our results of operations.

We rely on third-party carriers and logistics services as a significant part of our fulfillment operations, and these carriers and services could fail to adequately serve our customers.

We rely on a limited number of carriers and logistics services to pull and ship inventory to our fulfillment centers or to our customers. If we are unable to negotiate service levels and costs that are acceptable, or our logistics and delivery vendors fail to perform satisfactorily, it could negatively affect the satisfaction of our customers and our profitability. Other transportation impediments could be caused by external factors including issues with third-party storage and routing facilities, inclement weather, fire, flood, power loss, earthquakes, labor disputes, acts of war, terrorism, and acts of God.

We rely on dropship inventory vendors as a way to increase our merchandise assortment while decreasing our inventory obsolescence risk. These vendors could fail to meet the merchandise demands of our customers, or they could create a poor experience for our customers damaging the reputation of our brands which could impact future net sales and profitability.

A key initiative is to increase our relevance to existing and new customers by significantly expanding of our merchandise assortment and stockkeeping units offered to customers by way of drop shipments. For fiscal 2015, approximately 15% of our net sales were made using dropship vendors. Dropship vendors ship product directly to our customers from their warehouses using their packing and shipping processes, materials, quality assurance programs and logistic partners. While we require service level and compliance standards, vendors may not meet those standards and may not have inventory sufficient to satisfy our customer demands, which could adversely impact our net sales, profitability and relationships with our customers.

System interruption and the lack of integration and redundancy in our order entry and online systems may adversely affect our net sales.

Customer access to our websites and call centers is key to the continued flow of new orders. Anything that would hamper or interrupt such access could adversely affect our net sales, operating results and customer satisfaction. Examples of risks that could affect access include problems with the Internet or telecommunication infrastructure, limited Web access by our customers, local or more systemic impairment of computer systems due to viruses or malware, or impaired access due to breaches of Internet security or denial of service attacks. Changes in the policies of service providers or others that increase the cost of telephone or Internet access could inhibit our ability to market our products or transact orders with customers.

In addition, our ability to operate our business from day to day, in particular our ability to manage our credit operations and inventory levels, largely depends on the efficient operation of our computer hardware and software systems and communications systems. Our computer and communications systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, earthquakes, acts of war or terrorism, acts of God, computer viruses, physical or electronic break-ins or denial of service attacks, improper operation by employees, and similar events or disruptions. Any of these events could cause system interruption, delays, and loss of critical data, and could prevent us from accepting and fulfilling customer orders and providing services, which would impair our operations. Certain of our systems are not redundant and we have not fully implemented a disaster recovery plan. In addition, we may have inadequate insurance coverage to compensate us for any related losses. Interruptions to customer ordering, particularly if prolonged, could damage our reputation and be expensive to remedy and have significant adverse effects on our financial results.

General economic factors may adversely affect our retail business financial performance.

General economic conditions may adversely affect our financial performance. In the United States, changes in interest rates, changes in fuel and other energy costs, weakness in the housing market, inflation or deflation or expectations of either inflation or deflation, higher levels of unemployment, unavailability of or limitations on consumer credit, higher consumer debt levels or efforts by consumers to reduce debt levels, higher tax rates and other changes in tax laws, overall economic slowdowns, changes in consumer desires and other economic factors could adversely affect consumer demand for the products and services we sell, change the mix of products we sell to a mix with a lower average gross margin, result in slower inventory turnover and greater markdowns on inventory and result in higher levels of slow payment, default and uncollectibility in our customers' accounts. Higher interest rates, transportation costs, inflation, costs of labor, insurance and health care, foreign exchange rate fluctuations, higher tax rates and adverse changes in tax and other laws and regulations and other economic factors in the United States can increase our cost of sales, commodity pricing, operating, selling, general and administrative expenses and interest expense, and otherwise adversely affect our operations and operating results. These factors affect not only our operations, but also the operations of our sources of consumer and commercial credit critical to our business, as well as suppliers from whom we purchase goods, a condition that can limit the availability of credit or goods to us or increase the cost to us of the goods we sell to, and credit we arrange for, our customers.

The seasonality of our retail business increases the strain on our operations and results in fluctuations in our quarterly results.

A disproportionate amount of our retail net sales occur during our fourth fiscal quarter. For example, in fiscal 2015, approximately 41% of the net sales of the Bluestem Legacy Portfolio occurred during our fourth fiscal quarter. If we and/or our dropship vendors do not maintain adequate inventory to meet seasonal customer demand, it could significantly affect our net sales and future growth. Conversely, if we overstock seasonal products in excess of demand, we may have to offer significant pricing markdowns or take inventory write-offs. If too many customers access our telephone order lines, servicing connections or websites within a short period, particularly during holidays, it could prevent us from taking orders or reduce customer satisfaction. A similar adverse impact would result from inadequate staffing in our customer service and ordering centers and warehouse fulfillment functions during times of peak volume.

In addition, because a disproportionate amount of our retail net sales occur during the fourth fiscal quarter, our financial results in such quarter will have a disproportionate effect on our financial results for the full year. Our stock price may also experience substantial volatility based on our results for the fourth fiscal quarter due to the intense focus investors and stock analysts place on these results.

Our international sourcing relationships and service providers subject us to risks that could adversely affect our business.

We source our merchandise both domestically and internationally, as do many of our third party suppliers. In addition, we rely on foreign third party service providers based in Costa Rica, El Salvador, Jamaica and the Philippines for various aspects of our operations, including phone and mail order entry, collections and global import transportation/logistics.

International purchases subject us and our suppliers to inbound freight costs, tariffs, duties and currency fluctuations as well as other risks and could increase our costs and, therefore, decrease our gross profits as well as decrease our ability to ship our merchandise in a timely manner.

Our Orchard Portfolio sources a significant amount of merchandise directly from vendors abroad, particularly in Asia, and our Bluestem Legacy Portfolio plans to increase its direct sourcing from international vendors as well. Sourcing from vendors abroad subjects us to risks and uncertainties including import/export controls or regulations and quotas and possible cancellations of backorders due to delayed shipping. Any disruption or delays in, or increased costs of, importing our products could have an adverse effect on our business, financial condition and operating results. Foreign orders are often placed through third party intermediaries, and as a result may present greater difficulty in identifying and supervising vendors with respect to quality control and addressing product defects. In addition, declines in the value of the U.S. dollar relative to foreign currencies affect our buying power and the ultimate price of the products we sell to our customers.

Changing or uncertain economic conditions in foreign countries and political unrest, war, natural disasters or health epidemics can all be detrimental to dealings with foreign sources of product or service providers. Any of these factors may disrupt the ability of foreign vendors to supply merchandise in a timely manner or at all, and the ability of foreign service providers to fulfill their obligations to us. Such factors could also substantially increase our costs to source merchandise through foreign vendors or engage third party service providers. The need to replace any such vendors or service providers could be expensive and disruptive to our operations.

If we are unable to maintain vendor relationships and obtain adequate supplies of inventory, our results of operations will be negatively impacted.

Our financial performance depends on the ability to purchase products in sufficient quantities at competitive prices. We offer a growing and changing mix of products and, therefore, our buyers must develop and maintain relationships with vendors to locate sources for high quality, low cost, name brand merchandise they believe will interest our customers. In fiscal 2015, we purchased our products from over 2,400 domestic and foreign manufacturers. The top ten suppliers for our Orchard Portfolio accounted for approximately 12% of our merchandise inventory purchases in fiscal 2015, and the top ten suppliers for our Bluestem Legacy Portfolio accounted for approximately 35% of our merchandise inventory purchases in fiscal 2015. Inability to obtain merchandise from any of the larger vendors could cause supply disruptions that would hamper the business.

If we are unable to maintain supplier relationships, our ability to offer high quality, competitively priced products to our customers may be impaired, and our retail net sales and gross profits would decline. If our current vendors were to stop selling merchandise to us on acceptable terms, including because of one or more vendor bankruptcies due to poor economic conditions, we may be unable to procure alternatives from other vendors in a timely and efficient manner and on acceptable terms, or at all.

Because the contracts with our suppliers are frequently short term in nature, we may be unable to acquire product to meet customer demand that extends beyond initial expectations and retail net sales may suffer. Furthermore, vendors under short term contracts may increase prices or cut off supply at any time.

We are subject to regional risks and adverse effects upon our business and results of operations if our fulfillment operations are interrupted for any significant period of time.

In order to maximize efficiency, we primarily use large primary fulfillment centers located in Minnesota, Pennsylvania and Georgia and two smaller supplemental fulfillment centers in Indiana and Nevada, where we warehouse our merchandise and ship customer orders. This arrangement subjects us to regional risks, such as a shutdown or interruption in operations at regional airports, and risks associated with systems lacking sufficient redundancy. The facilities are susceptible to damage or interruption from human error, fire, flood or other acts of God, power loss, telecommunications failure, terrorist attacks, acts of war, break-ins and similar events. Should anything interrupt operations at one or more of our facilities, we have limited alternate ways to fill product orders and limited ability to reroute orders to third parties for drop shipping.

Strikes, work stoppages and slowdowns by our employees could adversely affect our business, financial position and results of operations.

As of the end of fiscal 2015, the Company employed approximately 3,900 employees, of which approximately 339 were warehouse and order fulfillment employees subject to a collective bargaining agreement. Labor organizing activities could result in additional employees becoming unionized. Strikes, work stoppages and slowdowns by our employees could adversely affect our ability to fulfill orders and meet our customers' needs, and customers may move their business to competitors as a result. This could adversely affect our business, financial position and results of operations. Increased unionization and the terms of future collective bargaining agreements also may affect our competitive position and results of operations.

If we do not respond to technological changes, our services could become obsolete and we could lose customers.

To remain competitive, we must continue to enhance and improve the functionality and features of our e-commerce websites and other technologies. We may face material delays in introducing new products and enhancements. If this happens, our customers may forego the use of our websites and use those of our competitors. The Internet and the online commerce industry are rapidly changing. If competitors introduce new products and services using new technologies or if new industry standards and practices emerge, our existing websites and our proprietary technology and systems may become obsolete. Our failure to respond to technological change or to adequately maintain, upgrade and develop our computer network and the systems used to process customers' orders and payments could harm our business, prospects, financial condition and results of operations.

We are dependent on third parties to perform certain business operations, including with respect to credit underwriting, payment processing, and merchandise delivery systems, and are vulnerable to various risks with respect to these relationships.

We depend on a number of independent businesses to operate our business efficiently, none of which are under our control. Any adverse developments affecting these vendors, the products or services provided by them, or the fees that they charge us could have a detrimental impact on our operations and financial results. A failure or delay in responding to such developments, even for a short period of time, could have significant adverse effects on our ability to provide customers access to credit, generate sales and operate our business.

Examples of critical vendors include the following:

- logistics partners;
- vendors that print and mail our catalogs;
- vendors that handle credit applications, remittance, collections and credit bureau reporting;
- shipping companies;
- credit and debit card transaction processors;
- telephone and Internet providers;
- e-commerce service providers;
- outside call centers handling customer telephone orders, account servicing and collections, many of which reside in foreign countries;
- outside service providers to provide repairs under extended service plans; and
- factory direct vendors for timely fulfillment of merchandise orders.

Many of our vendor agreements have relatively short terms. As a result, we are at risk of increased vendor pricing and other adverse changes in vendor terms. Further, the need to replace one of our vendors, particularly on short notice, could cause significant disruption to our operations and have an adverse effect on our financial results.

Litigation may adversely affect our retail business and results of operations.

The Company is subject to litigation, investigations, demands and other proceedings and claims from both governmental authorities and private parties in the normal course of business and could become subject to additional claims in the future, some of which could be material. Litigation, these proceedings and claims may result in substantial costs and diversion of resources. The outcome of existing legal proceedings may differ from the Company's expectations because the outcomes of litigation and similar disputes are often difficult to predict reliably. Various factors and developments can lead to changes in current estimates of liabilities or make additional estimates, including new or modified estimates that may be appropriate due to a judicial ruling or judgment, a settlement, regulatory developments or changes in applicable law. A future adverse ruling, settlement or unfavorable development could result in charges that could have a material adverse effect on the Company's results of operations in any particular period.

We face the risk of litigation, including class action lawsuits challenging, among other things, our marketing and sales practices as well as our actions as a servicer for WebBank and SCUSA. In particular, our role as contract servicer for WebBank and SCUSA exposes us to liability under the TCPA and the Fair Credit Reporting Act. Both statutes provide for extremely high damage awards especially in the class action context. Other potential risks of litigation driven by our activities in the consumer finance area relate to lending terms, rates, disclosures, collections, debt sales and/or other practices, under state and federal consumer protection statutes and other laws, as well as licensing requirements relating to consumer lending activity. State attorneys general, the Bureau, and other government prosecutors have shown an increased interest in the enforcement of consumer protection laws, including laws relating to subprime lending, predatory lending practices and privacy. Likewise class action lawyers are very active in the consumer protection area. As the Company grows and becomes more visible, the risk of litigation is likely to increase. We may also be subject, from time to time, to employee claims alleging injuries, wage and hour violations, discrimination, harassment or wrongful termination. In addition to the risk of loss following an adverse ruling in any such litigation, all litigated matters involve costs, in terms of both monetary expenditures and the diversion of management’s time and attention. In addition, litigation may result in orders that require us to change our business practices, pay settlement costs and damages and, in some cases, penalties. Any or all of these could negatively affect our business and financial results.

In addition to the putative class action lawsuit described above relating to allegations that we, not WebBank, issue credit to our Fingerhut customers, the following matters, if determined adversely to the Company, could have a material adverse impact on the Company:

Purchasing Power, LLC v. Bluestem Brands, Inc.

On December 21, 2011, Purchasing Power, LLC named Bluestem as a defendant in a lawsuit in the Superior Court of Fulton County, Georgia. Bluestem, relying on plaintiff’s representation that diversity of citizenship existed, removed the lawsuit to the Federal District Court for the Northern District of Georgia. The plaintiff alleged via various causes of action, including violation of the Georgia Trade Secrets Act, breach of contract and misrepresentation, that Bluestem Brands misappropriated its trade secrets and used them to develop its PayCheck Direct business. The District Court issued summary judgment in Bluestem Brands’ favor on May 9, 2014. Purchasing Power, LLC appealed to the United States Court of Appeals for the Eleventh Circuit. The Eleventh Circuit remanded the case to the District Court on August 4, 2014, to make factual findings whether diversity jurisdiction existed at the time the case was removed to federal court. The court held two evidentiary hearings and found that diversity jurisdiction did not exist at the time of removal. The court then ordered Purchasing Power, LLC to show cause why sanctions should not be imposed based on its representations to the court regarding its jurisdiction, and stating in detail the inquiry conducted by counsel into the legal and factual assertions regarding whether complete diversity existed. The court also permitted the Company to file a motion requesting that Purchasing Power, LLC be sanctioned for violation of various provisions of the Federal Rules of Civil Procedure based on Purchasing Power’s representations to the Company regarding its jurisdiction. The court granted Bluestem’s motion for sanctions, awarding costs and attorney’s fees and is currently considering the parties’ positions on the amount of attorney’s fees and costs that should be awarded. Once that determination is made, the court is likely to remand the matter to the Superior Court of Fulton County, Georgia, after deciding the issues before it. Should Purchasing Power, LLC prevail in continued proceedings before the Georgia state court and garner an award of injunction relief, such injunctive relief could, in the worst case, require the Company to cease operation of its PayCheck Direct entity.

Hidden Finance Charge Class Action Litigation.

In late 2014, Bluestem was sued in 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. If the plaintiffs in these cases were to succeed, Bluestem could be required to pay significant monetary damages and change its pricing practices, both of which could materially and adversely affect our financial condition and results of operations.

We may be subject to product liability claims if people or property is harmed by products we sell.

Some of the products we sell may expose us to product liability claims relating to personal injury, death, or environmental or property damage, and may require product recalls or other actions. The risk may be particularly high with respect to products we sell intended for use by or with children, as well as pellet guns, knives, archery and similar products. The risks of product liability exposure may increase as we grow our product offerings. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all.

Adverse publicity, or any failure to maintain our brand images and corporate reputation, could adversely affect our business and results of operations, as could various other social factors affecting credit use and consumption.

Our success depends in part on our ability to maintain the image of our brands as well as our reputation for providing excellent service to our customers. Adverse publicity or widespread declines in perception regarding our products and service quality could tarnish the image of our brands, even if these developments are unfounded or the information false. We could be similarly adversely affected if customers mistakenly associate unrelated businesses with our own operations.

We do not insure against any diminution in the value of our brands or the business itself, arising from claims, adverse publicity or otherwise. In addition, adverse publicity surrounding labor relations, our business concentration in the low-to-middle income consumer sector or our reliance on financing to such customers could damage our reputation and loss of sales and brand equity could result. This could require the expenditure of additional resources to rebuild our reputation and restore the value of our brands.

In addition, a variety of social factors may cause changes in customer purchases contingent upon credit, including the public's perception of consumer debt, payment patterns, personal bankruptcy, and the rate of defaults by account holders and borrowers. If consumers develop negative attitudes about incurring debt or if consumption trends continue to decline, our business and financial results will be negatively affected.

Risks Related to the Operation of our Real Estate Business

Changes in business or market conditions could adversely affect the value of our commercial real estate assets and our ability to recover the carrying value of those assets upon disposition of those assets, either of which could adversely affect our future results of operations.

The value of the Company's real estate-related assets is sensitive to general business, economic, and market conditions in the markets in which these assets are located. These conditions include changes in short-term and long-term interest rates, inflation, deflation, fluctuations in the real estate and debt capital markets, and developments in national and local economies and changes in government policies and regulations. The commercial real estate industry is cyclical and is subject to numerous economic factors including general business conditions, changes in interest rates, inflation, unemployment rates and oversupply of properties. This increase in the number of delinquencies, bankruptcies, and defaults could result in a downward valuation adjustment on the Company's real estate-related assets or a failure to liquidate the Company's commercial real estate assets at a value equal to or greater than the assets' carrying value, either of which could adversely affect the Company's future results of operations.

The estimates and assumptions used to value the Company's commercial real estate assets might not accurately reflect the market value of those assets.

In connection with the preparation of the Company's consolidated balance sheet, the Company is required to use estimates and make various assumptions in determining the fair values of assets that the Company carries on its consolidated balance sheet. These estimates and assumptions are based on a number of factors and considerations, which may include, depending on the particular asset being valued, the Company's experience and expectations concerning discount rates, interest rates, credit spreads, market pricing for sales of similar assets, prepayment rates, delinquency rates, and defaults on loans and loss recovery rates. A material difference between the Company's estimates and assumptions and its actual experience may require the Company to write down the value of assets, which could adversely affect its financial condition or future results of operations.

The Company is subject to various environmental laws that could impose substantial liabilities on it and could adversely affect the Company's financial condition and results of operations.

Under various United States federal, state, and local environmental laws, ordinances, and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under, or in its property. Those laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of hazardous or toxic substances. The costs of investigation, remediation, or removal of those substances may be substantial. The owner or control party of a site also may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to asbestos-containing materials, pursuant to which third parties may seek recovery from owners of real properties for personal injuries associated with asbestos-containing materials. Absent succeeding to ownership or control of real property, a secured lender is not likely to be subject to any of these forms of environmental liability. However, real estate investments in which the Company holds or held an ownership interest, either by exercise of their remedies as a secured lender or by an equity investment, can subject the Company to environmental liability.

Risks Related to our Consolidated Business

We face risk related to the strength of our operational, technological and organizational infrastructure.

We are exposed to operational risks that can be manifested in many ways, such as errors related to failed or inadequate processes, faulty or disabled computer systems, fraud by employees, contractors or third parties and exposure to external events. In addition, we are heavily dependent on the strength and capability of our technology systems which we use to manage our internal financial, credit and other systems, interface with our customers and develop and implement effective marketing campaigns.

Our ability to operate our business to meet the needs of our existing customers and attract new ones and to run our business in compliance with applicable laws and regulations depends on the functionality of our operational and technology systems. Any disruptions or failures of our operational and technology systems, including those associated with improvements or modifications to such systems, could cause us to be unable to market and manage our products and services and to report our financial results in a timely and accurate manner, all of which could have a negative impact on our results of operations.

In some cases, we outsource delivery, maintenance and development of our operational and technological functionality to third parties. These third parties may experience errors or disruptions that could adversely impact us and over which we may have limited control. Any increase in the amount of our infrastructure that we outsource to third parties may increase our exposure to these risks.

The loss of key senior management personnel and other key personnel could negatively affect our business.

While we attempt to anticipate succession planning needs, departures by senior management and other key personnel can be disruptive. We depend heavily on our senior management and other key personnel to execute our business plan. The loss of any of our executive officers or other key employees could harm our business. We do not have key person life insurance policies. We have employment agreements for certain members of our executive management team but not for all key employees.

We may not be able to adequately protect our intellectual property rights or may be accused of infringing intellectual property rights of third parties.

We regard our trademarks, service marks, copyrights, trade dress, trade secrets, proprietary technology, and similar intellectual property as critical to our success. In particular, we believe certain proprietary information, including but not limited to our credit models, is central to our business model and give us a key competitive advantage. We rely on trademark and copyright law, trade secret protection, and confidentiality, license and work product agreements with our employees, customers, and others to protect our proprietary rights.

We may be unable to prevent third parties from acquiring trademarks, service marks and domain names that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights. In addition, we currently own the exclusive right to use various domain names containing or relating to our Company name and brands. We may be unable to prevent third parties from acquiring and maintaining domain names that infringe or otherwise decrease the value of our trademarks and other proprietary rights. Failure to protect our domain names could affect adversely our reputation and brand, and make it more difficult for users to find our website.

We may be unable to discover or determine the extent of any unauthorized use of our proprietary rights. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. In addition, the steps we take to protect our intellectual property may not adequately protect our rights or prevent parties from infringing or misappropriating our proprietary rights. We can be at risk that others will independently develop or acquire equivalent or superior technology or other intellectual property rights. The use of our technology or similar technology by others could reduce or eliminate any competitive advantage we have developed, cause us to lose sales, or otherwise harm our business.

We cannot be certain that the intellectual property used in our business does not and will not infringe the intellectual property rights of others, and we are from time to time subject to third party infringement claims. Due to recent changes in patent law, we face the risk of a temporary increase in patent litigation due to new restrictions on including unrelated defendants in patent infringement lawsuits in the future particularly from entities that own patents but that do not make products or services covered by the patents. Any third party infringement claims against us, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us or the payment of damages. Moreover, should we be found liable for infringement, we may be required to seek to enter into licensing agreements, which may not be available on acceptable terms or at all.

Risks Related to Ownership of Our Common Stock

Our common stock is not listed on any exchange, is not covered by any securities analysts, and trades at the discretion of brokers and dealers pursuant to quotation on the over-the-counter market. The price of our common stock therefore may be volatile or may decline regardless of our operating performance, and you may not be able to resell your shares at a price you find desirable.

Our common stock is not listed on any national securities exchange and, as a result, no level of market liquidity or volume can be assured. No assurance can be given that a holder of our common stock will be able to sell shares in the future or as to the price at which any sale might occur. There also are no securities analysts who cover our common stock, which contributes to the lack of an active trading market in our stock. If a holder of our common stock is able to sell shares in the future, the price of the shares may be volatile and may fluctuate significantly in response to a number of factors, many of which are outside of our control, including:

- our ability to retain and attract customers and increase net sales;
- availability and pricing of, and the regulatory environment for, consumer and commercial credit;
- varying response rates to catalogs and other marketing activities;
- unanticipated delinquencies and losses in our customer accounts receivable portfolio;
- our ability to offer products on favorable terms, manage inventory, and fulfill orders;
- pricing pressures due to competition or otherwise;
- changes in consumer tastes and demand for particular products;
- changes in consumer willingness to purchase goods on credit via catalogs and through the Internet;
- weak economic conditions, economic uncertainty and lower consumer confidence and discretionary spending;
- changes in taxation of catalog and Internet sales;
- timing, effectiveness, and costs of expansion and upgrades of our systems and infrastructure;

- variations in the mix of products and services we offer and level of vendor returns;
- changes in key personnel;
- entry into new markets;
- announcements by us or our competitors of new product offerings or significant acquisitions;
- the public’s response to press releases or other public announcements by us or third parties, and announcements relating to litigation;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- changes in financial estimates by any securities analysts who might in the future follow our common stock, or our failure to meet these estimates;
- ratings downgrades by any securities analysts who might in the future follow our common stock;
- the development and sustainability of an active trading market for our common stock;
- future sales of our common stock by our officers, directors and significant stockholders;
- results of litigation or changes in the consumer credit regulatory environment;
- other events or factors, including those resulting from war, acts of terrorism, natural disasters or responses to these events; and
- changes in accounting principles.

In addition, the stock markets in general, and shares of our common stock in particular, have experienced extreme price and volume fluctuations. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, we could incur substantial costs and our resources and the attention of management could be diverted from our business.

We may need additional equity capital, and raising additional capital may dilute existing stockholders.

We believe that our existing capital resources, availability of borrowings under our credit facilities, and cash generated from our business, will enable us to maintain our current and planned operations. However, if for any reason this is not the case, we may choose or be required to raise additional funds to fund our operations. If our capital requirements vary materially from those currently planned, we may require additional equity financing. For example, if we grow at a faster rate than we currently expect, we may need to raise additional equity in order to stay in compliance with the terms of our credit facilities, or to maintain a debt-to-equity ratio that we feel is appropriate. Additional financing may not be available in sufficient amounts or on terms acceptable to us and may be dilutive to existing stockholders. If adequate funds are not available or are not available on acceptable terms, our ability to fund our future growth, take advantage of new opportunities, develop or enhance our offerings, or otherwise respond to competitive pressures would be significantly limited.

In the future, we may also issue our securities in connection with investments or acquisitions. The amount of shares of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then-outstanding shares of our common stock.

We do not expect to pay any cash dividends for the foreseeable future.

The continued operation and expansion of our business will require substantial funding. In addition, the terms of the Investment Agreement with Centerbridge contain certain prohibitions on future distributions by the Company and certain of its subsidiaries. Accordingly, we do not anticipate that we will pay any cash dividends on shares of our common stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon results of operations, financial condition, contractual restrictions, including under our existing credit facilities and other indebtedness we may incur, restrictions imposed by applicable law and other factors our board of directors deems relevant. Realization of a gain on your investment will depend on the appreciation of the price of our common stock, which may never occur.

Restrictions on the transferability of our common stock could adversely affect the price of our common stock and discourage change in control transactions that our stockholders might find beneficial.

Certain provisions of the Company’s articles of incorporation contain provisions voiding the transfers of common stock. These provisions, which limit transfers to or by shareholders that own 4.8% or more of our common stock or transfers that would cause any shareholder to own 4.8% or more of our common stock, generally prohibit transfers that could result in a limitation of the Company’s ability to utilize net operating losses carried over from prior tax periods and transfers that could cause our Company to become required to file reports under the Exchange Act. These restrictions on transfer could make it more difficult for a third party to acquire control of the Company or have the effect of discouraging a third party from attempting to acquire control over the Company. Additionally, these provisions may adversely affect the marketability of our common stock by discouraging potential investors from acquiring our common stock. In addition, these provisions could delay or frustrate the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving the Company, or impede an attempt to acquire a significant or controlling interest in the Company, even if such events might be beneficial to the Company and its stockholders.

We might not be able to fully utilize our tax attributes.

As of January 29, 2016, we had $457.6 million of deferred tax assets for federal, state, and foreign net operating, and capital loss carryforwards ("Attributes"). The deferred tax assets are determined by applying the applicable tax rates to the Attributes. The $1.7 billion United States federal net operating losses ("NOLs") will begin to expire in fiscal year 2027. The $10.0 million of capital losses will expire in fiscal year 2016. The Company believes that it is more likely than not that these deferred tax assets will only be realized to the extent of current year income and temporary differences that will result in future taxable income. A $383.3 million valuation allowance has been recorded against the balance of the deferred tax assets based on our assessment that they are less likely than not to be realized. Our tax Attributes have not been audited or otherwise validated by the Internal Revenue Service ("IRS"). Our ability to utilize the Attributes to reduce taxable income in future years may be limited for various reasons, including if projected future taxable income is insufficient to recognize the full benefit of NOL carry forwards prior to their expiration and/or the IRS challenges their use. In addition, based on current business activity, there is very limited opportunity to generate capital gains which are needed to utilize capital losses. There can be no assurance that we will have sufficient taxable income or that the IRS will not challenge the use of the losses in later years to enable us to use the Attributes before they expire.

Additionally, our ability to fully use these deferred tax assets could also be adversely affected if we are deemed to have an "ownership change" within the meaning of Sections 382 and 383 of the Internal Revenue Code. Calculating whether an ownership change has occurred for tax purposes is subject to inherent uncertainty, both because of the complexity and ambiguity of Section 382, and because of limitations on a publicly-traded non-reporting company's knowledge as to the ownership of and transactions in its securities. Therefore, the calculation of the amount of our utilizable net operating loss carry forwards could be changed as a result of a successful challenge by the IRS, or as a result of us learning of new information about the ownership of and transactions in our common stock. Based on information available to us, we have not experienced a Section 382 ownership change since our September 30, 2011 bankruptcy reorganization, and the annual limitation on our ability to utilize NOLs continues to be $103.9 million. However, if an ownership change as defined under Section 382 should occur in the future, including trading of our non-reporting securities, our ability to use our NOLs to offset future taxable income may be reduced to zero.

The rules relating to income taxation are constantly under review by persons involved in the legislative and administrative rulemaking processes, and by the IRS, United States Treasury Department, state, and foreign taxing authorities resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. Future revisions in tax laws and interpretations thereof could adversely impair our ability to use some or all of the tax benefits associated with our NOLs.

Maintenance of our Investment Company Act exemption imposes limits on our operations.

Neither the Company nor any of its subsidiaries intend to register as an investment company under the Investment Company Act of 1940 ("Investment Company Act"). Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. government securities and cash) on an unconsolidated basis. The Company has conducted and intends to continue to conduct its operations so that it is not required to register as an investment company. If the Company or its subsidiaries were to fail to be excluded from the definition of an investment company or fail to qualify for an exemption from registration under the Investment Company Act, the Company or its subsidiaries could be obligated to register as an investment company and comply with a variety of substantive requirements under the Investment Company Act which could have an adverse effect on the Company, its financial results, or the value of its common stock. The Company is required to monitor its assets, including the securities issued by its subsidiaries, on an ongoing basis to ensure that it will not be required to register as an investment company.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Bluestem Group, Inc. (formerly Capmark Financial Group, 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 years then ended, 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 Group, 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 years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 15, 2016

Member of
Deloitte Touche Tohmatsu

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

	January 29, 2016	January 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 185,944	$ 254,207
Restricted cash	22,569	13,586
Customer accounts receivable, net of allowance of $14,434 and $10,457	44,446	33,449
Retail merchandise inventories	263,579	96,431
Promotional material inventories	53,253	13,976
Other current assets	49,233	46,443
Total current assets	619,024	458,092
Loans held-for-sale	23,146	78,080
Equity investments	47,748	114,736
Property and equipment, net	125,001	49,755
Intangibles, net	460,551	377,892
Goodwill	367,481	201,642
Other assets	14,891	21,195
Total Assets	**$ 1,657,842**	**$ 1,301,392**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 180,601	$ 82,037
Accrued costs and other liabilities	129,361	92,823
Short-term debt	47,981	17,787
Total current liabilities	357,943	192,647
Long-term debt	513,847	354,204
Deferred income taxes	98,275	79,948
Other long-term liabilities	14,531	20,038
Total liabilities	984,596	646,837
Stockholders' equity:		
Series A participating convertible preferred stock, $0.01 par value, $5,000 stated value; shares authorized —10,000,000 at January 29, 2016 and January 30, 2015; shares issued and outstanding — 1,000 at January 29, 2016 and January 30, 2015	4,970	4,856
Common stock, $0.01 par value, shares authorized — 350,000,000 at January 29, 2016 and January 30, 2015; shares issued — 136,577,382 and 136,374,593 at January 29, 2016 and January 30, 2015, respectively; shares outstanding 136,555,963 and 136,374,593 at January 29, 2016 and January 30, 2015, respectively	1,366	1,364
Treasury stock, at cost, 21,419 and 0 shares at January 29, 2016 and January 30, 2015, respectively	(131)	-
Additional paid-in capital	361,935	356,697
Retained earnings	304,875	290,774
Accumulated other comprehensive income, net of tax	231	864
Total stockholders' equity	673,246	654,555
Total Liabilities and Stockholders' Equity	**$ 1,657,842**	**$ 1,301,392**

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

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

	Fiscal Years Ended	
	January 29, 2016	January 30, 2015
Net sales and revenue		
Net retail sales	$ 1,720,189	$ 432,392
Commercial real estate revenue:		
Net interest income	2,732	6,609
Net gains on investments available-for-sale	722	15,978
Other noninterest income	19,398	23,505
Total net sales and revenue	**1,743,041**	**478,484**
Costs and expenses		
Retail cost of goods sold	937,841	256,885
Retail sales and marketing expenses	412,234	69,128
Retail net credit expense	64,035	18,011
Commercial real estate operating expenses	2,158	4,901
General and administrative expenses	211,686	85,289
Amortization and depreciation not included in retail cost of goods sold	98,383	21,627
Loss on derivatives in our own equity	183	15,353
Total costs and expenses	**1,726,520**	**471,194**
Operating income	16,521	7,290
Retail interest expense	43,920	7,091
(Loss) income from continuing operations before income tax benefit	**(27,399)**	**199**
Income tax benefit	(41,614)	(69,770)
Income from continuing operations after income tax benefit	**14,215**	**69,969**
Income from discontinued operations, net of tax	-	33,037
Net income	**14,215**	**103,006**
Net loss attributable to noncontrolling interests	-	5,930
Net income attributable to Bluestem Group Inc.	**$ 14,215**	**$ 108,936**
Other comprehensive loss		
Net change in unrealized losses on investment securities, net of tax	(633)	(737)
Comprehensive income attributable to Bluestem Group Inc.	**$ 13,582**	**$ 108,199**
Basic and Diluted Income Per Share - Common Stockholders		
Basic and dilutive income per share from continuing operations	$ 0.10	$ 0.69
Basic income per share attributable to Bluestem Group Inc.	$ 0.10	$ 1.00
Diluted income per share attributable to Bluestem Group Inc.	$ 0.10	$ 0.99
Basic weighted average shares outstanding	136,202,218	108,277,257
Diluted weighted average shares outstanding	137,748,265	109,335,400

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

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

	Bluestem Group Inc. Stockholders										
	Series A Convertible Preferred Stock		Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
BALANCE — January 31, 2014………..........	-	$ -	100,182,419	$ 100	-	$ -	$ 189,970	$ 181,922	$ 1,601	$ 32,503	$ 406,096
Net income (loss)………………………………								108,936		(5,930)	103,006
Total other comprehensive loss, net of tax………									(737)		(737)
Common stock par value adjustment……………				902			(902)				-
Issuance of preferred stock………………………	1,000	5,000									5,000
Beneficial conversion feature associated with preferred stock at issuance…..……………………..		(228)					228				-
Issuance of common stock…….…………………			2,081,357	21			8,317				8,338
Issuance of restricted common stock……………			249,623	2							2
Exercise of common stock warrants….……....….			33,861,194	339			135,311				135,650
Deemed dividend from beneficial conversion feature associated with preferred stock…………		84						(84)			-
Stock-based compensation……….………………							23,773				23,773
Other (includes impact from sale of discontinued operations assets)…………..…...….										(26,573)	(26,573)
BALANCE — January 30, 2015……..…………	1,000	$ 4,856	136,374,593	$ 1,364	-	$ -	$ 356,697	$ 290,774	$ 864	$ -	$ 654,555
Net income...……………………………………								14,215			14,215
Total other comprehensive income, net of tax…..									(633)		(633)
Issuance of restricted common stock……………			177,165	2							2
Exercise of common stock options….……....….			25,624								-
Deemed dividend from beneficial conversion feature associated with preferred stock…………		114						(114)			-
Stock-based compensation……….………………							5,120				5,120
Treasury shares repurchased……………………			(21,419)		21,419	(131)	118				(13)
BALANCE — January 29, 2016……..…………	1,000	$ 4,970	136,555,963	$ 1,366	21,419	$ (131)	$ 361,935	$ 304,875	$ 231	$ -	$ 673,246

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

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

	Fiscal Years Ended	
	January 29, 2016	January 30, 2015
Operating Activities of Continuing Operations		
Net income	$ 14,215	$ 103,006
Net income from discontinued operations	-	33,037
Net income from continuing operations	14,215	69,969
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities of continuing operations:		
Provision for deferred income taxes	(39,199)	(48,047)
Uncertain tax positions	370	(18,699)
Net gains on loans held-for-sale, investment securities and other	(10,773)	(17,722)
Equity in net gains of investees and cash return on investment	(8,323)	(11,330)
Amortization and depreciation expense	101,327	21,885
Loss on derivatives in our own equity	183	15,353
Provision for doubtful accounts	31,204	10,510
Provision for retail merchandise returns	83,824	11,455
Stock-based compensation expense	5,393	23,773
Inventory obsolescence and other reserves	45,701	11,285
Other, net	4,724	933
Net change in assets and liabilities:		
Customer account and other receivables, net	(104,676)	(27,818)
Retail merchandise inventories	(6,695)	78,895
Other assets	(7,116)	13,998
Accounts payable and other liabilities	(75,926)	(61,671)
Payments from loans held for sale	60,940	26,281
Net cash provided by operating activities of continuing operations	95,173	99,050
Investing Activities of Continuing Operations		
Net (increase) decrease in restricted cash	(8,983)	12,331
Proceeds from sales/repayments of investment securities classified as available-for-sale	722	15,972
Distributions from equity investments	75,009	73,105
Purchases of customer accounts receivable	(1,197,537)	(430,600)
Proceeds from sale of customer accounts receivable	1,198,146	430,949
Acquisitions, net of cash on hand	(375,313)	(509,796)
Net purchases of property and equipment	(35,935)	(688)
Net cash used in investing activities of continuing operations	(343,891)	(408,727)

(Continued on next page)

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

	Fiscal Years Ended	
	January 29, 2016	January 30, 2015
Financing Activities of Continuing Operations		
Borrowings of debt	$ 269,246	$ 281,064
Repayments of debt	(100,782)	(25,961)
Borrowings on asset backed line of credit	481,712	180,287
Repayments on asset backed line of credit	(469,425)	(182,676)
Proceeds from issuance of preferred stock	-	5,000
Proceeds from issuance of common stock	-	143,988
Settlement of Bluestem Brands selling stockholders' acquisition-related liabilities	-	(66,362)
Treasury shares repurchased	(131)	-
Net cash provided by financing activities of continuing operations	180,620	335,340
Effect of Foreign Exchange Rates on Cash	(165)	(297)
Discontinued Operations		
Net cash used in operating activities of discontinued operations	-	(6,313)
Net cash provided by investing activities of discontinued operations	-	65,710
Net cash provided by discontinued operations	-	59,397
Net (Decrease) Increase in Cash and Cash Equivalents	(68,263)	84,763
Cash and Cash Equivalents, Beginning of Period	254,207	169,444
Cash and Cash Equivalents, End of Period	$ 185,944	$ 254,207
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 39,105	$ 7,320
Income taxes paid	$ 3,351	$ 442
Non-cash Transactions:		
Purchases of property and equipment on account	$ -	$ 288
Capital lease obligation incurred	$ 2,045	$ 35

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

BLUESTEM GROUP INC.
Notes to Consolidated Financial Statements

1. Organization and Operations

As used in this report:

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

Bluestem Group Inc. is a holding company whose businesses include Bluestem, 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 group 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 a private label credit card. Bluestem Group Inc. also includes Commercial Real Estate which is focused on managing a commercial real estate-related business and existing assets, including monetizing these assets when appropriate.

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

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

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

On July 10, 2015, Bluestem Brands, Inc. acquired all of the outstanding common shares and voting interests of Orchard Brands Corporation, which operates the Orchard Portfolio, for $410 million in cash, subject to 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. Orchard Brands Corporation is a Delaware corporation and subsequent to the acquisition became an indirectly wholly-owned subsidiary of Bluestem Group Inc.

See Note 4, *Business Combinations,* for pro forma information and further discussion of the Bluestem and Orchard acquisitions.

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, valuation of derivatives in the Company's own equity, fair value estimates related to intangible and long-lived assets, direct response advertising costs, and the estimated demand used in the calculation of the amortization of direct response advertising costs. Certain of the Company's critical accounting estimates require higher degrees of judgment and are more complex than others in their application. For all of these estimates, future events rarely develop exactly as forecasted and, therefore, routinely require adjustment.

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

The Company determines whether it is the primary beneficiary of an entity subject to consolidation based on a qualitative analysis that includes an assessment of the characteristics of the variable interest entity ("VIE") and the interests of the variable interest holders in the VIE. The Company is deemed to be the primary beneficiary if it has both 1) the power to direct the activities that most significantly impact the VIE's economic performance; and, 2) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. The determination of the primary beneficiary is performed on an ongoing basis.

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. 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

On December 18, 2014, the Company changed its fiscal year from December 31 to the Friday closest to January 31 of the following year to conform to the fiscal year of Bluestem. Bluestem operates on a fiscal calendar widely used by the retail industry that results in fiscal years consisting of a 52- or 53-week period 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 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 years 2015 and 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

Retail 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. Retail 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 retail 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 years ended January 29, 2016 and January 30, 2015 was $281.3 million and $39.4 million, respectively.

Revenue Recognition

Net retail 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 retail sales are reported net of discounts and estimated sales returns, and exclude sales taxes.

Payments received in advance of receipt of merchandise by customers are recorded in accrued costs and other liabilities in the 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 retail sales in the Consolidated Statements of Comprehensive Income.

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

Other noninterest income primarily includes net realized and unrealized gains and losses on loans held-for-sale and equity investments.

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 retail 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 retail sales and marketing expenses in the Consolidated Statements of Comprehensive Income.

Retail Cost of Goods Sold

Retail cost of goods sold includes the cost of merchandise sold (net of vendor rebates, purchase discounts, and estimated returns), shipping and handling costs, inbound freight costs, payroll and benefits for distribution center employees, occupancy costs and depreciation of distribution centers and related fulfillment assets, charges from third-party distribution centers, and estimates of product obsolescence costs.

Retail Sales and Marketing Expenses

Retail 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.

Commercial Real Estate Operating Expenses

Commercial real estate operating expenses consist primarily of professional fees for legal service providers for asset transactions and litigation and compensation and benefits costs for asset management related personnel.

General and Administrative Expenses

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 investment and 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	Intangible assets and goodwill
5	Net income allocated to common stockholders	11	Collateralized borrowings
6	Serviced credit portfolio	14	Accounting for income taxes
7	Loans held-for-sale	16	Derivative liabilities in our own equity
8	Equity investments	18	Stock-based compensation
9	Property and equipment, net	20	Operating leases

Recently Adopted Accounting Standards

In April 2014, the FASB issued Accounting Standards Update ("ASU") 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This update changes the criteria for reporting discontinued operations. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This update was effective prospectively for disposals occurring within annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. This guidance was effective for the Company beginning February 2015. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

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.

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 other reclassifications as described in Note 2, *Basis of Presentation,* as follows (in thousands):

	As Originally Reported	As Adjusted	Effect of Changes and Reclassifications	
ASSETS				
Current assets:				
Customer account receivable, net of allowance	$ 40,928	$ 33,449	$ (7,479)	(1)
Commercial real estate accounts and other receivables	19,270	-	(19,270)	(2)
Promotional material inventories	-	13,976	13,976	(3)
Other current assets	34,999	46,443	11,444	(1), (2), (3), (4)
Total current assets	459,421	458,092	(1,329)	
Other assets	26,474	21,195	(5,279)	(4)
Total Assets	$ 1,308,000	$ 1,301,392	$ (6,608)	
LIABILITIES				
Current liabilities:				
Short-term debt	$ 19,116	$ 17,787	$ (1,329)	(4)
Total current liabilities	193,976	192,647	(1,329)	
Long-term debt	359,483	354,204	(5,279)	(4)
Total Liabilities	$ 653,445	$ 646,837	$ (6,608)	
Total Liabilities and Stockholders' Equity	$ 1,308,000	$ 1,301,392	$ (6,608)	

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

(2) Reclassification of commercial real estate accounts and other receivables of $19.3 million to other current assets.

(3) Reclassification of promotional material inventories of $14.0 million out of other current assets to a separate line on the Consolidated Balance Sheets.

(4) 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, on a generally 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 assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of the assets acquired 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:

- $104 million of cash on hand;
- $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 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 10, *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 Brand Corporation'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 10, *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 Brand Corporation 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 Brand Corporation 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

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

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

The results of the Bluestem acquisition have been included in the consolidated financial statements since November 7, 2014.

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 10*, 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 and its 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 of Bluestem. See Note 10, *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 if the Company, Orchard, and Bluestem had been combined during the periods presented, nor is it necessarily indicative of the future results of operations of the combined companies (in thousands):

	Fiscal Year Ended			
	January 29, 2016		January 30, 2015	
	Reported	Proforma	Reported	Proforma
Total net sales and revenue	$ 1,743,041	$ 2,210,799	$ 478,484	$ 2,139,048
(Loss) income from continuing operations before income tax expense.	$ (27,399)	$ 9,536	$ 199	$ 36,859

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

	Fiscal Year 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	21,164
Stock compensation	4,662	6,717
Loss of early retirement of debt	5,729	9,298
Total proforma operating adjustments	44,879	32,442

5. Net Income Allocated to Common Stockholders

The Company computes earnings per share under the two-class method, which includes the weighted-average number of shares of Common Stock outstanding during the period and other securities that participate in dividends. Preferred Stock is a participating security as it has non-forfeitable rights to dividends or dividend equivalents. Earnings per share is computed after deducting Preferred Stock dividends, if any. Undistributed earnings are allocated to common stock and participating securities to the extent that each security may share in earnings as if all the earnings for the period had been distributed. Basic earnings per share is computed by dividing income available to common stockholders by the weighted-average number of shares of Common Stock outstanding during the period, excluding outstanding participating securities. Diluted earnings per share is determined using the weighted-average number of shares of Common Stock outstanding during the period, adjusted for the dilutive effect of Common Stock equivalents, consisting of nonvested shares and options using the treasury stock method and Preferred Stock using the if-converted method. In periods where losses are reported, the weighted-average number of diluted shares of Common Stock outstanding excludes Common Stock equivalents, because their inclusion would be anti-dilutive.

The dilutive impact of warrants, which are recorded as a derivative on our balance sheet, must be determined each period, including periods when losses are reported. The numerator is adjusted for any changes in income or loss that would result if the warrants had been reported as an equity instrument. Shares included in the denominator are determined using the treasury stock method. The potentially dilutive impact of the warrants are included only if the result is more dilutive than without the impact of the warrants.

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

	Fiscal Years Ended	
	January 29, 2016	January 30, 2015
Income from continuing operations after income taxes	$ 14,215	$ 69,969
Plus: Net gain attributable to noncontrolling interests	-	5,930
Subtotal	14,215	75,899
Income from discontinued operations, net	-	33,037
Net income attributable to Bluestem Group Inc.	14,215	108,936
Less: Deemed dividends to preferred stockholders	114	84
Subtotal	14,101	108,852
Less: Net income allocated to preferred stockholders	138	755
Net income allocated to common stockholders	13,963	108,097
Basic and Diluted Income Per Share - Common Stockholders		
Basic and diluted income per share from continuing operations	$ 0.10	$ 0.69
Basic income per share from discontinued operations	$ -	$ 0.31
Diluted income per share from discontinued operations	$ -	$ 0.30
Basic income per share available to common stockholders	$ 0.10	$ 1.00
Diluted income per share available to common stockholders	$ 0.10	$ 0.99
Basic weighted average shares outstanding	136,202,218	108,277,257
Effect of dilutive shares for preferred stock	1,347,358	1,011,395
Effect of dilutive shares for nonvested restricted shares	198,689	46,748
Diluted weighted average shares outstanding	137,748,265	109,335,400
Antidilutive nonvested shares	3,062,792	10,006,881

6. 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 the 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 its 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 exercised either option.

Retail net credit expense is summarized below (in thousands):

	Fiscal Year Ended January 29, 2016	November 7, 2014 - January 30, 2015
Credit management costs	$ 78,133	$ 19,038
Provision for doubtful accounts	31,204	10,510
Finance charge and fee income	(6,048)	(3,436)
Servicing fee income and portfolio profit sharing	(39,254)	(8,101)
Retail net credit expense	$ 64,035	$ 18,011

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 are 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/or employees of participating organizations. Customers make purchases through a co-branded website and then make installment payments through payroll deductions or automatic bank withdrawals over the next 12 months.

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 Non-Standard revolving accounts receivable. FreshStart installment and PayCheck Direct installment accounts receivable are not sold to SCUSA. The revolving accounts receivable 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 Non-Standard 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):

	January 29, 2016	January 30, 2015
Balance at the beginning of the period	$ 10,457	$ -
Provision for doubtful accounts (1)	31,204	10,510
Principal charge-offs (1)	(27,945)	(53)
Recoveries	718	-
Balance at the end of the period	$ 14,434	$ 10,457

(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 fiscal year ended January 30, 2015, the Company purchased $423.8 million of new Standard Receivables from WebBank and sold $424.1 million of new and existing Standard Receivables under the A/R Program Agreements to SCUSA. SCUSA reimburses the Company for origination fees and other product fees paid to WebBank. During the fiscal year 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 as a result of 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 SCUSA portfolio with the Company. The portfolio profits are based on finance charge, fees and other revenues, less charge-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.

7. Loans Held-for-Sale

Loans held-for-sale consist of domestic and international, fixed and floating rate loans that are secured by commercial real estate properties. In connection with its business plans upon emergence from bankruptcy, the Company classified all of its loans as held-for-sale. The Company reviews the appropriateness of its loan classifications and no loans have been classified as held for investment for the fiscal years ended January 29, 2016 and January 30, 2015.

Loans held-for-sale are carried at the lower of cost or fair value. Therefore, the Company's operating results would be negatively affected by changes in the fair value if one or more of its loans were valued lower than amortized cost.

For purposes of valuing the loans held-for-sale portfolio, the individual loan basis is used in determining the lower of cost or fair value for each type of loan. A current fair value for each individual loan was determined with emphasis that the fair value of an asset was a market-based measurement which was determined based upon the assumptions that market participants would use in pricing the loan including the fair value of collateral and bids or indications provided by market participants on specific loans that are actively marketed for sale. The Company's loans held-for-sale are classified within Level 3 of the fair value hierarchy.

Interest income on these loans is recorded as a component of net interest income in the Consolidated Statements of Comprehensive Income.

As of January 29, 2016 and January 30, 2015, the Company had $22.1 million and $75.8 million of loans held-for-sale, respectively, that are no longer owned by the Company, but continue to be recognized on the Company's balance sheet because the transfers of these loans to a third party did not qualify as sales and were accounted for as financings. These loans held-for-sale are pledged for the collateralized borrowings for transactions that do not qualify as sales.

8. Equity Investments

The Company acquired and holds non-marketable equity positions in certain real estate funds. Such equity positions are generally in the form of limited partnership and limited liability company investments and are accounted for under the equity method. The investments made by certain of these funds are carried by the funds at estimated fair value, and accordingly, the Company's equity in the earnings of the investees includes both net investment income and net realized and unrealized gains and losses. Valuations of the underlying investments in such funds are subject to changes in market conditions, collateral values and other factors. The Company's operating results are affected to the extent of its equity interests in such funds.

Non-marketable equity investments that are not carried at fair value, as described above, are reviewed for impairment. In evaluating whether a decline in value of an equity investment is other-than-temporary, the Company evaluates the investee's ability to generate and sustain an earnings capacity that would support the carrying value of the investment, as well as the Company's ability and intent to hold the investment until the decline in value is recovered. For the fiscal years ended January 29, 2016 and January 30, 2015, the Company had no equity investments in which an other-than-temporary impairment had occurred.

As further discussed below, the Company held an investment in Federal Home Loan Bank of Seattle ("FHLB") capital stock that was carried at cost and evaluated for impairment at each reporting date, which requires a degree of judgment. In management's judgment, conditions were absent that would have justified an impairment of the FHLB capital stock investment and as such, the Company recognized no impairments prior to the redemption of the FHLB capital stock in the fiscal years ended January 29, 2016 and January 30, 2015.

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

	January 29, 2016			January 30, 2015		
	Carrying amount		Percent of Portfolio	Carrying amount		Percent of Portfolio
Investments in real estate investment funds and other real estate ventures	$	39,941	83%	$	66,740	58%
Investments in entities that hold foreclosed real estate assets and other …		7,807	17%		8,177	7%
Investment in the capital stock of FHLB……………………………………		-	0%		39,819	35%
Total………………………………………………………………….………	$	47,748	100%	$	114,736	100%

Investments in Real Estate Investment Funds and Other Real Estate Ventures — The Company made investments in real estate partnerships in the United States and limited liability companies in Europe in the form of limited or member ownership interests in the United States; and companies in the form of unit trust or share ownership interests in Europe. The equity funds in the United States invest in various real estate ventures with real estate developers. The remaining commitments are solely for existing assets and fund operations.

Investments in Entities That Hold Foreclosed Real Estate Assets and Other — The Company has equity investments in entities that hold foreclosed real estate assets. This typically occurs when the Company, along with other co-lenders, forecloses on real estate collateral. The foreclosed real estate assets are transferred to a real estate holding entity, generally limited liability companies, in which the co-lenders, including the Company, have a member ownership interest. As the Company has not consolidated these real estate holding entities, the Company's investments in these entities are included in equity investments. The Company also holds equity investments accounted for under the cost method.

Investment in the Capital Stock of FHLB — The Company held an investment in the capital stock of the FHLB which was considered restricted stock. In September 2012, the FHLB announced that it would repurchase up to $25 million of excess capital stock per quarter on a pro-rata basis across its stockholder base. In February 2014, the FHLB announced that it would repurchase up to an additional $75 million of excess capital stock per quarter on a pro-rata basis from stockholders with redemption requests that have satisfied the redemption waiting period. The FHLB repurchased $3.6 million and $15.1 million of the Company's capital stock pursuant to these quarterly share redemptions for the fiscal years ended January 29, 2016 and January 30, 2015, respectively.

On February 27, 2015 the FHLB and the Federal Home Loan Bank of Des Moines merged. In accordance with the merger agreement, the FHLB obtained all necessary regulatory approvals for the redemption of its outstanding shares of regulatory-restricted mandatorily redeemable capital stock. On May 18, 2015, the FHLB redeemed the Company's outstanding shares of regulatory-restricted mandatorily redeemable capital stock at par for $29.4 million. On June 1, 2015, the Federal Home Loan Bank of Des Moines redeemed the Company's remaining capital stock balance of $6.8 million.

9. 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 11, *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 retail cost of goods sold. For the fiscal year ended January 30, 2015, depreciation of fixed assets and internal-use software and website development amortization expense was $3.5 million of which $0.3 million was reported in retail cost of goods sold. For the fiscal years ended January 29, 2016 and January 30, 2015, routine maintenance and repair costs were $9.8 million and $1.9 million, respectively. Routine maintenance and repair costs are reported in general and administrative expenses.

10. Intangible Assets and Goodwill

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. Gettington is part of the Other segment.

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

	Fingerhut	Orchard	Total
Balance as of January 31, 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

11. 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 $3,629	$ 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 $14,413	$ 487,560	$ 269,645
Capital lease obligation	2,472	3,072
Other notes payable	-	172
Collateralized borrowings	23,815	81,315
Long-term debt	$ 513,847	$ 354,204

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 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 Orchard. 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. The final principal payment 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 financial covenants.

As of January 29, 2016 and January 30, 2015, the outstanding balance of the Term Loan was $536.7 million and $300.0 million, respectively. No excess cash flow payment was due at January 29, 2016.

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 or 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.

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

Retail Interest Expense

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

	Fiscal Years Ended	
	January 29, 2016	January 30, 2015
Interest on debt	$ 38,958	$ 6,156
Interest on capital lease obligation	247	38
Amortization of deferred charges	2,343	333
Amortization of original issue discount	2,380	567
Interest income	(8)	(3)
Total interest expense, net	$ 43,920	$ 7,091

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

Collateralized Borrowings

The Company has collateralized borrowings related to transfers of financial assets that do not qualify as sales under ASC 860, *Transfers and Servicing*, and are accounted for as financings. These transactions relate to the Company's former new markets tax credit business. The funds received are recorded in long-term debt on the Consolidated Balance Sheets. These liabilities are generally payable from the cash flows of the related assets which did not meet derecognition criteria under GAAP and continue to be recognized on the Company's Consolidated Balance Sheets as commercial real estate accounts and other receivables or loans held-for-sale. The fair value of collateralized borrowings is based upon rates currently available to the Company for obligations with similar terms and maturities.

Collateralized borrowings of $23.8 million and $81.3 million as of January 29, 2016 and January 30, 2015, respectively, related to transfers of financial assets that do not qualify as sales. The funds received are recorded as liabilities in long-term debt on the Consolidated Balance Sheets. Recourse is limited to the assets related to these contractual arrangements.

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

	January 29, 2016	January 30, 2015
Loans held-for-sale	$ 22,069	$ 75,786
Commercial real estate accounts and other receivables	473	1,420
Total assets pledged as collateral	$ 22,542	$ 77,206
Related collateralized borrowings	$ 23,815	$ 81,315

12. Other Balance Sheet Data

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

	January 29, 2016		January 30, 2015	
Other Current Assets				
Commercial real estate accounts and other receivables		12,193		19,270
Other accounts receivable		19,541		20,581
Prepaid expenses and other		17,499		6,592
Total other current assets	$	49,233	$	46,443
Other Assets				
Commercial real estate accounts and other receivables - noncurrent	$	11,249	$	20,228
Investment securities available-for-sale		237		870
Deferred charges and other		3,405		97
Total other assets	$	14,891	$	21,195
Accrued Costs and Other Liabilities				
Accrued liabilities	$	65,669	$	36,846
Accrued payroll and benefits		32,918		25,925
Derivative liability in our own equity		15,536		15,353
Deferred revenue		9,579		7,336
Current income taxes payable		-		3,202
Other		5,659		4,161
Total accrued costs and other liabilities	$	129,361	$	92,823
Other Long-Term Liabilities				
Unrecognized tax benefits	$	9,742	$	8,632
Other		4,789		11,406
Total other long-term liabilities	$	14,531	$	20,038

13. Variable Interest Entities

The Company is involved with various entities in the normal course of business that may be deemed to be VIEs. A VIE is an entity in which the equity investors do not have sufficient equity at risk for the entity to finance its activities without additional financial support or lacks one or more of the characteristics of a controlling financial interest. The characteristics of a controlling financial interest are as follows: the power through voting rights or similar rights to direct the activities of the entity that most significantly impact the entity's economic performance, the obligation to absorb the expected losses and the right to receive the expected residual returns. The primary beneficiary of a VIE is the entity whose variable interests in the VIE provide it with the characteristics of a controlling financial interest, which includes the power to direct activities that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE or the right to receive benefits of the VIE that could potentially be significant to the VIE. The Company consolidates VIEs for which it is determined to be the primary beneficiary. The Company holds significant variable interests in VIEs in which it may or may not be the sponsor and that have not been consolidated because the Company is not considered the primary beneficiary.

Upon initial involvement with an entity, the Company determines if the entity is a VIE and whether the Company is the primary beneficiary of the VIE. If an entity is determined to be a VIE, the Company assesses whether it is the primary beneficiary on a continuous basis. In making the initial and any subsequent determinations, the Company uses a qualitative approach based on an assessment of the purpose and design of the VIE as well as the risks it was designed to create and pass to its variable interest holders. The assessment also includes consideration of the Company's involvement in the VIE and the involvement of the other variable interest holders in the VIE. The Company reassesses the VIE status of an entity upon the occurrence of a reconsideration event.

As of January 29, 2016 and January 30, 2015 the Company is not the primary beneficiary of any VIEs. A description of the Company's involvement with a VIE and the significant judgments and assumptions made by the Company in determining whether to disclose the Company's involvement with a VIE are discussed below.

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

	Size of VIEs [1]	Carrying amount of assets [2]	Carrying amount of liabilities [2]	Maximum exposure to loss [3]: Commitments	Maximum exposure to loss [3]: Loans and investments	Maximum exposure to loss [3]: Commercial real estate accounts and other receivables	Maximum exposure to loss [3]: Total
As of January 29, 2016							
New markets tax credit funds	$ 63,746	$ 36,358	$ -	$ -	$ 22,070	$ 14,288	$ 36,358
CMBS securitization trusts	63,924	237	-	-	237	-	237
Loans held for sale	3,261	1,076	-	-	1,076	-	1,076
Total	$ 130,931	$ 37,671	$ -	$ -	$ 23,383	$ 14,288	$ 37,671
As of January 30, 2015							
New markets tax credit funds	$ 140,487	$ 108,937	$ -	$ -	$ 75,786	$ 33,151	$ 108,937
CMBS securitization trusts	117,520	703	-	-	703	-	703
Loans held for sale	6,543	2,294	-	-	2,294	-	2,294
Total	$ 264,550	$ 111,934	$ -	$ -	$ 78,783	$ 33,151	$ 111,934

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

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

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

The Company has evaluated its investments and other interests in entities that may be considered VIEs. The following describes the VIEs in which the Company has a significant variable interest.

New Markets Tax Credit Funds. Prior to emergence from bankruptcy, the Company made loans to, and syndicated and managed third party equity investments in partnerships that made investments, typically mortgage loans that, in turn, qualify the partnerships to earn new markets tax credits. The Company discontinued its syndication activities in 2008 and focused on the management of these partnerships.

New markets tax credits permit taxpayers to receive a federal income tax credit for making qualified equity investments in community development entities. The Company has determined that these partnerships are considered VIEs and the Company is considered to have a variable interest.

The Company is not considered the primary beneficiary for these partnerships because the Company does not have the power to direct the activities that most significantly impact the economic performance of the VIE. The partnerships have loans from the Company which are reported as a component of loans held-for-sale on the Company's Consolidated Balance Sheets. The Company's maximum exposure to loss in these partnerships is attributable to loans to the partnerships.

CMBS Securitization Trusts. Prior to its entry into bankruptcy, the Company sold commercial mortgage loans to special purpose trusts in exchange for the proceeds from the sale of securities issued by the trusts. The Company has determined that these trusts' activities are generally limited to acquiring the assets, issuing securities, collecting payments on assets and making payments on the securities. The holders of the securities issued under these trusts do not have any recourse to the general credit of the Company. The trusts are considered VIEs. The Company is not considered the primary beneficiary of these trusts because the Company does not have the power to direct the activities that most significantly impact the economic performance of the trusts. The Company's maximum exposure to loss for these entities is limited to the Company's retained interests in the trusts. The Company's portion of these assets is reported as a component of investment securities classified as available-for-sale on the Company's Consolidated Balance Sheets.

Loans Held-for-Sale. The Company's portfolio of loans held-for-sale consists of loans secured by commercial real estate properties. These are non-recourse loans made to special purpose entities ("borrower SPEs") that were created and designed to obtain financing for the purchase and/or development of commercial real estate with the financing to be repaid through the operations, refinancing or sale of the underlying property. The Company has determined that certain of the borrower SPEs are considered VIEs. The Company is not considered the primary beneficiary for the borrower SPEs because it does not have the power to direct the activities that most significantly impact the economic performance of the VIE.

14. 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. The Company is subject to income taxes in both the United States and foreign jurisdictions. 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. Cumulative losses are an objective form of negative evidence and carry significant weight when compared to the Company's projected future income, which requires significant estimates and judgment. The Company currently believes that it is more likely than not that our deferred tax asset will be realized to the extent of current year income and temporary differences that will result in future taxable income. A valuation allowance is recorded for the balance of the Company's deferred tax assets. If the Company's assessment changes and it is determined that the deferred tax assets will be realized, the tax benefits related to the reversal of the valuation allowance will be recorded as an income tax provision benefit.

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 (in thousands):

	Fiscal Years Ended	
	January 29, 2016	**January 30, 2015**
Current income tax provision (benefit):		
Federal	$ 240	$ -
State	(327)	(16,055)
Foreign	992	18
Total current income tax provision (benefit)	905	(16,037)
Deferred income tax benefit	(42,519)	(53,733)
Total income tax benefit	$ (41,614)	$ (69,770)

The deferred income tax benefit for the fiscal year ended January 29, 2016 includes a $39.8 million federal and $2.7 million state deferred income tax benefit.

The following table reconciles the income tax benefit at the federal statutory rate and the actual income tax benefit (in thousands):

	Fiscal Years Ended	
	January 29, 2016	**January 30, 2015**
Income tax expense at statutory rate	$ (9,782)	$ 76
Change in valuation allowance on tax benefits	(32,085)	(70,075)
State income taxes, net of federal tax benefit	(327)	(18,055)
Stock warrant expenses	64	12,413
Nondeductible stock transaction expenses	910	5,511
Effects of noncontrolling interests	-	4,199
Effects of Non-U.S. operations	1,312	870
Other, net	(1,706)	(4,709)
Total income tax benefit	$ (41,614)	$ (69,770)

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

	January 29, 2016	January 30, 2015
Assets:		
Net operating and capital loss carryforwards (federal, state and foreign)	$ 457,554	$ 694,577
Reserves	9,488	9,300
Accrued compensation	9,927	6,762
Inventory	13,306	5,663
Other deferred tax asset	7,764	6,080
Total deferred tax assets	498,039	722,382
Valuation allowance	(383,281)	(637,070)
Total deferred tax assets, net	$ 114,758	$ 85,312
Liabilities:		
Tradename intangible	$ 98,275	$ 79,948
Customer relationship intangible	72,803	57,167
Equity investment valuation	16,847	14,522
Deferred advertising	11,834	2,681
Depreciation and leases	8,743	3,993
Other deferred tax liabilities	4,531	6,949
Total deferred tax liabilities	213,033	165,260
Net deferred tax liabilities	$ (98,275)	$ (79,948)

The Company has U.S. federal net operating loss ("NOL") and capital loss carryforwards of $1.7 billion and $1.7 billion for the fiscal years ended January 29, 2016 and January 30, 2015, respectively. Most of the Company's NOL carryforwards expire from fiscal year 2027 through fiscal year 2030. Unrecognized tax benefit liabilities of $171.1 million and $155.0 million for the fiscal years ended January 29, 2016 and January 30, 2015, respectively, related to the NOL carryforward are recorded as a reduction to the deferred tax asset and valuation allowance.

For the fiscal year ended January 30, 2015, the Company's noncontrolling interests and income from discontinued operations included a tax benefit of $15.2 million from the change in valuation allowance. The decrease in valuation allowance was a result of NOL and capital loss carryforward utilization.

The Internal Revenue Code ("Code") limits NOL carryforwards, capital loss carryforwards, and other tax attributes that can be utilized by the Company. The annual limitation of NOL that can be used by the Company is $103.9 million which is based on a percentage of the equity value immediately after the ownership change that resulted from its September 30, 2011 bankruptcy reorganization. Further, to the extent there are future changes in ownership or ownership structure, as defined under Section 382 of the Code, the amount of NOL and other tax attributes that can be utilized against future income may be reduced to zero.

Most of the Company's capital losses expired in the fiscal year ended January 29, 2016. The deferred tax asset and valuation allowance was reduced to $117.9 million for expired capital losses. The Company has various state and foreign NOL carryforwards. However, based on the location of operations, the Company does not expect to utilize a large amount of state NOLs. In addition, the company continues to liquidate foreign investments. The deferred tax asset and valuation allowance were reduced by $86.3 million for state and foreign NOLs that are not expected to be utilized based on the current location of business activity.

Management assesses available positive and negative evidence including historical income and losses, reversals of temporary differences, and projected future income to determine the recognition of deferred tax assets. The Company's cumulative historical losses are an objective form of negative evidence and carry significant weight when compared to projected future income which requires significant estimates and judgment. The Company currently believes that it is more likely than not that the Company's deferred tax asset will be realized to the extent of current year income and temporary differences that will result in future taxable income. A valuation allowance is recorded for the balance of the Company's deferred tax assets.

As a result of ASC 718, *Compensation-Stock Compensation,* the table of deferred tax assets and liabilities shown above does not include deferred tax assets that arose from equity compensation tax deductions that are greater than financial reporting compensation. Equity will increase by $0.8 million if and when such deferred tax assets are ultimately realized. The Company uses "With-and-Without" ordering when determining when excess tax benefits have been realized.

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows (in thousands):

	January 29, 2016	January 30, 2015
Balance as of beginning of the period	$ 159,304	$ 16,208
Acquisitions	295	949
Additions based on tax position related to prior years	17,328	155,033
Reductions for tax position related to prior years	(624)	(12,665)
Settlements with taxing authorities	-	(221)
Balance as of end of the period	$ 176,303	$ 159,304

Of the $176.3 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 $4.5 million and $4.3 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 $0.3 million and $0.8 million of gross interest and penalties in the fiscal years ended January 29, 2016 and January 30, 2015, respectively.

The Company operates in multiple tax jurisdictions, both within and outside 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 tax jurisdiction. Within specific countries, the Company may be subject to audit by various tax authorities, or subsidiaries operating within the country may be subject to different statute of limitations expiration dates. 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
Ireland	2011-2015

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.

15. Discontinued Operations

On September 30, 2014, the Company closed the transactions contemplated by the Restructuring and Settlement Agreement ("Ambac RSA") among the Company and Ambac Assurance Corporation ("Ambac") relating to certain LIHTC funds for which Ambac issued surety bonds to investors ("Ambac Funds"). At the closing of the Ambac RSA, $30 million of cash of the approximately $90 million of cash and investment securities previously pledged to Ambac was released to the Company and the Company was released from all previous obligations related to the Ambac Funds.

In connection with the closing of the Ambac RSA, the Company formed a subsidiary ("Ambac NewCo"), which was capitalized with the remaining Ambac collateral after payment of certain expenses in connection with the Ambac RSA and with certain other assets related to the Ambac Funds. Ambac NewCo also issued a new guarantee to Ambac for reimbursement of any payments it is required to make under the surety bonds.

Also on September 30, 2014, the Company sold its interests in Ambac NewCo to an affiliate of HCP Pacific Holdings, LLC ("Pacific"), an affiliate of Hunt Capital Partners, LLC and Hunt Companies, Inc., pursuant to the terms of an agreement ("Sale Agreement") between the Company and Pacific for a purchase price of $31.0 million. The Company recorded a gain on sale of discontinued operations of $35.5 million after the closing of both the Ambac RSA and the Sale Agreement and incurred approximately $4.4 million of fees and expenses related to the transaction. Following the closing of the Ambac RSA and the Sale Agreement, the Company has no remaining interest in the Ambac Funds or Ambac NewCo.

On September 22, 2014, the Company entered into an agreement ("Pacific RSA") with Pacific to restructure certain guaranteed LIHTC funds for which JP Morgan Chase Bank, N.A. and certain of its affiliates ("JPM") were the investors ("JPM Funds") and settle the claims related to the JPM Funds in the Company's bankruptcy. Pacific concurrently entered into an agreement with JPM pursuant to which one of its affiliates acquired JPM's interests in the JPM Funds and JPM's claims in the bankruptcy cases of the Company. In connection with the Pacific RSA, the Company formed a subsidiary ("JPM NewCo"), which was capitalized with substantially all of the Company's assets related to the JPM Funds. On October 14, 2014, the Company closed the Pacific RSA with Pacific's affiliate and sold the JPM NewCo to

Pacific for $2.0 million. Following the closing of the sale of JPM NewCo, the Company has no further interest in the JPM Funds or the JPM NewCo.

Following the completion of these transactions the Company no longer has any material LIHTC-related assets or liabilities.

The following table sets forth the net revenue, noninterest expense and income tax expense of discontinued operations included on the Consolidated Statements of Comprehensive Income (in thousands):

	Fiscal Year Ended January 30, 2015
Net revenue	$ 38,859
Noninterest expense	5,804
Income tax provision	18
Income from discontinued operations	$ 33,037
Gain on sale included in gain from discontinued operations	$ 42,299

There were no material discontinued assets or liabilities remaining as of January 30, 2015.

16. Capital Stock

On May 8, 2014, following receipt of stockholder approval, the Company, as contemplated by the Investment Agreement, (i) filed Amended and Restated Articles of Incorporation and amended and restated its Bylaws, (ii) issued to Centerbridge $5.0 million of Series A participating convertible Preferred Stock and Warrants to purchase up to 43 million shares of common stock and (iii) entered into a Note Purchase Agreement under which Centerbridge committed to purchase up to $100 million of floating-rate subordinated payment-in-kind notes, subject to certain terms and conditions.

The conversion price of the Preferred Stock and Warrants is based upon the “Adjusted Book Value”. Adjusted Book Value is defined as the net book value of the Company at December 31, 2013, less the Company’s cumulative net losses (offset by gains and excluding losses arising from external legal, consulting and advisory costs incurred in connection with potential acquisitions and business development activities), if any, from December 31, 2013 to the date of determination and less the difference between the carrying value, as of the date of determination, of the shares of the FHLB held by the Company and 80% of the stated value of those shares. Per share adjusted book value is the adjusted book value divided by the number of shares of common stock of the Company outstanding on December 31, 2013 on a fully diluted basis.

Under the terms of the Investment Agreement, Centerbridge is anticipated to and has provided assistance to the Company in identifying acquisition opportunities during the Investment Period, which is deemed to be a performance commitment. The Investment Period may be extended for an additional year if the parties are working together in good faith with regard to the Company’s pursuit of a potential acquisition that could be acceptable to both the Company and Centerbridge. Upon the consummation of the Bluestem acquisition transaction, the performance commitment was met and 33.9 million Warrants were exercised. The remaining 9.1 million Warrants were determined to meet the definition of a derivative. See Note 17, *Fair Value of Assets and Liabilities* and Note 18, *Stock-Based Compensation* for further information.

Series A Convertible Preferred Stock

On May 8, 2014, the Preferred Stock was established and 1,000 shares were issued to Centerbridge with a stated value of $5,000 per share. Preferred Stock is entitled to receive the same dividends, when declared by the Company’s Board of Directors, and has the same voting rights as common stock on an as-converted basis. The Preferred Stock has a liquidation preference in advance of the common stock or any junior series of preferred stock. Upon the expiration of the Investment Period, all of the Preferred Stock can be converted to common stock at the Adjusted Book Value. The Adjusted Book Value was $3.73 as of January 29, 2016. The Company can redeem all of the outstanding Preferred Stock under certain circumstances including the date on which Centerbridge ceases to have the right to elect any directors or on the 12-year anniversary of issuance.

With the closing of the Bluestem Brands acquisition, the Company’s Board of Directors was expanded to permit 12 directors. If the Company consummates additional acquisitions approved by Centerbridge and Centerbridge exercises any Warrants, Centerbridge will be entitled to further representation on the Company’s Board of Directors in proportion to the shares of common stock that it holds, including the stock issuable on conversion of the Series A Preferred Stock. If Centerbridge exercises all of the Warrants, it will be entitled to elect one less than a majority of the directors on the Company’s Board, subject to reversion to proportionate representation if Centerbridge reduces its share of ownership by a specified amount.

The Preferred Stock contains a beneficial conversion feature with a value of $0.2 million at the issuance date because the effective conversion price of the Preferred Stock is less than the fair value per share of the Company's Common Stock. The beneficial conversion feature is recognized over the period up to the earliest date that the Preferred Stock can be converted. As the beneficial conversion feature is amortized, a deemed distribution will be recorded for Preferred Stock as an increase to Preferred Stock and a reduction of retained earnings.

Common Stock

In accordance with the Amended and Restated Articles of Incorporation, the Company has the authority to issue 350,000,000 shares of Common Stock at a par value of $0.01 per share and 10,000,000 shares of preferred stock at a par value of $0.01 per share. The par value of the Common Stock was adjusted from $0.001 per share to $0.01 per share.

During the Investment Period, for the first 30 million shares of Common Stock, subject to adjustments such as stock splits, that the Company issues for capital raising purposes following the closing, Centerbridge will have the right to acquire up to 67% and stockholders other than Centerbridge will have the right to purchase at least 33%.

On November 7, 2014, in conjunction with the Company's acquisition of Bluestem Brands, Centerbridge exercised 33.9 million common stock purchase Warrants at an exercise price of $4.01 resulting in $135.6 million of cash proceeds to the Company. In addition, certain members of Bluestem Brands' management provided capital for the Bluestem Brands acquisition through the purchase of 2.1 million shares at a price of $4.01, resulting in $8.3 million of cash proceeds to the Company.

Distributions Paid

No distributions were paid for the fiscal years ended January 29, 2016 and January 30, 2015, in accordance with the Investment Agreement.

17. Fair Value of Assets and Liabilities

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Companies are required to disclose the extent to which fair value is used to measure assets and liabilities, the inputs used to develop the measurements, and the effect of certain of the measurements on earnings (or changes in net assets) for the period.

Fair Value Hierarchy

The Company categorizes its assets and liabilities, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Assets and liabilities recorded on the Company's consolidated financial statements are categorized based on whether the inputs to the valuation techniques are observable or unobservable as follows:

Level 1 — assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access.

Level 2 — assets and liabilities whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; pricing models whose inputs are observable either directly or indirectly for substantially the full term of the asset or liability (examples include interest rate and currency contracts); and pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 — assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Level 3 assets and liabilities include those where value is determined using pricing models, discounted cash flow ("DCF") methodologies, or similar techniques, as well as those for which the determination of fair value requires significant management judgment or estimation.

Determination of Fair Value

It is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy as described above. For assets and liabilities where there exists limited or no observable market data, fair value measurements are based primarily upon management's own estimates, and are calculated based upon the Company's pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the fair value amounts may not be realized in an actual sale or immediate settlement of the asset or liability.

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

Commercial Real Estate Note Receivable

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

Investment Securities

Investment securities classified as available-for-sale are carried at fair value and are included in other assets on the Consolidated Balance Sheets. Where quoted prices are available in an active market for identical instruments, investment securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then investment securities are classified as Level 2 and fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or DCFs. An example of instruments which would generally be classified within Level 2 of the valuation hierarchy is certain asset-backed securities. In cases where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy. Investment securities classified within Level 3 include certain residual interests in securitizations and other less liquid investment securities. The Company estimates the fair value of residual interests in securitizations based on a DCF analysis, incorporating assumptions, which in management's judgment, reflect the assumptions a marketplace participant would use including discount rates, spreads and collateral values as well as internal risk ratings and anticipated credit losses.

Derivative Instruments

Derivative instruments are accounted for as either assets or liabilities and are carried at fair value. The Company's derivatives instruments related to Warrants on common stock were valued using a Monte Carlo simulations ("Monte Carlo") model as of January 29, 2016 and a Black-Scholes-Merton ("BSM") pricing model as of January 30, 2015 with certain inputs that utilized significant unobservable market parameters, including historical volatility, and are classified within Level 3 of the valuation hierarchy. During the third quarter of fiscal year 2015 the Company changed from the BSM option-pricing model to a Monte Carlo model as the Company believes the change would result in a better estimate of fair value. See Note 18, *Stock-Based Compensation* for further information.

The Company accounts for certain of its assets and liabilities at fair value on a recurring basis or considers fair value in their measurement.

The following table summarizes the assets and liabilities measured at fair value on a recurring basis, including the commercial real estate note receivable for which the Company has elected the fair value option (in thousands):

Description	Quoted Prices In Active Markets For Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of January 29, 2016
Commercial real estate note receivable	$ -	$ -	$ 4,479	$ 4,479
Investment securities available-for-sale	-	-	237	237
Total assets measured at fair value on a recurring basis	$ -	$ -	$ 4,716	$ 4,716
Servicing liability	-	-	-	-
Derivative liabilities in our own equity measured at fair value on a recurring basis	-	-	15,536	15,536
Total liabilities measured at fair value on a recurring basis	$ -	$ -	$ 15,536	$ 15,536

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

Realized gains or losses for investment securities classified as available-for-sale are reported as a component of net gains (losses) on investments available-for-sale on the Consolidated Statements of Comprehensive Income. Losses on derivative liabilities are reported as losses on derivatives in our own equity on the Consolidated Statements of Comprehensive Income.

Carrying values for cash, cash equivalents, restricted cash, customer accounts receivable, commercial real estate accounts receivable and commercial real estate other receivables approximate their fair value due to their short-term nature and are classified as Level 1. All commercial real estate accounts and other receivables are classified as Level 1, with the exception of the note receivable discussed above and summarized in the tables, which is classified as Level 3.

There were no transfers of assets between Level 1 and Level 2 during the fiscal years ended January 29, 2016 and January 30, 2015, respectively. There were no transfers of assets into Level 3 or out of Level 3 during the fiscal years ended January 29, 2016 and January 30, 2015, respectively.

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

	Fiscal Year Ended January 29, 2016				
	Commercial Real Estate Note Receivable	Investment Securities Available-for-Sale	Total Assets	Derivatives Liabilities in Our Own Equity	Total Liabilities
Beginning balance ……………………………...………….	$ 4,224	$ 870	$ 5,094	$ 15,353	$ 15,353
Purchases, issuances, sales and settlements:					
Purchases……………………………...………………….	-	-	-	-	-
Issuances…………………………………………..…….	-	(51)	(51)	-	-
Sales……………………………………………...…….	-	-	-	-	-
Settlements……………………………………………….	-	(671)	(671)	-	-
Total net realized/unrealized losses:			-		-
Included in earnings……………………………………….	255	722	977	183	183
Included in other comprehensive income (loss)………….	-	(633)	(633)	-	-
Ending balance……………………………………………….	$ 4,479	$ 237	$ 4,716	$ 15,536	$ 15,536
Change in unrealized gain (loss) for the period included in earnings for assets or liabilities still held as of end of year…	$ 255	$ -	$ 255	$ 183	$ 183

	Fiscal Year Ended January 30, 2015				
	Commercial Real Estate Note Receivable	Investment Securities Available-for-Sale	Total Assets	Derivatives Liabilities in Our Own Equity	Total Liabilities
Beginning balance	$ 3,941	$ 1,560	$ 5,501	$ -	$ -
Purchases, issuances, sales and settlements:					
Purchases	-	-	-	-	-
Issuances	-	-	-	-	-
Sales	-	-	-	-	-
Settlements	-	(15,972)	(15,972)	-	-
Total net realized/unrealized losses:			-		-
Included in earnings	283	15,938	16,221	15,353	15,353
Included in other comprehensive income (loss)	-	(656)	(656)	-	-
Ending balance	$ 4,224	$ 870	$ 5,094	$ 15,353	$ 15,353
Change in unrealized gain (loss) for the period included in earnings for assets or liabilities still held as of end of year	$ 283	$ -	$ 283	$ 15,353	$ 15,353

Certain assets are measured at fair value on a nonrecurring basis, including adjustments to fair value based on the application of lower of cost or fair value accounting and asset impairments. There were no liabilities measured at fair value on a nonrecurring basis as of January 29, 2016 and January 30, 2015. There were no Level 1 or Level 2 assets measured at fair value on a nonrecurring basis as of January 29, 2016 and January 30, 2015.

The Company's non-financial assets, which primarily consist of property and equipment, intangible assets, and goodwill are not required to be measured at fair value on a recurring basis and are reported at their carrying value. However, on a periodic basis whenever events or changes in circumstances indicate that their carrying value may not be recoverable (and at least annually for goodwill and other indefinite-lived intangible assets), non-financial assets are assessed for impairment and, if applicable, written-down to fair value using significant unobservable inputs (Level 3). See Note 10, *Intangible Assets and Goodwill,*for information on the $20.2 million impairment of the Gettington tradename during the fourth quarter of fiscal year 2015.

The carrying values of certain impaired loans held-for-sale measured at fair value on a nonrecurring basis and using significant unobservable inputs (Level 3) and still held as of January 29, 2016 and January 30, 2015 were $1.1 million and $2.1 million, respectively.

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

	Fair Value Hierarahy Level	January 29, 2016		January 30, 2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:					
Investment securities available-for-sale	Level 3	$ 237	$ 237	$ 870	$ 870
Loans held for sale	Level 3	23,146	24,060	78,080	82,702
Financial Liabilities:					
Collateralized borrowings	Level 2	23,815	23,815	81,315	81,315
Term loan	Level 2	512,437	499,148	288,568	288,568
Derivative liabilities	Level 3	15,536	15,536	15,353	15,353

18. Stock-Based Compensation

Restricted Stock

On September 30, 2011, the Company issued 541,676 nonvested shares of Common Stock pursuant to employment agreements with two of the Company's executives. The shares vested in increments of 25% on each of December 31, 2011, 2012, 2013, and 2014. Any dividends or distributions on the shares were escrowed and paid pursuant to the vesting schedule noted above. The Company recognized stock-based compensation expense associated with these awards in general and administrative expenses on the Consolidated Statements of Comprehensive Income of $1.7 million for the fiscal year ended January 30, 2015.

The Company issued the non-management members of the Company's Board of Directors a grant of 243,767 nonvested shares pursuant to the Amended and Restated 2011 Restricted Stock and Restricted Stock Unit Plan ("Restricted Stock Plan") which was effective on August

29, 2012. This plan amended and restated the Restricted Stock Plan which was effective September 30, 2011 in order to appropriately align the incentive compensation of the Board of Directors of the Company with the interests of the stockholders of the Company in maximizing the return on the stockholders' equity interests. The grant included 182,827 shares that were scheduled to vest two-thirds on October 1, 2014 and one-third on October 1, 2015. The grant also included 60,940 performance based shares which vested December 31, 2014 based upon the aggregate amount distributed to the Company's stockholders on a cumulative basis from August 29, 2012 to December 31, 2014 ("Aggregate Distribution"). The vesting conditions for the performance based shares are as follows: (a) one-third vest if the Aggregate Distribution was at least $2.2 billion, (b) two-thirds vest if the Aggregate Distribution was at least $2.4 billion and (c) all vest if the Aggregate Distribution was at least $2.6 billion. On November 7, 2014, in conjunction with the Bluestem acquisition, the shares scheduled to vest on October 1, 2015 and the performance based shares all fully vested. Stock compensation expense associated with these awards of $0.5 million was recognized for the fiscal year ended January 30, 2015. The awards for the non-management members of the Board of Directors of the Company were accounted for as a liability.

The 2014 Incentive Plan ("Equity Incentive Plan") was effective on November 7, 2014. This plan replaced the Restricted Stock Plan which was effective August 29, 2012 in order to further align the interests of eligible participants with those of the Company's stockholders by providing long-term incentive compensation opportunities tied to the performance of the Company and its common stock. The Company issued the non-management members of the Company's Board of Directors a grant of 249,623 shares on November 10, 2014 pursuant to the Equity Incentive Plan. These shares fully vested on November 10, 2015. Stock compensation expense associated with these awards of $0.8 million and $0.2 million was recognized for the fiscal years ended January 29, 2016 and January 30, 2015, respectively. The awards for the non-management members of the Board of Directors of the Company were accounted for as a liability.

The Company issued the non-management members of the Company's Board of Directors a grant of 177,165 shares on June 17, 2015 pursuant to the Equity Incentive Plan. These shares fully vest on June 17, 2016 and any dividends or distributions on the nonvested shares are escrowed and paid as of the vesting date. Stock compensation expense associated with these awards of $0.5 million was recognized for the fiscal year ended January 29, 2016. The awards for the non-management members of the Board of Directors of the Company were accounted for as a liability.

The following table summarizes the Restricted Stock Plan and Equity Incentive Plan nonvested share activity and related information:

	January 29, 2016		January 30, 2015			
	Other Shares		Performance-Based Shares		Other Shares	
	Number of shares	Weighted average grant date fair value	Number of shares	Weighted average grant date fair value	Number of shares	Weighted average grant date fair value
Nonvested shares as of the beginning of the period………	249,623	$ 4.23	60,940	$ 25.50	318,246	$ 20.31
Granted……………………...	177,165	5.84	-		249,623	4.23
Vested……………...……..	(249,623)	4.23	(60,940)	(25.50)	(318,246)	20.31
Nonvested shares as of the end of the period……….……	177,165	$ 5.84	-	$ -	249,623	$ 4.23

Liability-classified awards related to stock-based compensation arrangements for nonvested shares are measured at the fair value of the award at the grant or measurement date and are remeasured at fair value on each subsequent reporting date. The related compensation expense, net of estimated forfeitures, is recognized over the applicable service period. Compensation expense, net of estimated forfeitures, related to nonvested shares with a 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 performance condition is considered probable. Any previously recognized compensation cost would be reversed if the performance condition is not satisfied or if it is not probable that the performance condition will be achieved.

The total fair value of shares that vested was $0.9 million and $1.8 million for the fiscal years ended January 29, 2016 and January 30, 2015, respectively.

Warrants

The Company issued Warrants on May 8, 2014, which may be exercised for a period of five years either concurrently or following the consummation of an approved acquisition transaction. Under the terms of the Investment Agreement, Centerbridge is anticipated to provide assistance to the Company in identifying acquisition opportunities, which is deemed to be a performance commitment. Therefore, the Warrants are equity instruments issued in a stock-based payment transaction as compensation in exchange for nonemployee services.

Centerbridge is required to exercise the Warrants if the Company consummates a company approved acquisition transaction that is also approved by Centerbridge during the Investment Period, such that the proceeds of exercise are used to fund up to 50% of the equity component of the acquisition. The Bluestem Brands acquisition triggered such requirement to exercise Warrants. As the performance commitment for the Warrants was met with the Bluestem Brands acquisition, the Company recognized the difference between the Warrant exercise price of $4.01 and the fair value of the Warrants exercised as stock-based compensation expense in the amount of $20.1 million for the fiscal year ended January 30, 2015. The remaining 9.1 million Warrants are outstanding and were determined to meet the definition of a derivative.

The conversion price of the Warrants is based upon the Adjusted Book Value, as defined in the Investment Agreement. As the conversion price contains variables that could affect the settlement amount and would not be inputs to the fair value of a "fixed-for-fixed" forward on equity shares, the Warrants that remained after the performance commitment was met do not meet the criteria necessary to be considered indexed to the Company's own stock and are accounted for as a derivative. The derivative liability is recorded at the estimated fair value of the Warrants. As of January 29, 2016 and January 30, 2015, the derivative liability in our own equity was $15.5 million and $15.4 million, respectively and recognized on the Company's Consolidated Balance Sheets in current accrued costs and other liabilities. Changes in fair value are reflected in the Consolidated Statements of Comprehensive Income as gains or losses from derivatives in our own equity. The Company recorded a $0.1 million loss and a $15.4 million loss from derivatives in our own equity for the fiscal years ended January 29, 2016 and January 30, 2015, respectively.

During the Investment Period, Centerbridge must exercise its Warrants for cash, unless the Company consents to a cashless exercise. Following the Investment Period, Centerbridge may exercise any remaining Warrants on a cashless basis. The Warrants will be exercisable at a price equal to 110% of the per share Adjusted Book Value, subject to customary anti-dilution adjustments. The per share Adjusted Book Value was $3.73 as of January 29, 2016.

Stock Options

Concurrent with acquiring Bluestem on November 7, 2014, the Company adopted an Equity Incentive Plan to further align the interests of eligible participants with those of the Company's stockholders by providing long-term incentive compensation opportunities tied to the performance of the Company and its common stock. During the fiscal years ended January 29, 2016 and January 30, 2015, 3,131,900 and 18,827,761 stock options, respectively, were granted under the Equity Incentive Plan with 40% of the options vesting upon the passage of time and 60% of the options vesting based on the Company'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 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 $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.

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.

Under the plan, the Company compensated officers and key employees with stock-based compensation. A summary of stock option activity is provided below:

	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		

	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 February 1, 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 option granted during the fiscal years ended January 29, 2016 and 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 years ended January 29, 2016 and January 30, 2015, respectively. At January 29, 2016, there was approximately $19.8 million of unrecognized stock compensation expense related to stock options that is 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 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 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.

A third party valuation advisor was utilized to assist management in determining the fair value of options granted using a Monte Carlo 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:

	January 29, 2016	January 30, 2015
Expected volatility	64.4%	35.0%
Expected term (years)	6.5	6.5
Risk-free interest rate	1.98%	2.03%
Forfeiture rate	5.0%	5.0%
Expected dividend yield	-	-

19. Employee Benefit Plans

Retirement Benefits

The Company maintains four defined contribution plans.

The Bluestem 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 and $0.6 million for the fiscal years ended January 29, 2016 and January 30, 2015, respectively.

In addition, the Company has three 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. The Company, through its subsidiary Capmark Finance LLC ("CFL"), sponsors a Savings Incentive Match Plan for Employees of Small Employers. Company contributions and related expenses for these plans were $1.1 million and $0.2 million for the fiscal years ended January 29, 2016 and January 30, 2015.

20. 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. A portion of the Company's leased office space is sublet to third parties.

Rent expense is recognized on a straight-line basis over the lease term, net of sublease income, 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 $12.1 million, net of $0.8 million of sublease income, for the fiscal year ended January 29, 2016. Rental expense was $1.9 million, net of $0.8 million of sublease income, for the fiscal year ended January 30, 2015. Rent expense related to distribution centers and international sourcing is included in retail cost of goods sold, rent expense for retail stores is included in retail 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. 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, net of sublease income, and future maturities of capital leases as of January 29, 2016, were as follows (in thousands):

Fiscal Years	**Operating**	**Capital**
2016	$ 12,155	$ 2,416
2017	10,936	1,563
2018	9,489	719
2019	7,995	272
2020	7,801	-
Thereafter	22,989	-
Sublease Income	(501)	-
Total future minimum lease payments	$ 70,864	$ 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.

Equity Investment Commitments

As of January 29, 2016, the Company had outstanding commitments for continuing operations to provide $7.2 million in less than 1 year and $7.8 million in one to three years of equity to equity method investees.

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 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 "BGI Parties") may be subject to potential liability under laws and government regulations, and various pre-petition and post-petition claims, as applicable, and other legal actions that are pending or may be asserted against it. The BGI Parties may also be subject to governmental and regulatory examinations, information requests, investigations and proceedings, certain of which may result in settlements, fines, penalties, or other relief. The BGI Parties also receive numerous requests, subpoenas, and orders seeking documents, testimony, and other information in connection with various aspects of their pre-petition and post-petition businesses. In addition, the Company is periodically involved in legal proceedings arising in the ordinary course of business, including, among others, claims relating to collection activities. 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.

21. Accumulated Other Comprehensive Income

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

	January 29, 2016		January 30, 2015	
	Unrealized gains (losses) on investment securities		Unrealized gains (losses) on investment securities	
Balance as of beginning of period	$	864	$	1,601
Net unrealized gains arising during the period		1,310		17,741
Less: reclassification adjustment for net gains included in net income		(1,943)		(18,478)
Net change during the period	$	(633)	$	(737)
Balance as of end of period	$	231	$	864

Amounts reclassified from accumulated other comprehensive income (loss) for investment securities are recorded in other noninterest income in the Company's Consolidated Statements of Comprehensive Income.

22. Segment Information

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

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

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

Fingerhut

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

Orchard

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

Commercial Real Estate

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

Other

As a result of not meeting the quantitative threshold requirements, two smaller operating segments within the Bluestem Legacy Portfolio, Gettington, and PayCheck Direct have been included within Other. Gettington historically has offered a wide assortment of merchandise and recognized brand names with a focus on the online shopping experience with customized payment plans. 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. PayCheck Direct is an employee benefit program that is offered directly through employers or organizations as a voluntary benefit to employees and members, which allows consumers to purchase products with the convenience of paying for their purchases over time through payroll deductions or automatic bank withdrawals.

Corporate

Consistent with the Company's management reporting, Fingerhut, Commercial Real Estate, and Other do not include corporate administrative and support functions or certain immaterial businesses. These expenses primarily consist of unallocated compensation and benefit costs for corporate and administrative employees, including information technology, legal, human resources, finance, merchandising, supervision of credit servicing, executive leadership, and sales and marketing management; professional fees for investment and acquisition transactions, legal, accounting, and other service providers; occupancy costs of corporate offices; insurance; maintenance; and other overhead costs. The Company also does not allocate amortization and depreciation not included in retail cost of goods sold, loss on derivatives in our own equity, and income taxes to its business segments or include any other eliminations, reclassifications or other adjustments that are made to conform the Company's management reporting to the consolidated financial statements.

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

	Fiscal Year Ended January 29, 2016					
	Fingerhut	Orchard [(1)]	Commercial Real Estate	Other	Corporate	Total
Net sales and revenue						
Net retail sales	$ 1,033,081	$ 535,945	$ -	$ 151,163	$ -	$ 1,720,189
Commercial real estate revenue						
Net interest income	-	-	2,732	-	-	2,732
Net gains on investments available-for-sale	-	-	722	-	-	722
Other noninterest income	-	-	19,398	-	-	19,398
Total net sales and revenue	**1,033,081**	**535,945**	**22,852**	**151,163**	**-**	**1,743,041**
Costs and expenses						
Retail cost of goods sold	584,249	243,280	-	110,312	-	937,841
Retail sales and marketing expenses	189,655	199,561	-	23,018	-	412,234
Retail net credit expense	55,568	-	-	8,467	-	64,035
Commercial real estate operating expenses	-	-	2,158	-	-	2,158
General and administrative expenses	-	56,398	-	-	155,288	211,686
Amortization and depreciation not included in retail cost of goods sold	-	9,550	-	-	88,833	98,383
Loss on derivatives in our own equity	-	-	-	-	183	183
Total costs and expenses	**829,472**	**508,789**	**2,158**	**141,797**	**244,304**	**1,726,520**
Operating income (loss)	**$ 203,609**	**$ 27,156**	**$ 20,694**	**$ 9,366**	**$ (244,304)**	**$ 16,521**

	Fiscal Year Ended January 30, 2015					
	Fingerhut [(2)]	Orchard	Commercial Real Estate	Other [(2)]	Corporate [(2)]	Total
Net sales and revenue						
Net retail sales	$ 382,584	$ -	$ -	$ 49,808	$ -	$ 432,392
Commercial real estate revenue						
Net interest income	-	-	6,609	-	-	6,609
Net gains on investments available-for-sale	-	-	15,978	-	-	15,978
Other noninterest income	-	-	23,505	-	-	23,505
Total net sales and revenue	**382,584**	**-**	**46,092**	**49,808**	**-**	**478,484**
Costs and expenses						
Retail cost of goods sold	218,447	-	-	38,438	-	256,885
Retail sales and marketing expenses	62,669	-	-	6,459	-	69,128
Retail net credit expense	17,075	-	-	936	-	18,011
Commercial real estate operating expenses	-	-	4,901	-	-	4,901
General and administrative expenses	-	-	-	-	85,289	85,289
Amortization and depreciation not included in retail cost of goods sold	-	-	-	-	21,627	21,627
Loss on derivatives in our own equity	-	-	-	-	15,353	15,353
Total costs and expenses	**298,191**	**-**	**4,901**	**45,833**	**122,269**	**471,194**
Operating income (loss)	**$ 84,393**	**$ -**	**$ 41,191**	**$ 3,975**	**$ (122,269)**	**$ 7,290**

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(1) Orchard Portfolio results are included for the period from July 10, 2015 through January 29, 2016.

(2) Bluestem Legacy Portfolio results are included for the period from November 7, 2014 through January 30, 2015.

23. Subsequent Events

On March 28, 2016, the Board of Directors authorized the repurchase of up to 4.5 million shares of its outstanding common stock in one or more transactions occurring on or prior to March 28, 2017. The repurchase authorization also has received the approval of Bluestem Group's Series A Preferred stockholders as required by the Company's articles of incorporation and investment agreement with the Centerbridge Partners affiliates party to the agreement. Under the repurchase authorization, shares may be repurchased in open-market purchases or in privately negotiated transactions in compliance with Securities and Exchange Commission Rule 10b-18. The extent to which shares, if any, are repurchased and the timing of such repurchases, will depend upon a variety of factors including, but not limited to, market conditions, applicable legal requirements, and other corporate considerations, as determined by Bluestem Group's Board of Directors. The repurchase authorization may be suspended or discontinued at any time. Bluestem Group expects to finance the purchases with existing cash on-hand. Shares of common stock acquired through the repurchase authorization will be retired and restored to the status of authorized and unissued shares.

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