Report as of and for the fiscal years ended
February 1, 2019 and February 2, 2018
This report is issued April 11, 2019

BLUESTEM BRANDS, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Bluestem Brands, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of February 1, 2019, and February 2, 2018, and the related consolidated statements of comprehensive loss, stockholder's equity (deficit), and cash flows 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 controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, 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 the Company as of February 1, 2019, and February 2, 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

April 11, 2019

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

	February 1, 2019	February 2, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,102	$ 9,173
Restricted cash	13,508	15,759
Customer accounts receivable, net of allowance of $7,801 and $7,082	8,154	7,275
Merchandise inventories	210,658	194,693
Promotional material inventories	13,810	34,660
Other current assets	27,887	25,346
Total current assets	281,119	286,906
Property and equipment, net	71,810	89,385
Intangibles, net	120,921	163,377
Goodwill	36,717	36,717
Other assets	1,674	4,040
Total Assets	**$ 512,241**	**$ 580,425**
LIABILITIES AND Stockholder's EQUITY		
Current Liabilities:		
Accounts payable	$ 140,992	$ 160,300
Current income taxes payable	36,678	36,370
Accrued costs and other liabilities	89,628	81,098
Short-term debt	49,903	26,434
Total current liabilities	317,201	304,202
Long-term debt	395,602	420,080
Deferred income taxes	3,828	16,325
Other long-term liabilities	35,291	39,145
Total liabilities	751,922	779,752
Stockholder's equity:		
Common stock, $0.00001 par value, 100 shares authorized 1 share issued and outstanding	—	—
Additional paid-in capital	369,602	369,602
Accumulated deficit	(610,228)	(570,697)
Accumulated other comprehensive income, net of tax	945	1,768
Total Stockholder's equity	(239,681)	(199,327)
Total Liabilities and Stockholder's Equity	**$ 512,241**	**$ 580,425**

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

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

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Net sales	**$ 1,795,852**	**$ 1,887,655**
Costs and expenses		
Cost of goods sold	968,534	1,001,596
Sales and marketing expenses	429,641	470,988
Net credit expense	120,374	148,777
General and administrative expenses	189,559	213,017
Amortization and depreciation not included in cost of goods sold	49,510	58,081
Loss on impairment	25,601	192,149
Total costs and expenses	**1,783,219**	**2,084,608**
Operating income (loss)	**12,633**	**(196,953)**
Interest expense, net	50,136	50,692
Loss before income taxes	**(37,503)**	**(247,645)**
Income tax benefit	(8,468)	(39,859)
Net loss	**$ (29,035)**	**$ (207,786)**
Other comprehensive loss		
Unrealized (loss) gain on interest rate swaps, net of tax	(823)	1,147
Comprehensive loss	**$ (29,858)**	**$ (206,639)**

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

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

	Common Stock					
	Shares	**Amount**	**Additional Paid-In Capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income**	**Total Stockholder's Equity (Deficit)**
BALANCE - February 3, 2017	**1**	**$ —**	**$ 369,602**	**$ (362,764)**	**$ 621**	**$ 7,459**
Net loss	—	—	—	(207,786)	—	(207,786)
Unrealized gain on interest rate swaps, net of tax	—	—	—	—	1,147	1,147
Reversal of accumulated stock-based compensation forfeitures	—	$ —	$ —	(147)	$ —	(147)
BALANCE - February 2, 2018	**1**	**$ —**	**$ 369,602**	**$ (570,697)**	**$ 1,768**	**$ (199,327)**
Balance - February 2, 2018 as previously reported	**1**	**$ —**	**$ 369,602**	**$ (570,697)**	**$ 1,768**	**$ (199,327)**
Impact of change in accounting principle*				(10,496)		(10,496)
Adjusted balance - February 3, 2018	1	—	369,602	(581,193)	1,768	(209,823)
Net loss	—	—	—	(29,035)	—	(29,035)
Unrealized loss on interest rate swaps, net of tax	—	—	—	—	(823)	(823)
BALANCE - February 1, 2019	**1**	**$ —**	**$ 369,602**	**$ (610,228)**	**$ 945**	**$ (239,681)**

*See Note 3, Significant Accounting Policies and Recently Issued Accounting Standards

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

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

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Operating Activities		
Net loss	$ (29,035)	$ (207,786)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization and depreciation expense	53,056	62,600
Loss on impairment	25,601	192,149
Provision for doubtful accounts	97,554	110,803
Provision for deferred income taxes	(7,835)	(38,670)
(Gain) loss on servicing right	(3,182)	3,665
Stock-based compensation expense	2,471	3,525
Other, net	5,027	3,729
Net change in assets and liabilities:		
Customer account receivables	(12,127)	(4,624)
Merchandise inventories	(15,965)	35,277
Promotional material inventories	7,009	15,070
Other assets	(1,542)	3,360
Current Income Taxes Payable	(1,009)	(185)
Accounts payable and other liabilities	(13,576)	(66,902)
Net cash provided by operating activities	**106,447**	**112,011**
Investing Activities		
Purchases of customer accounts receivable	(1,080,963)	(1,072,357)
Proceeds from sale of customer accounts receivable	994,657	1,008,956
Proceeds from the sale of assets	—	24,295
Net purchases of property and equipment	(18,595)	(20,022)
Net cash used in investing activities	**(104,901)**	**(59,128)**
Financing Activities		
Borrowings of debt	1,802	—
Repayments of debt	(32,006)	(28,802)
Borrowings on asset-backed line of credit	364,314	373,887
Repayments on asset-backed line of credit	(339,978)	(396,665)
Net cash used in financing activities	**(5,868)**	**(51,580)**
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	**(4,322)**	**1,303**
Cash, Cash Equivalents and Restricted Cash, Beginning of Period	**24,932**	**23,629**
Cash, Cash Equivalents and Restricted Cash, End of Period	**$ 20,610**	**$ 24,932**
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 44,933	$ 45,446
Income taxes paid	$ 305	$ 1

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

1. Organization and Operations

As used in this report:

- “Bluestem” or "the Company" refers to Bluestem Brands, Inc., which consists of Northstar Portfolio, Orchard Portfolio and PayCheck Direct (which was exited in the first quarter of fiscal 2017)
- “Northstar Portfolio” or “Northstar” refers to the consolidated Fingerhut and Gettington retail brands
- “Orchard Portfolio” or “Orchard” refers to the consolidated Appleseed’s, Bedford Fair, Blair, Draper’s & Damon’s (retail stores were exited during the first quarter of fiscal 2017), Gold Violin, Haband, LinenSource (which was exited in the second quarter of fiscal 2017), Norm Thompson, Old Pueblo Traders, Sahalie, Tog Shop, and WinterSilks retail brands

Bluestem is a holding company that operates multiple direct to consumer retail brands. The Northstar Portfolio includes Fingerhut and Gettington, both of which are national multi-channel retail brands offering a broad selection of name brand and private label merchandise serving low- to middle-income consumers by offering multiple payment plans through revolving credit lines or installment loans offered by WebBank as the originating bank as described more fully below. Bluestem Group Inc., a holding company headquartered in Eden Prairie, MN, operates multiple direct to consumer retail brands through its subsidiary Bluestem. The Northstar Portfolio includes Fingerhut and Gettington, both of which are national multi-channel retail brands offering a broad selection of name brand and private label merchandise serving low- to middle-income consumers by offering multiple payment plans through revolving credit lines or installment loans offered by WebBank as the originating bank as described more fully below. The Orchard Portfolio consists of multi-channel brands that offer apparel, accessories, and home products for the boomer and senior demographic, generally considered age 50 and over and provide customers with the ability to obtain credit through a third-party private label credit card. Go forward brands include Appleseed’s, Blair, Draper’s & Damon’s, Haband, and Old Pueblo Traders. At the end of fiscal 2018, the Company announced that it would be exiting from six legacy retail brands in fiscal 2019: Bedford Fair, Gold Violin, Norm Thompson, Sahalie, Tog Shop and WinterSilks ("the 2018 Restructuring Plan"). All of Sahalie's inventory assortment is now and will continue to be offered through our Gettington Retail Brand. The remaining exited retail brands will be sold or liquidated.

Restructuring costs consisting primarily of employee severance costs were recorded in the Corporate and other segment and a restructuring liability was established. In addition, a merchandise inventory write-down of $3.9 million along with the establishment of a $2.5 million liability related to the receipt of committed inventory purchases was recorded as a result of actions taken to monetize the inventory of the exited brands. See Note 8, *Restructuring* for more information.

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 of America. 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 views merchandising, marketing and credit management within its Northstar Portfolio business model as strategically indivisible. 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. Credit is offered to Northstar Portfolio customers to reasonably assist them in making merchandise purchases while enhancing customer loyalty and driving repeat orders.

Bluestem has made arrangements with WebBank and Santander Consumer USA Inc. (“SCUSA”) that allow it to offer qualified customers revolving credit financing for purchases from the Northstar Portfolio. These credit financing arrangements, referred to as the "A/R Program," are executed under a set of operating agreements referred to collectively as the "A/R Program Agreements" All receivables originated in revolving credit accounts are referred to as “Standard Receivables.” Under the A/R Program, revolving credit receivables are originated through WebBank and sold three days later to Bluestem. Bluestem sells newly purchased Standard Receivables to SCUSA on the same day those receivables are purchased from WebBank. Bluestem services the credit accounts and related Standard 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 from the Standard Receivables with Bluestem. If the forecasted profits from the Standard Receivables as a percentage of average Program receivables should fall below 5% for the full fiscal year, Bluestem discounts the Standard Receivables sold to SCUSA for the remainder of the fiscal year. SCUSA bears risk of loss due to uncollectibility of the Standard Receivables it purchases without recourse to either Bluestem or WebBank. See Note 5, *Serviced Credit Portfolio* for more information.

Northstar Portfolio receivables generated in accounts other than revolving credit accounts are referred to as “Nonstandard Receivables.” Bluestem bears risk of loss due to uncollectibility on Nonstandard Receivables. All Orchard sales are prepaid by the customer or purchased using private labeled or other third-party debit and credit cards.

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 ("U.S. GAAP"). The preparation of the consolidated financial statements in accordance with U.S. 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 revenues and expenses. Significant estimates made by management include revenue recognition, estimated profitability on Standard Receivables that determines the merchant discount on receivables sold to SCUSA, the allowance for doubtful accounts, reserves for excess and obsolete merchandise inventories, allowances for merchandise returns and customer allowances, income taxes, valuation of stock-based awards, valuation of servicing liability, valuation of goodwill and intangible assets and estimates of the useful lives of long-lived assets. Management bases its estimates on historical corporate and industry experience and various other assumptions it believes are appropriate under the circumstances, including market-based inputs when available. Future changes in credit and market trends and conditions may occur, which could cause actual results to differ materially from the estimates used in preparing the accompanying consolidated financial statements. Certain of the Company's critical accounting estimates require higher degrees of judgment and are more complex than others in their application. For all of these estimates, future events rarely develop exactly as forecasted and, therefore, routinely require adjustment.

The accompanying 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. Intercompany accounts and transactions have been eliminated in consolidation.

The financial statements of subsidiaries outside the United States of America ("U.S.") 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.

Fiscal Year
Bluestem operates on a fiscal calendar widely used within 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 February 1, 2019 ("fiscal 2018") and February 2, 2018 ("fiscal 2017"). These years are each 52-week periods.

Liquidity
Bluestem's cash flow is highly dependent on the volume of its sales and the performance of the receivables sold to SCUSA. Bluestem reported losses in fiscal 2018 and fiscal 2017 driven by decreasing net sales and significant merchant discounts on receivables sold to SCUSA due to challenging and competitive credit and retail environments. As a result, Bluestem has taken and continues to evaluate and take actions to improve the performance and stability of the business. Actions taken have included the exiting of six under-performing brands in the Orchard portfolio and related workforce reductions announced at the end of fiscal 2018 and the exiting of certain businesses that were neither accretive nor consistent with our strategic goals and eliminating redundant facilities in early fiscal 2017. Bluestem expects its performance relative to its financial covenants to be tight for the foreseeable future and there can be no assurance that Bluestem's operating results will improve or that any actions taken will allow Bluestem to remain in compliance with the Lender Requirements or Program Requirements.

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 $3.2 million and $4.5 million as of February 1, 2019 and February 2, 2018, 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. For both fiscal years ended February 1, 2019 and February 2, 2018, restricted cash included $13.0 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 2018 and fiscal 2017.

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 February 1, 2019 and February 2, 2018, $0.5 million and $2.8 million, of accumulated customer cash receipts were reported as a component of restricted cash in the Company's Consolidated Balance Sheets, respectively.

Revenue Recognition

The Company adopted Accounting Standards Update 2014-09 *"Revenue from Contracts with Customers*" ("Topic 606") with a date of the initial application of February 3, 2018. As a result, the Company has changed its accounting policy for revenue recognition as detailed below. Topic 606 was applied using a modified retrospective basis for all uncompleted contracts by recognizing the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of equity at February 3, 2018. Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Company generates its revenue from the following principal activities, separated by reportable segments:

Northstar Portfolio

The Northstar Portfolio consists of national multi-channel retailers serving low- to middle-income consumers by offering products with customized payment plans through revolving credit lines or installment loans. The contract duration is short term, executed with a purchase order and completed upon shipment of the product. We charge the customer's account when shipped. Revolving credit is extended directly to Northstar Portfolio customers by WebBank and the customers' accounts receivable are subsequently purchased by SCUSA. Fingerhut customers who are unable to qualify for revolving credit may purchase merchandise with a down payment and installment payment terms of one year or less under its Fresh Start program.

Orchard Portfolio

The Orchard Portfolio consists of national multi-channel retailers offering apparel, accessories, and home products for women and men principally in the boomer and senior demographic, generally considered age 50 and older. Orchard Portfolio offers its product assortments through online and direct mail catalogs. The contract duration is short term, executed with a purchase order and completed upon shipment of the product. A third-party bank provides Orchard Portfolio customers the ability to obtain credit through a private label credit card. Orchard does not directly extend any financing terms to its customers. For credit purchases, we charge the customer's credit card when products are shipped.

Under Topic 606, revenue from customers is recognized when the Company's performance obligations under sales contracts are satisfied by transferring control of goods to a customer. Revenue is measured based on consideration specified in contracts with customers, net of discounts, and excludes amounts collected on behalf of third parties. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. When a sales order includes multiple performance obligations, the consideration is allocated between the performance obligations in proportion to their estimated standalone selling prices.

Net sales consist of merchandise sales, shipping and handling revenue, shipping returns fee income and commissions earned from third parties that market their products to the Company's customers. Merchandise sales and shipping and handling revenue are recognized upon delivery to the carrier. We have elected to account for shipping and handling as fulfillment activities, and not as a separate performance obligation. Payments received in advance of the receipt of merchandise by customers are recorded as deferred revenue. The Company estimates merchandise returns using an expected value method based on historical returns patterns, which are recorded as a reduction of Net sales. Taxes collected from customers and remitted to governmental authorities are excluded from revenue on the net basis of accounting. Management has evaluated the criteria outlined in ASC 606-10-55, *Principal versus Agent Considerations*, and determined that the Company is the principal in substantially all of its transactions including drop shipments, and the related revenue is recorded on a gross basis.

The Company receives payment for nearly all of its sales at the time of shipment or within a few days of delivery via third-party debit and credit card processors or the revolving customer credit arrangement with WebBank and SCUSA. The Company also offers certain customers the ability to purchase merchandise with a down payment and installment payment terms of one year or less under its Fresh Start program. Under this program, customers are charged interest during the installment payment term at a market rate for customers of similar credit standing.

The Company adopted Topic 606 on a modified retrospective basis in the first quarter of fiscal 2018, which resulted in the following effects on the consolidated financial statements for the fiscal year ended February 1, 2019:

- A decrease to opening retained earnings as of February 3, 2018 of approximately $10.5 million, net of tax, was recorded for the cumulative effect adjustment of adopting Topic 606. The adjustment related to the acceleration in the timing of recognition of direct mail catalog advertising costs, which prior to adoption were capitalized and amortized over their expected period of future benefit and are now expensed on the estimated date of first delivery to recipients.
- Approximately $3.8 million of estimated value of future product returns was reclassified from Accrued costs and other liabilities to Other current assets.
- No impact to net cash provided by (or used in) operating, financing, or investing activities reported in the Company's Consolidated Statements of Cash Flows

- Prior period balances were not retrospectively adjusted as a result of adopting Topic 606. Excluding the accounting for direct mail catalog advertising costs, revenue and expense recognition patterns are consistent with prior revenue and expense recognition policies.
- As a result of adopting Topic 606, direct mail catalog advertising expense was higher in the fiscal first and third quarters and lower in the fiscal second and fourth quarters compared to how it would have been reported under the old accounting standards.

The following tables summarize the impact of adopting Topic 606 on the Company's Consolidated Balance Sheets as of February 1, 2019 and the Company's Consolidated Statements of Comprehensive Loss for the fiscal year ended February 1, 2019 (in thousands):

	As of February 1, 2019		
	As Reported	**Topic 606 Adjustment**	**Balances Without Adoption of Topic 606**
ASSETS			
Promotional material inventories	$ 13,810	$ 9,175	$ 22,985
Other current assets	27,887	(3,770)	24,117
Total current assets	281,119	5,405	286,524
Total assets	$ 512,241	$ 5,405	$ 517,646
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accrued costs and other liabilities	$ 89,628	$ (3,770)	$ 85,858
Total current liabilities	317,201	(3,770)	313,431
Deferred income taxes	3,828	2,293	6,121
Total liabilities	751,922	(1,477)	750,445
Accumulated deficit	(610,228)	6,882	(603,346)
Total stockholders' equity	(239,681)	6,882	(232,799)
Total liabilities and stockholders' equity	$ 512,241	$ 5,405	$ 517,646

	Fiscal Year Ended February 1, 2019		
	As Reported	**Topic 606 Adjustment**	**Balances Without Adoption of Topic 606**
Sales and marketing expense	$ 429,641	$ 4,666	$ 434,307
Total costs and expenses	1,783,219	4,666	1,787,885
Operating income	12,633	(4,666)	7,967
Loss before income taxes	(37,503)	(4,666)	(42,169)
Income tax	(8,468)	(1,051)	(9,519)
Net loss	$ (29,035)	$ (3,615)	$ (32,650)

Revenue is disaggregated by merchandise category. The following table summarizes total net sales by merchandise category for the fiscal years ended February 1, 2019 and February 2, 2018 (in thousands):

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Net sales		
Home	$ 431,329	$ 472,989
Entertainment	432,651	447,849
Fashion	1,027,052	1,062,565
Total merchandise sales[(1)]	**1,891,032**	**1,983,403**
Corporate and other[(2)]	8,199	10,282
Returns and allowances	(167,569)	(184,011)
Commissions and other revenues	64,190	77,981
Net sales	**$ 1,795,852**	**$ 1,887,655**

[(1)] Includes shipping and handling revenue and is net of sales discounts
[(2)] Consists of adjustments to Bluestem's net sales related to in-transit product sales from shipping point to estimated time of delivery, net of sales of PayCheck Direct and the elimination of inter-segment activities.

Revenue is not disaggregated by the timing of revenue recognition as all revenue is recognized upon delivery to the carrier. The disaggregation of revenue is consistent with the manner in which management internally disaggregates financial information for the purpose of decision making.

Because all of the Company's revenue is recognized at a point in time, no material contract assets are created. Contract liabilities primarily relate to consideration received in advance of shipment of merchandise to customers, refunds due to customers and unredeemed gift certificates. These contract liabilities are recorded as Accrued costs and other liabilities on the Company's Consolidated Balance Sheets. Significant changes in contract liabilities during the period are as follows (in thousands):

	Contract Liabilities
February 2, 2018[1]	$ 32,287
Reclassification of beginning deferred revenue to revenue, as a result of performance obligations satisfied	(17,413)
Gift certificate redemptions and breakage	(3,525)
Provisions for refunds, net of refunds paid	391
Cash received in advance and not recognized as revenue	5,101
Balance, February 1, 2019	$ 16,841

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

Inventories

Merchandise inventories are valued at the lower of weighted-average cost or net realizable value. The Company writes down inventory considered obsolete based on management's best estimate of the amount of inventory that is subject to obsolescence. The estimates are subject to change, depending on changes in economic conditions and other factors, which may affect the ending inventory valuation as well as gross margin. Merchandise inventories were $210.7 million and $194.7 million, net of write-downs for excess and obsolete merchandise of $8.3 million and $8.4 million at February 1, 2019 and February 2, 2018, respectively. In connection with the announced exiting of six Orchard Portfolio brands, the Company recorded a $3.9 million merchandise inventory impairment and established a $2.5 million liability related to the receipt of committed inventory purchases in the fiscal year ended February 1, 2019. 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. Prior to fiscal 2018, catalog direct response advertising costs were 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. Following adoption of Topic 606 effective February 3, 2018, catalog direct response advertising costs are expensed on the estimated date of first delivery to recipients. Premiums are expensed when shipped to the customer along with the product order.

Credit Card Agreements

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

Cost of Goods Sold

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

Sales and Marketing Expenses

Sales and marketing expenses include advertising costs, order entry and customer service costs, premium (i.e., free gift with purchase) expense and interchange fees. Advertising includes the cost to produce and mail catalogs, digital marketing costs and television commercial production and broadcast costs. Catalog production costs are deferred during production and expensed along with postage costs on the estimated date of first delivery to recipients. Television commercial production costs are expensed the first time the advertising takes place while the cost to run the commercial is expensed when aired. Bluestem discontinued television advertising in September 2017. Advertising costs for the fiscal years ended February 1, 2019 and February 2, 2018 were $377.2 million and $410.2 million, respectively.

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. General and administrative expenses also include professional fees and contract labor for investment and acquisition transactions, legal, accounting, and other service providers. In addition, general and administrative expenses include 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	Serviced Credit Portfolio	10	Income Taxes
5	Property and Equipment, Net	12	Derivative Instruments
6	Intangible Assets and Goodwill	14	Stock-Based Compensation
7	Debt	17	Commitments and Contingent Liabilities

Other Recently Adopted Accounting Standards
In January 2016, the Financial Accounting Standards Board ("FASB") issued *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. The Company adopted this standard in the first quarter of fiscal 2018. The adoption of ASU 2016-01 did not have a significant impact on the Company's results of operations or financial position, and a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption was not required.

In August 2016, the FASB issued *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which relates to the classification of certain cash receipts and cash payments on the statement of cash flows. The Company adopted this standard in the first quarter of fiscal 2018 applying a retrospective transition method to each period presented. The adoption of ASU 2016-15 did not have a significant impact on the Company's results of operations or financial position.

In October 2016, the FASB issued *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"), which requires recognition of the income tax consequences of intra-entity transfers of assets (other than inventory) at the transaction date. The Company adopted this standard in the first quarter of fiscal 2018. The adoption of ASU 2016-16 did not have a significant impact on the Company's results of operations or financial position.

In November 2016, the FASB issued *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU 2016-18"), which requires that the statement of cash flows explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash. The Company adopted this standard in the first quarter of fiscal 2018 applying a retrospective transition method to each period presented. The adoption of ASU 2016-18 resulted in a reclassification of changes in restricted cash from cash flow from investing activities to the opening and closing balances of Cash, cash equivalents and restricted cash. The adoption had no other impact on the Company's results of operations, financial position or cash flow.

In May 2017, the FASB issued *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"), which provides guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The Company adopted this standard in the first quarter of fiscal 2018 and it is being applied prospectively to awards modified on or after the adoption date. The adoption of ASU 2016-18 had no impact on the Company's results of operations, financial position or cash flow.

Accounting Standards Issued But Not Yet Adopted**d**
In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 was issued to increase transparency and comparability among entities by recognizing lease assets and lease liabilities on the consolidated balance sheet and disclosing key information about lease arrangements. The updated standard is effective for us beginning in the first quarter of fiscal 2019. In July 2018, the FASB issued ASU 2018-11 *Leases*: *Targeted Improvements* which provides the option to adopt the standard as of the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings. We will adopt ASU 2016-02 effective as of February 2, 2019 with an expected immaterial cumulative adjustment to retained earnings rather than retrospectively adjusting prior periods. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures. We have identified all leases in effect as of February 2, 2019 and are in the final stages of calculating the impact adoption of ASU 2016-02 will have on our balance sheet. We expect that a significant lease liability and right-of-use asset will be recorded on the consolidated balance sheet beginning in the first quarter of fiscal 2019. We do not expect the adoption of ASU 2016-02 will have a material impact on our results of operations or cash flows.

In June 2016, the FASB issued *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (*"ASU 2016-13") which amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, resulting in the more timely recognition of losses. The new standard applies to financial assets measured at amortized cost basis, including receivables that result from revenue transactions and held-to-maturity debt securities. ASU 2016-13 is effective for interim and annual periods beginning on or after December 15, 2020. Earlier application is permitted for interim and annual periods beginning on or after December 15, 2018. Management does not anticipate that ASU 2016-13 will have a significant impact on the reported results of operations or financial position.

(in thousands, except share data)

In August 2017, the FASB issued *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12") which provide for better alignment of an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted in any interim period after issuance of the update. Management does not anticipate that ASU 2016-12 will have a significant impact on the reported results of operations or financial position.

In August 2018, the FASB issued *Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"), which modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, primarily by eliminating certain required disclosures. ASU 2018-13 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted. Management does not anticipate that ASU 2018-13 will have a significant impact on the reported results of operations or financial position.

4. Serviced Credit Portfolio

Northstar Portfolio Accounts Receivable Program
The Company's Northstar Portfolio brands offer its customers credit arrangements to finance their purchases. Fingerhut customers may be offered one of two credit products, Fingerhut revolving credit or Fingerhut FreshStart installment credit. Fingerhut revolving credit is typically accepted on customary revolving credit terms. The Fingerhut FreshStart installment credit product is offered to customers who do not qualify for a revolving credit account. Gettington customers are offered revolving credit, which is accepted on customary revolving credit terms.

The Company is a party to a series of transactions with WebBank and SCUSA related to revolving Northstar Portfolio customer accounts receivable executed under a set of operating agreements referred to collectively as the "A/R Program Agreements" and the arrangement is referred to as the "A/R Program." Under the A/R Program, the Company markets revolving credit accounts and installment credit accounts to qualifying customers identified by the Company. WebBank extends credit directly to Northstar Portfolio customers. The credit accounts may only be used to purchase goods and services from Northstar Portfolio and certain third parties that market their goods and services to Northstar Portfolio 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.

The following are the primary A/R Program Agreements executed by Bluestem:

Agreement	Counterparty
Program Agreement	WebBank and SCUSA
Receivables Sales Agreement	WebBank
Standard Receivables Sales Agreement	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. SCUSA is obligated to reimburse Bluestem for WebBank's origination and other product fees. 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, are referred to as "Nonstandard Receivables." SCUSA bears risk of loss due to uncollectibility of the Standard Receivables purchased from Bluestem. Bluestem retains all Nonstandard Receivables purchased from WebBank, and bears the risk of loss due to uncollectibility.

A Standard Receivable eligible to be sold under the A/R Program Agreements qualifies as a sale under Accounting Standards Codification ("ASC") 860, *Transfers and Servicing,* and is recorded at the lower of cost or fair value at the date of eligibility. At the date of eligibility, 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. Bluestem services the Standard Receivables as SCUSA's agent and any servicing asset or liability is recognized at fair value.

The term of the Standard Receivables Sales Agreement for the forward purchase of Standard Receivables by SCUSA and servicing of Standard Receivables by Bluestem has been extended through April 19, 2022.

Northstar Serviced Credit Portfolio metrics as of the end of the periods are as follows (in thousands, except for average balances outstanding):

February 1, 2019	**Revolving** [1]	**FreshStart** [2]
Balance active accounts	1,823	142
Average balance outstanding	$ 822	$ 111
Customer accounts receivable [3]	$ 1,498,283	$ 15,869
Balances 30+ days delinquent [4]	$ 248,509	$ 3,685
Balances 30+ days delinquent as a percentage of total customer accounts receivable [5]	16.6%	23.2%

February 2, 2018	**Revolving** [1]	**FreshStart** [2]
Balance active accounts	1,792	128
Average balance outstanding	$ 833	$ 110
Customer accounts receivable [3]	$ 1,492,172	$ 14,073
Balances 30+ days delinquent [4]	$ 243,467	$ 3,318
Balances 30+ days delinquent as a percentage of total customer accounts receivable [5]	16.3%	23.6%

(1) Revolving serviced portfolio includes Northstar Portfolio revolving credit accounts.
(2) FreshStart serviced portfolio represents Fingerhut's installment credit accounts.
(3) Customer accounts receivable balances as of the customers' statement cycle dates prior to or on fiscal period end.
(4) Delinquent balances as of the customers' statement cycle dates prior to or on fiscal period end.
(5) Delinquent balances as of the customers' statement cycle dates prior to or on fiscal period end as a percentage of total customer accounts receivable as of the customers' statement cycle dates prior to or on fiscal period end.

Company-owned Customer Accounts Receivable
Company-owned customer accounts receivable primarily consist of FreshStart installment accounts receivable and any remaining PayCheck Direct installment accounts receivable following the exit from the PayCheck Direct business in the first quarter of fiscal 2017. FreshStart and PayCheck Direct installment accounts receivable are not sold to SCUSA.

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

	February 1, 2019	**February 2, 2018**
FreshStart installment accounts receivable	$ 15,757	$ 13,950
Other	198	407
Customer accounts receivable - gross	15,955	14,357
Less: allowance for doubtful accounts	(7,801)	(7,082)
Customer accounts receivable - net	$ 8,154	$ 7,275

SCUSA-owned Customer Accounts Receivable
Standard Receivable details are as follows (in thousands except for average merchant discount):

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Standard Receivables originated	$ 1,080,789	$ 1,075,828
Charge to the provision for doubtful accounts and principal charge-off for the sale below par related to Standard Receivables	86,156	93,328
Average merchant discount	7.97%	8.68%

The Standard Receivables Sales Agreement states if the risk-adjusted margin ("RAM") as a percentage of average A/R Program receivables is projected to be less than 5% for the full fiscal year, then Bluestem shall implement a merchant discount on all Standard Receivables to be purchased by SCUSA for the remainder of the fiscal year. 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 is not obligated to apply the merchant discount rate.

Net Credit Expense
The Company is responsible for servicing all accounts (the "Serviced Credit Portfolio") whether the related receivables are owned by the Company or SCUSA. The expenses associated with the Northstar Portfolio revolving and installment credit activity are recorded as Net credit expense in the Consolidated Statements of Comprehensive Loss, and include provisions for doubtful accounts and credit management costs on all customer accounts receivable netted against finance charges and fee income on Company-owned accounts receivable and servicing fee income and portfolio profit sharing from SCUSA owned accounts receivable. Also included in Net credit expense are gains or losses related to fair market valuation adjustments to the servicing rights liability, as explained below.

Net credit expense is summarized below (in thousands):

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Provision for doubtful accounts:		
Loss on sale of customer accounts receivable	$ 86,156	$ 93,328
Company-owned customer accounts receivable	11,398	17,475
Total provision for doubtful accounts	97,554	110,803
Credit management costs	62,363	67,759
Finance charge and fee income, net	(3,424)	(2,799)
Servicing fee income	(32,937)	(30,651)
(Gain) loss on servicing right	(3,182)	3,665
Net credit expense	$ 120,374	$ 148,777

Provisions for Doubtful Accounts. A provision for doubtful accounts is recorded in an amount needed to reduce the value of accounts receivable purchased from WebBank to the discounted value sold to SCUSA. SCUSA bears the risk of loss due to uncollectibility of the Standard Receivables it owns.

The Company also 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. 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 on company-owned receivables 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 Company-owned customer accounts are past due and their related accounts receivable balances are as follows (in thousands):

	February 1, 2019
Current	$ 8,336
Days past due:	
1 - 29	3,871
30 - 59	1,482
60 - 89	1,131
90 - 119	1,121
120+	14
Customer accounts receivable	$ 15,955

Changes in the allowance for doubtful accounts for the fiscal years ended February 1, 2019 and February 2, 2018 were as follows (in thousands):

	February 1, 2019	February 2, 2018
Balance as of the beginning of the period	$ 7,082	$ 17,041
Provision for doubtful accounts [(1)]	97,554	110,803
Principal charge-offs [(1)]	(97,350)	(111,899)
Recoveries	515	759
Reduction in the allowance for the sale of PayCheck Direct accounts receivable	—	(9,622)
Balance as of the end of the period	$ 7,801	$ 7,082

[(1)] Includes $86.2 million and $93.3 million charge for accounts receivable sold to SCUSA below par (merchant discount) for the fiscal years ended February 1, 2019 and February 2, 2018, respectively.

Credit Management Costs. 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.

Finance Charge and Fee Income, Net. Finance charge and fee income is recognized on FreshStart accounts receivable according to the contractual provisions of the credit account agreements. Finance charges are accrued on FreshStart accounts receivable until the account balance is paid off or charged off. A single late fee is imposed on FreshStart installment accounts if the customer does not pay at least the minimum payment by the payment due date and is classified as delinquent. Additional late fees may be imposed if the account returns to a current status and then subsequently becomes delinquent again. The Company's estimate of uncollectible finance charge and fee income is included in the allowance for doubtful accounts.

Servicing Fee Income. In consideration of the Company's servicing of the Standard Receivables portfolio owned by SCUSA, SCUSA pays a servicing fee to and shares a portion of the profits of the SCUSA portfolio with the Company, as defined in the A/R Program Agreements. The portfolio profits are based on finance charges, fees and other revenues, less charge-offs of uncollectible receivables, net of recoveries, servicing fees, an agreed upon cost of funds and in certain circumstances a merchant fee.

Gain or Loss on Servicing Rights. A servicing rights asset or liability is recorded when compensation received from SCUSA for services provided is in excess or is short of compensation generally received for similar services in the open market. Servicing rights liabilities are carried at fair value in Other long-term liabilities on the Consolidated Balance Sheets. The Company recognizes gains or losses on servicing rights if the level of accounts receivable being serviced changes or if changes to valuation assumptions are made in response to changes in the market. The fair value of servicing right as of February 1, 2019 was determined using an assumed discount rate of 13% and customer accounts receivable attrition rate of approximately 81% within twelve months. See Note 13, *Fair Value of Assets and Liabilities* for more information.

Changes in the fair value of the servicing rights liability for the fiscal years ended February 1, 2019 and February 2, 2018 were as follows (in thousands):

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Fair value as of the beginning of the period	$ 25,988	22,323
Credit origination and fee additions	25,759	25,999
Payments and charge-off subtractions	(25,658)	(26,380)
Change in fair value due to updated assumptions	(3,283)	4,046
Fair value as of the end of the period	$ 22,806	$ 25,988

5. Property and Equipment, Net

Property and equipment includes land, buildings, building improvements, 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 and building improvements are depreciated using the straight-line method over the estimated useful lives of up to 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, building improvements and leasehold improvements have 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 7, Debt for more information.

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

	February 1, 2019	**February 2, 2018**
Land and building	$ 10,695	$ 10,551
Software	131,494	118,789
Computer Hardware	19,081	16,252
Machinery, equipment, and furniture	30,080	27,402
Property under capital lease and leasehold improvements	18,763	18,624
Total property and equipment	210,113	191,618
Less: Accumulated depreciation and amortization	(138,303)	(102,233)
Property and equipment, net	$ 71,810	$ 89,385

Depreciation and amortization expense related to property and equipment was $36.2 million and $43.7 million for the fiscal years ended February 1, 2019 and February 2, 2018, respectively, of which $3.5 million and $4.5 million was reported in cost of goods sold. For the fiscal years ended February 1, 2019 and February 2, 2018, routine maintenance and repair costs were $12.0 million and $11.9 million, respectively. Routine maintenance and repair costs are reported in general and administrative expenses in the Consolidated Statements of Comprehensive Loss.

6. Intangible Assets and Goodwill

Indefinite-lived intangible assets consist of tradenames and are not subject to amortization. The changes in the carrying amount of tradenames were as follows (in thousands):

Balance as of February, 2017	$ 98,480
Impairments	(26,310)
Balance as of February, 2018	$ 72,170
Impairments	(25,601)
Balance as of February, 2019	$ 46,569

Intangible assets with finite lives consist of customer relationships and are amortized using the accelerated method over their estimated useful lives ranging from two to fourteen 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.

The Company’s intangible assets with finite lives, net were as follows (in thousands):

	February 1, 2019	February 2, 2018
Customer relationships	$ 155,909	$ 155,909
Less: Accumulated amortization	(81,557)	(64,702)
Intangible assets with finite lives, net	$ 74,352	$ 91,207

Intangible assets amortization expense for the fiscal years ended February 1, 2019 and February 2, 2018 was $16.9 million and $18.9 million, respectively. As of February 1, 2019, estimated annual amortization expense for finite lived intangible assets for the next five fiscal years and thereafter is as follows (in thousands):

Fiscal Years	
2019	$ 16,346
2020	13,024
2021	7,170
2022	6,483
2023	5,864
Thereafter	25,465
Total	$ 74,352

Goodwill is the amount by which the cost of the acquired net assets in a business combination exceeds the fair value of the identifiable net assets on the date of purchase or valuation, respectively. Goodwill is not amortized, but is assessed for impairment at the reporting unit level at least annually, or more frequently when events and circumstances indicate that goodwill may be impaired. There were no changes to the $36.7 million carrying amount of goodwill related to the Company's Fingerhut business for the fiscal years ended February 1, 2019 and February 2, 2018. An impairment of $165.8 million was recorded in the fiscal year ended February 2, 2018 to fully write-off the goodwill related to the Orchard Portfolio.

Loss on impairment

During the fourth quarter of fiscal 2017, the Company adopted the provisions of ASU 2017-04, *Intangibles- Goodwill and Other (Topic 350)* simplifying the test for goodwill impairment during the annual impairment test. Adoption of ASU 2017-04 did not have a material impact on the Company's operating results or financial position.

The Company tests its indefinite-lived intangible assets and goodwill annually on the first day of the fourth quarter for impairment or conducts interim impairment tests whenever circumstances or events indicate that it is more likely than not that the fair value of the asset is below its carrying amount. Reporting units for purposes of goodwill impairment testing are the Northstar Portfolio and the Orchard Portfolio.

During the third quarter of fiscal 2018 the Company noted that the performance of the Orchard Portfolio was below management’s expectations due primarily to a decline in the Orchard customer base due to a decline in rebuy rates and declining new customer acquisition, and in the fourth quarter announced the exiting of six of Orchard Portfolio’s retail brands. These being indicators of possible intangible and long-lived asset impairment in the Orchard Portfolio, the Company performed impairment tests of Orchard Portfolio’s tradenames and long-lived assets. As a result of these tests, the Company recorded a $25.6 million non-cash loss on impairment of tradenames in fiscal 2018, of which $3.0 million related to the six exited Orchard brands (see Note 8. *Restructuring)*. The Company concluded that undiscounted cash flows were in excess of Orchard Portfolio’s long-lived asset carrying values, and no impairment of these assets was recorded.

In connection with the fiscal 2018 annual impairment test the Company determined that the Northstar Portfolio’s fair value was above its carrying value resulting in no impairment of goodwill. The fair value of the Fingerhut tradename was also determined to be above its carrying value resulting in no impairment of tradenames. The Company also evaluated Northstar Portfolio’s long-lived assets for impairment by evaluating the recoverability of the asset group, concluding that undiscounted cash flows were in excess of Northstar Portfolio’s long-lived asset carrying values, and no impairment of these assets was recorded.

The fiscal 2017 impairment test on Orchard Portfolio’s goodwill required the Company to determine the fair value of the Orchard Portfolio reporting unit and compare the fair value to the reporting unit’s carrying value. The overall financial performance of the Orchard segment during fiscal 2017 was below management's expectations as a result of increased promotions coupled with decreased catalog response rates leading to lower new customer acquisition, decreased active customers and a decline in customer rebuy rates as well as inventory management issues resulting in our inability to meet demand as certain items were sold out. As a result of the decline in sales and the resulting decrease in the fair value of the Orchard Portfolio reporting unit during fiscal 2017, the Company recorded a non-cash loss on impairment within the Orchard Portfolio of $185.0 million, of which $165.8 million was to write-off all of Orchard's goodwill. In addition, Orchard Portfolio recorded a $19.2 million impairment on certain of its tradenames having an aggregate carrying value of $56.4 million.

The impairment test on Orchard Portfolio's tradenames required the Company to determine the fair value of the tradenames and compare the fair value to its carrying value. Certain tradenames were determined to be below carrying value, as a result of declining sales.

As a result of the impairment of goodwill and intangibles in fiscal 2017, management also evaluated Orchard Portfolio's long-lived assets for impairment by evaluating the recoverability of the asset group, concluding that undiscounted cash flows were in excess of Orchard Portfolio's long-lived asset carrying values, and no impairment of these assets was recorded.

In connection with the fiscal 2017 annual impairment test the Company determined that the Northstar Portfolio's fair value was above its carrying value resulting in no impairment of goodwill. However, the fair value of the Fingerhut and Gettington tradenames were determined to be below carrying value due to a reduction in expected cash flows used to value the tradename, therefore a $6.9 million impairment of these tradenames was recorded in fiscal 2017.

In performing the impairment tests, described above, the Company considered valuation techniques under the market approach, income approach (discounted cash flow) and cost approach to estimate the fair values of the reporting units, operating units and intangible assets. The fair values of the Northstar Portfolio and Orchard Portfolio reporting units were determined by using both the market approach and the income approach. The fair values of indefinite-lived tradenames were determined using the relief from royalty method. The fair value of the finite-lived customer relationship was determined using the income approach.

These valuations required the Company to make a number of assumptions. Any variance in these assumptions could have a significant effect on the determination of impairment. These assumptions included the Company's actual operating results, future business plans, economic projections and market data as well as estimates by its management regarding future cash flows and operating results. Further, the Company cannot predict what future events may occur that could adversely affect the reported value of its assets. These events include, but are not limited to, any strategic decisions the Company may make in response to economic or competitive conditions affecting the reporting unit and the effect of the economic and regulatory environment on its business.

Other key assumptions used in these models include discount rates, royalty rates, growth rates and terminal value rates. Discount rates used are similar to 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 associated with each indefinite-lived intangible asset. Terminal value rate determination follows the 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.

The discounted cash flow approach calculates the present value of projected future cash flows using appropriate discount rates. The comparative market approach provides indications of value based on market multiples of public companies involved in similar lines of business. The fair values derived from these valuation methods were then weighted to determine an estimated fair value of the reporting unit. The Company based its comparative market approach on the valuation multiples (enterprise value divided by EBITDA) of a selected group of peer companies in the on-line and catalog retail industries.

7. 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):

	February 1, 2019	February 2, 2018
Short-term debt		
Term loan - net of discount and financing fees of $4,859	$ 23,943	$ 23,943
Asset-Backed Line of Credit	24,336	—
Capital lease obligation and other	535	1,513
Other notes payable	1,089	978
Short-term debt	$ 49,903	$ 26,434
Long-term debt		
Term loan - net of discount and financing fees of $3,751 and $8,610	$ 395,602	$ 419,545
Capital lease obligation	—	535
Long-term debt	$ 395,602	$ 420,080

The weighted-average interest rates for short-term borrowings at February 1, 2019 and February 2, 2018 were 8.0% and 8.6%, respectively.

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.

On July 10, 2015, Bluestem Brands, Inc. entered into the First Amendment and Incremental Agreement to the Initial Term Loan and borrowed an additional $280 million, using the proceeds to finance the purchase of Orchard. The Incremental Loans were issued with an original issue discount totaling $2.8 million, and new lender fees of $7.7 million were capitalized as deferred charges. The amendment was accounted for as a debt modification. There were no changes to the payment terms, interest rate, maturity date 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 quarterly principal payments increased from $3.8 million to $7.5 million. The Initial Term Loan facility and the First Amendment and Incremental Agreement to the Initial Term Loan are collectively referred to herein as the "Term Loan."

The deferred charges and original issue discount were recorded as deductions from the carrying amount of the Term Loan on the Company's Consolidated Balance Sheets and are being amortized as interest expense over the remaining term of the loan under the straight-line method, which approximates the effective interest method,

Following an early retirement of $21.5 million of the Term Loan in fiscal 2016, Bluestem is required to repay the outstanding principal balance of the Term Loan in quarterly installments of $7.2 million with the balance due at maturity. The final principal payment may be reduced by the mandatory prepayments based on annual excess cash flow (as defined in the Term Loan Agreement) and/or net cash proceeds from (1) certain asset sales, (2) certain debt offerings, and (3) certain insurance condemnation proceeds. No mandatory prepayments were due for fiscal years ended February 1, 2019 and February 2, 2018.

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, with interest to be paid quarterly. Eurocurrency rate borrowings bear an interest rate of 7.5% per annum plus adjustments amounting to a minimum additional rate of 1% per annum, with interest to be paid monthly. 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. The interest rate on the Term Loan using the eurocurrency borrowing rate option as of February 1, 2019 and February 2, 2018 was 10.0% and 9.1%, respectively.

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.

As of February 1, 2019 and February 2, 2018, the outstanding balance of the Term Loan was $428.2 million and $457.0 million, respectively.

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. As further amended on October 5, 2018, during Bluestem's seasonal high period running from October through December each year the borrowing capacity is calculated as the lower of 90% of the liquidation value from the latest inventory appraisal or 70% 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. During the remainder of the year, the borrowing capacity is calculated as before the amendment, i.e., the restriction on eligible inventory is the lower of 90% of the liquidation value from the latest inventory appraisal or 65% of eligible inventory.

Under the terms of the amended Asset-Backed Line of Credit, Bluestem is allowed to increase the line of credit commitments by an amount not to exceed $50 million. However, the lenders are under no obligation to provide any such additional commitments. Any increase in commitments or incremental term loans will be subject to certain conditions and 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.

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%.

There were $24.3 million of borrowings on the Asset-Backed Line of Credit as of February 1, 2019 and no such borrowings as of February 2, 2018. Availability on the Asset-Backed Line of Credit was $81.5 million and $92.4 million as of February 1, 2019 and February 2, 2018, respectively. As of February 1, 2019 and February 2, 2018, Bluestem was in compliance with all financial covenants of the Asset-Backed Line of Credit Agreement.

Letters of credit are primarily used to support the Company's customs bonds, insurance requirements and other vendor trade requirements. Bluestem had $15.1 million and $10.6 million of outstanding letters of credit at February 1, 2019 and February 2, 2018, respectively.

Debt Covenants

Under provisions of the Term Loan and the Asset-Backed Line of Credit, 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 excluding unrestricted subsidiaries as defined by the Term Loan. The loan agreements contain cross-default provisions such that a default of one will cause the other to default. In addition, the Program Agreement requires the Bluestem be in compliance with the financial covenants at all times. The most restrictive financial covenants in the loan agreements are as follows.

- Minimum Net Liquidity - As of the last day of any fiscal month, Bluestem must maintain liquidity of at least $40 million measured as the sum of (i) unrestricted cash and cash equivalents less third party credit card receivables, 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 4.5:1. Adjusted EBITDA is defined as earnings (loss) before income tax benefit, interest expense, amortization and depreciation expense, loss on impairment, 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 February 1, 2019 and February 2, 2018, Bluestem was in compliance with all financial covenants.

Future Maturities

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

Fiscal Years		
2019	$	54,762
2020		399,353
Subtotal		454,115
Discount and financing costs		(8,610)
Net	$	445,505

Interest Expense

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

	Fiscal Year Ended			
	February 1, 2019		**February 2, 2018**	
Interest on debt	$	46,204	$	44,573
Interest on capital lease obligations		42		122
Interest on swaps		(1,421)		661
Amortization of deferred charges		3,032		3,032
Amortization of original issue discount		2,372		2,372
Interest income		(93)		(68)
Total interest expense, net	$	50,136	$	50,692

8. Restructuring

During the fourth quarter of fiscal 2018, the Company announced that it had made the strategic decision to exit six of its eleven Orchard brands: Bedford Fair, Gold Violin, Norm Thompson, Sahalie, The Tog Shop and Winter Silks (the "2018 Restructuring Plan"). This decision was made to streamline the business, enabling Company management to focus resources on the core Orchard portfolio brands, consisting of Appleseed's, Blair, Drapers & Damon's, Haband and Old Pueblo Trader. All of Sahalie's inventory assortment is now and will continue to be offered through the Company's Gettington retail brand. The remaining exiting retail brands will be sold or liquidated.

In connection with this restructuring, the Company expects to record restructuring expense for employee costs and professional fees and other costs totaling approximately $2.4 million and $1.1 million, respectively. Employee costs primarily consist of severance and relocation costs. Professional fees and other costs primarily consist of professional services related to restructuring actions and costs related to catalogs in production that were made obsolete by the 2018 Restructuring Plan. In addition, the Company recorded tradename impairment charges of $3.0 million on the exited brands and a merchandise inventory write-down of $3.9 million along with the establishment of a $2.5 million liability related to the receipt of committed inventory purchases. Tradename impairment is the result of the Orchard Portfolio's continued deterioration of results (see Note 6, *Intangible Assets and Goodwill*). Inventory write-downs are the result of actions taken to monetize the inventory of the exited brands.

All of the restructuring related employee and professional services and other costs are presented in the Corporate and other segment, as is the tradename impairment charge. Inventory write-downs are presented in the operating segments. See Note 19, *Segment Information*.

The following table presents 2018 Restructuring Plan restructuring charges by the segments with which the charges are associated (in thousands):

	Fiscal Year Ended February 1, 2019		
	Northstar	**Orchard**	**Total**
Employee costs[1]	$ 40	$ 1,863	$ 1,903
Professional services and other costs[1]	—	569	569
Inventory write-downs[2]	—	6,450	6,450
Tradename impairment[3]	$ —	$ 2,960	$ 2,960
Total restructuring costs and related charges	$ 40	$ 11,842	$ 11,882

[1] Restructuring charges related to employee costs and professional and other costs are recorded as a component of General and administrative expenses on the Consolidated Statements of Comprehensive Loss.
[2] Restructuring charges related to inventory related costs are recorded as a component of Cost of goods sold on the Consolidated Statements of Comprehensive Loss.
[3] Tradename impairment is recorded as a Loss on impairment on the Consolidated Statements of Comprehensive Loss.

The following table summarizes the 2018 Restructuring Plan accrual related to employee and professional and other costs for the fiscal year ended February 1, 2019 (in thousands):

	Fiscal Year Ended February 1, 2019		
	Employee costs	**Professional and other costs**	**Total**
Balance as of beginning of period	$ —	$ —	$ —
Restructuring charges	1,903	569	2,472
Payments and settlements	—	(56)	(56)
Balance as of end of period	$ 1,903	$ 513	$ 2,416

The restructuring accruals are included in accrued liabilities on the Consolidated Balance Sheets. The restructuring liabilities are expected to be completely settled in fiscal year 2019.

During the first quarter of fiscal 2017, the Company initiated restructuring actions, which included initiatives intended to improve operating performance and reduce costs (the"2017 Restructuring Plan"). These initiatives included workforce reductions intended to increase organizational effectiveness and provide cost savings that can be reinvested in core business initiatives. Additionally, the Company exited its PayCheck Direct and LinenSource businesses, closed its Draper's & Damon's brand retail store channel, consolidated various Orchard Portfolio office locations, and exited a Northstar third-party distribution center.

The Company has separated its restructuring charges into provision for doubtful accounts, employee costs, facility closure and other costs, and impairment and accelerated depreciation for which total restructuring charges related to these initiatives are estimated to be approximately $2.0 million, $5.2 million, $8.7 million and $3.5 million, respectively. Provision for doubtful accounts charge is related to the exit of its PayCheck Direct business. Employee costs primarily consist of severance costs. Facility closure and other costs primarily consists of lease termination fees, lease liability and professional fees related to restructuring actions.

All of the 2017 Restructuring Plan costs are presented in the Corporate and other segment. The following table presents the restructuring charges by the segments in which the charges are associated (in thousands):

	Fiscal Year Ended February 1, 2019			
	Northstar	Orchard	Corporate and other	Total
Employee costs[1]	$ 12	$ 14	$ —	$ 26
Facility closure and other costs[1]	22	11	—	33
Total restructuring charges	$ 34	$ 25	$ —	$ 59

	Fiscal Year Ended February 2, 2018			
	Northstar	Orchard	Corporate and other	Total
Provision for doubtful accounts[2]	$ —	$ —	$ 2,034	$ 2,034
Employee costs[1]	481	1,774	2,916	5,171
Facility closure and other costs[1]	857	3,781	4,018	8,656
Impairment and accelerated depreciation	212	2,097	1,171	3,480
Total restructuring charges	$ 1,550	$ 7,652	$ 10,139	$ 19,341

	Cumulative through February 1, 2019			
	Northstar	Orchard	Corporate and other	Total
Provision for doubtful accounts[2]	$ —	$ —	$ 2,034	$ 2,034
Employee costs[1]	493	1,788	2,916	5,197
Facility closure and other costs[1]	879	3,792	4,018	8,689
Impairment and accelerated depreciation	212	2,097	1,171	3,480
Total restructuring charges	$ 1,584	$ 7,677	$ 10,139	$ 19,400

(1) Restructuring charges related to employee costs and facility closure and other costs are recorded as a component of General and administrative expenses on the Consolidated Statements of Comprehensive Loss.
(2) Restructuring charges related to provision for doubtful accounts are recorded as a component of Net credit expense on the Consolidated Statements of Comprehensive Loss.

The following table summarizes the 2017 Restructuring Plan accrual related to employee and facility closure for the fiscal year ended February 1, 2019 (in thousands):

	Fiscal Year Ended February 1, 2019		
	Employee costs	Facility closure and other costs	Total
Balance as of beginning of period	$ 153	$ 715	$ 868
Restructuring charges	26	33	59
Payments and settlements	(179)	(413)	(592)
Balance as of end of period	$ —	$ 335	$ 335

The restructuring accruals are included in Accrued liabilities on the Consolidated Balance Sheets. Due to certain long-term lease agreements the remaining liability payments will be made in fiscal years 2019 through 2021.

9. Other Balance Sheet Data

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

	February 1, 2019	February 2, 2018
Other Current Assets		
Prepaid expenses and other	$ 17,844	$ 14,521
Other accounts receivables	10,043	10,825
Total other current assets	$ 27,887	$ 25,346
Accrued Costs and Other Liabilities		
Accrued liabilities	$ 64,041	$ 46,027
Accrued payroll and benefits	20,344	14,878
Deferred revenue	5,243	20,193
Total accrued costs and other liabilities	$ 89,628	$ 81,098
Other Long-Term Liabilities		
Servicing liability	$ 22,806	$ 25,988
Other	12,485	13,157
Total other long-term liabilities	$ 35,291	$ 39,145

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows (in thousands):

	February 1, 2019	February 2, 2018
Total Cash, Cash Equivalents and Restricted Cash Shown in the Statement of Cash Flows		
Cash and cash equivalents	$ 7,102	$ 9,173
Restricted cash	13,508	15,759
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 20,610	$ 24,932

10. Income Taxes

The Company has recorded an income tax benefit of $8.5 million for the fiscal year ended February 1, 2019. This benefit was recognized on $37.5 million of loss before income taxes. The net tax benefit is primarily attributable to the current year loss.

In December 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the “Tax Act”), which among other things reduced the U.S. corporate income tax rate from 35 percent to 21 percent effective January 1, 2018, changed rules related to net operating losses ("NOL") carryforwards and carrybacks, and added rules that limit the deductibility of interest expense. The Tax Act also implements a territorial tax system and imposes a one-time repatriation tax on deemed repatriated accumulated foreign earnings as of December 31, 2017. The one-time repatriation tax was not material because the Company's foreign entities have an accumulated earnings deficit.

Given the significance of the Tax Act, SEC Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. SAB 118 allows registrants to record provisional amounts during a one year “measurement period.” The measurement period is deemed to have ended earlier when the registrant has obtained, prepared, and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared, or analyzed.

In the fiscal year ended February 2, 2018, the Company recorded a provisional income tax benefit of $9.4 million pursuant to SAB 118. The accounting for the income tax effects of the enactment of the Tax Act is complete as of February 1, 2019. There were no material changes to these provisional estimates during the 52-weeks ended February 1, 2019. Changes in interpretations, assumptions, and guidance regarding the new tax legislation, as well as the potential for technical corrections to the Tax Act, could have a material impact to the Company’s effective tax rate in future periods.

As a result of the Tax Act, the Company is also subject to certain statutory restrictions on its current interest deduction, which limits deductible interest expense to the sum of business interest income plus 30% of adjusted taxable income. The carryforward deferred tax asset for disallowed business interest expense does not expire, but can only be utilized in future years when interest income and adjusted taxable income provides excess limitation. For the year ended February 1, 2019, the Company generated a $4.6 million interest expense carryforward deferred tax asset.

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, the Company considers 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 its deferred tax asset will be realized to the extent of 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. The Company records 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 the Company's 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) expense (in thousands):

	Fiscal Years Ended	
	February 1, 2019	**February 2, 2018**
Current income tax (benefit) expense:		
Federal	$ —	$ (1,373)
State	117	40
Foreign	360	144
Total current income tax (benefit) expense	$ 477	$ (1,189)
Deferred income tax benefit:		
Federal	$ (7,924)	$ (35,857)
State	(1,021)	(2,813)
Total deferred income tax benefit	(8,945)	(38,670)
Total income tax benefit	$ (8,468)	$ (39,859)

The following table reconciles the income tax benefit at the federal statutory rate and the actual income tax benefit:

	Fiscal Years Ended	
	February 1, 2019	**February 2, 2018**
Statutory federal income tax rate	21.0 %	33.7 %
Change in federal tax	— %	3.8 %
State income taxes, net of federal benefit	2.5 %	0.7 %
Goodwill Impairment	— %	(22.6)%
Other, net	(1.0)%	0.5 %
Effective income tax rate	22.5 %	16.1 %

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

	February 1, 2019	February 2, 2018
Assets:		
Net operating and capital loss carryforwards (federal, state and foreign)	$ 9,565	$ 11,017
Business interest limit	4,608	—
Reserves	3,692	3,449
Deferred revenue	—	1,598
Accrued compensation	6,467	5,168
Inventory	5,212	5,012
Service liability	5,560	7,028
Other deferred tax asset	1,870	558
Total deferred tax assets	36,974	33,830
Valuation allowance	(726)	—
Total deferred tax assets, net	$ 36,248	$ 33,830
Liabilities:		
Indefinite life intangible	$ 11,636	$ 17,739
Definite life intangible	16,864	20,819
Deferred advertising	3,810	6,910
Depreciation and leases	5,587	2,237
Other deferred tax liabilities	2,178	2,450
Total deferred tax liabilities	40,075	50,155
Net deferred tax liabilities	$ (3,827)	$ (16,325)

The Company has U.S. federal NOL and capital loss carryforwards of $37.7 million and $45.6 million for the fiscal years ended February 1, 2019 and February 2, 2018, respectively. Due to the 2017 Tax Act, these NOL carryforwards do not expire.

Unrecognized tax benefit liabilities were $0.0 million and for both fiscal years ended February 1, 2019 and February 2, 2018. The Company identified no new unrecognized tax benefits during the year.

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

	February 1, 2019	February 2, 2018
Balance as of the beginning of the period	$ —	$ 1,248
Settlements with taxing authorities	—	(1,248)
Balance as of the end of the period	$ —	$ —

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. There was no liability recognized attributable to interest and penalties in either of the fiscal years ended February 1, 2019 and February 2, 2018.

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 February 1, 2019:

United States - federal	2015-2018
United States - states	2012-2018
International	2012-2018

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 February 1, 2019 for the items discussed above will decrease materially within the next 12 months.

11. Capital Stock

Bluestem Group Inc. owns one share of common stock with a $0.00001 par value in the Company. As of February 1, 2019 and February 2, 2018, the Company had 100 shares of common stock authorized and one share issued and outstanding. The Bluestem Group Inc. Board of Directors approved the 2014 Equity Incentive Plan, which allowed Bluestem Group Inc. to grant stock options, stock appreciation rights, restricted stock, restricted stock units or stock awards that are payable in common stock of Bluestem Group Inc. to the Company's officers and key employees.

12. Derivative Instruments

Interest Rate Swaps
The Company has interest rate swap agreements to manage the risk associated with a portion of its floating-rate long-term debt. The Company does not utilize derivative instruments for speculative purposes. The interest rate swaps involve the exchange of fixed-rate and variable-rate payments without the exchange of the underlying notional amount on which the interest payments are calculated.

The notional amounts of the swap agreements are $100 million, $75 million, and $75 million respectively, with maturity dates of April 29, 2019, June 28, 2019, and April 30, 2020, respectively. The Company has designated the swaps as cash flow hedges and has determined that they qualify for hedge accounting treatment. The cash flow hedges were highly effective for the fiscal years ended February 1, 2019 and February 2, 2018. The occurrence of continued debt repayments and hedged transactions remains probable.

The estimated fair value of the current portion of cash flow hedges is recorded in Other current assets and the long-term portion is recorded in Other assets on the Company's Consolidated Balance Sheets. See Note 13, *Fair Value of Assets and Liabilities* for more information on the fair value of the interest rate swaps. The estimated fair value of the interest rate swaps is summarized below (in thousands):

	February 1, 2019	February 2, 2018
Other current assets	$ 570	$ —
Other assets	$ 660	$ 2,331

Changes in fair value of cash flow hedges are recorded in other comprehensive income (net of tax) until income or loss from the cash flows of the hedged item is realized. Unrealized gains and losses are reflected in net income attributable to the Company when the related cash flows or hedged transactions occur and offset the related performance of the hedged item. The unrealized gains and losses on financial instruments recorded in other comprehensive loss are summarized below (in thousands):

	Fiscal Year Ended	
	February 1, 2019	February 2, 2018
Unrealized (loss) gain on interest rate swaps, net of tax	$ (823)	$ 1,147

13. 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.

Fair Value of Assets and Liabilities Measured on a Recurring Basis

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

Servicing Rights. Servicing rights are carried at fair value in other long-term liabilities on the Consolidated Balance Sheets. The Company recognizes gains or losses on servicing rights for servicing the SCUSA owned portfolio of Standard Receivables when compensation received from SCUSA for services provided are not adequate compared to similar servicing provided in the open market. Servicing rights are valued using a discounted cash flow methodology and are classified within Level 3. The Company determines fair value of the servicing rights by projecting future cash flows using payment rates and other assumptions, and discounts these cash flows. The servicing rights valuations, as well as the assumptions used, are developed by the Company and are subject to review by management. Risks inherent in servicing rights valuation include higher than expected prepayment rates and/or delayed receipt of cash flows. There is minimal observable market activity for servicing rights on comparable portfolios and, therefore, the determination of fair value requires significant management judgment. Changes in the valuation of servicing rights are reported in Net credit expense on the Consolidated Statements of Comprehensive Loss. See summarized changes in fair value of the servicing rights for fiscal year ended February 1, 2019 in Note 5, *Serviced Credit Portfolio*.

Derivative Instruments. Derivative instruments consist of interest rate swaps that are accounted for as cash flow hedges, reported as either assets or liabilities and at fair value. The fair value of interest rate swaps are determined by the counterparty based on observable interest rate yield curves for similar instruments and classified within Level 2 of the valuation hierarchy. Changes in fair value of cash flow hedges are recorded net of tax in other comprehensive (loss) income until income or loss from the cash flows of the hedged item is realized.

The following table summarizes the assets and liabilities measured at fair value on a recurring basis (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 February 1, 2019
Interest rate swaps	$ —	$ 1,230	$ —	$ 1,230
Total assets measured at fair value on a recurring basis	$ —	$ 1,230	$ —	$ 1,230
Servicing rights	$ —	$ —	$ 22,806	$ 22,806
Total liabilities measured at fair value on a recurring basis	$ —	$ —	$ 22,806	$ 22,806

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 February 2, 2018
Interest rate swaps	$ —	$ 2,331	$ —	$ 2,331
Total assets measured at fair value on a recurring basis	$ —	$ 2,331	$ —	$ 2,331
Servicing rights	$ —	$ —	$ 25,988	$ 25,988
Total liabilities measured at fair value on a recurring basis	$ —	$ —	$ 25,988	$ 25,988

Carrying values for cash, cash equivalents, restricted cash, customer accounts receivable, commercial real estate accounts receivable and other receivables approximate their fair value due to their short-term nature and are classified as Level 1. There were no transfers of liabilities between Level 1 and Level 2 or into or out of Level 3 during the fiscal years ended February 1, 2019 and February 2, 2018. The changes in fair value for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) consist solely of servicing rights. There were no purchases, issuances, or sales impacting the fair value of the Level 3 assets and liabilities on a recurring basis during the fiscal years ended February 1, 2019 and February 2, 2018.

Fair Value of Assets and Liabilities Measured on a Nonrecurring Basis
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 or Level 1 or Level 2 assets measured at fair value on a nonrecurring basis as of February 1, 2019 and February 2, 2018.

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 6, *Intangible Assets and Goodwill* for further information related to impairment.

The following table presents the adjusted basis of non-financial assets assessed on a non-recurring basis that resulted in impairments being recorded in the Consolidated Balance Sheets during the periods indicated (in thousands):

	Fiscal Year Ended February 1, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Tradenames[(1)]	$ —	$ —	$ 11,569	$ 11,569
Total adjusted basis of non-financial assets measured at fair value	$ —	$ —	$ 11,569	$ 11,569

	Fiscal Year Ended February 2, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Tradenames[(2)]	$ —	$ —	$ 72,170	$ 72,170
Total adjusted basis of non-financial assets measured at fair value	$ —	$ —	$ 72,170	$ 72,170

(1) Represents certain tradenames of the Orchard portfolio written down to their estimated full values
(2) Represents certain tradenames of the Northstar and Orchard portfolios written down to their estimated full values

Significant Financial Assets and Liabilities Not Measured at Fair Value
The following table presents significant financial assets and liabilities not measured at fair value (in thousands):

		February 1, 2019		February 2, 2018	
	Fair Value Hierarchy Level	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial Liabilities:					
Term Loan	Level 2	419,545	271,878	443,488	310,730

The fair value for the Term Loan is based on indicative price quotations received from a third party financial institution. The carrying amounts of other current assets, accounts payable, the asset-backed line of credit, accrued and other current liabilities approximate fair value due to their short-term nature.

14. Stock-Based Compensation

Stock Option Exchange

On March 22, 2018, the Company's Board approved a stock option exchange program (the "Exchange") pursuant to which eligible employees were able to exchange all or none of their outstanding options, whether vested or unvested, for new restricted stock units ("RSUs"). Partial exchanges were not accepted. One share of the Company's common stock is issuable upon the vesting and settlement of each RSU. The number of RSUs granted in exchange for the options was determined on a grant-by-grant basis and depended on a variety of factors including the employee's position, responsibilities and performance. The Exchange commenced on June 15, 2018 and expired on July 16, 2018. In connection with the Exchange, the Company accepted options to purchase 9,800,881 shares of its common stock and issued a total of 4,721,269 RSUs. All surrendered options were canceled and became available for issuance under the 2014 Incentive plan. There were 65,000 options that were not exchanged but were later forfeited.

The Exchange is considered a modification of the original option awards under ASC 718 "*Stock-based Compensation*." Accordingly, the future RSU compensation cost expected to be recognized was measured as the total of the unrecognized compensation cost of the options surrendered, plus the excess of the fair value of the RSUs issued over the fair value of the options tendered immediately before the exchange, if any.

As described further below, a portion of the RSUs vest subject to a service condition based on the passage of time ("Time Vesting RSUs") and a portion vest upon a combination of time and market conditions ("Performance Vesting RSUs"). The Time Vesting RSUs were valued as of July 17, 2018 (the "Modification Date") using a discounted cash flow model based on historical Company performance, internal financial projections, market performance of peer companies and assumptions regarding general economic and market conditions. The Performance Vesting RSUs were valued using a closed-form solution of a series of "asset-or-nothing" call options assuming a term of 5.55 years, a risk-free rate of 2.76%, volatility of 66.9% and a starting stock price of $1.01 per share.

As of the Modification Date, the incremental fair value of the RSUs issued in the Exchange was $1.3 million. The total future compensation cost related to the RSUs issued in the Exchange, including the unrecognized compensation cost of the options surrendered, was $5.8 million.

Restricted Stock Units

On March 22, 2018, the Board approved the Restricted Stock Unit Plan. Under the Restricted Stock Unit Plan 18.8 million common shares were authorized to be issued as settlement of restricted stock units granted to participants in the plan. Under the terms of the Restricted Stock Unit Plan, with certain exceptions:

- 35% of each RSU award is time vesting and will settle on February 4, 2022 or, if earlier, upon a change in control of the Company, and
- 65% of each RSU award is performance vesting and will vest and settle upon the first to occur of an initial public offering or "up-listing" of the Company's stock on a national exchange, a change in control or February 4, 2024, in an amount dependent upon the fair value of the Company's common stock on the vesting date as follows:
    a) No performance vesting award shall vest if the fair value is below $2.54
    b) 25% of the performance vesting award shall vest if the fair value equals or exceeds $2.54 but is less than $3.17;
    c) 50% of the performance vesting award shall vest if the fair value equals or exceeds $3.17 but is less than $3.81;
    d) 75% of the performance vesting award shall vest if the fair value equals or exceeds $3.81 but is less than $4.44; and
    e) 100% of the performance vesting award shall vest if the fair value equals or exceeds $4.44.

In addition, an award of 313,272 performance vesting RSUs that vest only if the fair value on the vesting date equals or exceeds $4.50 was granted to an executive and an award of 685,282 time vesting RSUs was issued to another executive that vested upon issuance. All RSUs are subject to certain vesting acceleration provisions in the event of a termination for reasons other than for cause or a resignation for good reason. Compensation expense is recognized on a straight-line basis from the Modification date or grant date through February 4, 2022 (time vesting RSUs) or February 4, 2024 (performance vesting RSUs).

The following table summarizes activity related to the RSUs for the fiscal year ended February 1, 2019:

	Number of Shares		Weighted Average Grant Date Fair Value	
	Performance Vesting RSUs	Time Vesting RSUs	Performance Vesting RSUs	Time Vesting RSUs
Outstanding as of February 2, 2018	—	—	$ —	$ —
RSUs granted	4,046,513	2,010,208	$ 0.54	$ 1.01
RSUs issued in the Exchange	2,846,108	1,875,161	$ 1.01	$ 1.56
RSUs vested	—	(866,563)	$ —	$ 0.40
RSUs forfeited	(815,185)	(244,880)	$ 0.84	$ 1.69
Outstanding as of November 2, 2018	6,077,436	2,773,926	$ 0.74	$ 1.28

Stock Options

Under the Equity Incentive Plan, the Company may grant stock options to officers and key employees. There were no stock options granted during the fiscal years ended February 1, 2019 and February 2, 2018. Following the Exchange and subsequent forfeitures, no stock options remained outstanding or exercisable as of February 1, 2019.

A summary of stock option activity for the fiscal years ended February 1, 2019 and February 2, 2018 is provided below:

	Performance-Based Stock Options			Time-Based Stock Options		
	Number of shares	Weighted average exercise price per share[1]	Weighted average remaining contractual term (years)	Number of shares	Weighted average exercise price per share[1]	Weighted average remaining contractual term (years)
Outstanding as of February 3, 2017	11,279,964	$ 4.63	8.0	7,536,325	$ 4.63	8.0
Forfeited or canceled	(5,050,409)	4.02	—	(3,397,973)	4.02	—
Outstanding as of February 2, 2018	6,229,555	$ 4.04	7.2	4,138,352	$ 4.04	7.2
Exchanged for RSUs	(5,880,529)	4.02	—	(3,920,352)	4.02	—
Forfeited or canceled	(349,026)	9.29	—	(218,000)	8.95	—
Outstanding as of February 1, 2019	—	$ —	—	—	$ —	—

[1] The weighted average exercise price was adjusted to reflect the impact of the Special Dividend in fiscal 2017.

Stock-based Compensation Expense

Stock-based compensation expense related to stock options and RSUs recognized for the fiscal years ended February 1, 2019 and February 2, 2018 was $2.5 million and $3.5 million, respectively. As of February 1, 2019, there was $4.1 million and $3.6 million of unrecognized compensation expense related to the remaining Performance Vesting RSUs and Time Vesting RSUs, respectively. The unrecognized compensation expense related to Performance Vesting RSUs is recognized on a straight-line basis from the grant date through February 4, 2024. The unrecognized compensation expense related to Time Vesting RSUs is recognized on a straight-line basis from the grant date through February 4, 2022. The Company expects to recognize the total compensation expense for all of the RSUs over a weighted average period of 4.1 years.

During the first quarter of fiscal 2017, the Company adopted the requirements of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* simplifying various provisions related to how share-based payments are accounted for and presented in the financial statements. As a result, the Company has elected to account for forfeitures as they occur rather than estimate forfeitures each period. Accordingly, the Company recorded a cumulative effect adjustment to retained earnings of $147 thousand in the first quarter of fiscal 2017 and adopted the modified retrospective transition approach to reflect the difference between the amount of compensation costs previously recorded and the amount that would have been recorded without assuming forfeitures.

15. Employee Benefit Plans

Retirement Benefits

The Bluestem 401(k) Retirement Savings Plan (the “Bluestem 401(k) Plan”) operates on a calendar year basis and is open to eligible Northstar Portfolio and Orchard employees who have attained age 21. Employees covered by a collective bargaining agreement are not eligible for participation. The Bluestem 401(k) Plan allows for employee pretax contributions up to the Internal Revenue Code contribution limit. The first 3% of employee contributions are matched by the Company at a rate of 100%, and the next 2% of employee contributions are matched by the Company at a rate of 50%, up to a total maximum company matching annual contribution of $11,000 and $10,800 for the calendar years ended December 31, 2018 and December 31, 2017, respectively. Employees are 100% vested in their pretax contributions at all times and are fully vested in the employer matching contribution when made. Bluestem expenses matching contributions as incurred and were $4.8 million and $4.8 million for the fiscal years ended February 1, 2019 and February 2, 2018, respectively.

Bluestem participates in a multi-employer 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. Company contributions and related expenses for these plans were $0.2 million and $0.2 million for the fiscal years ended February 1, 2019 and February 2, 2018.

16. Related Party Transactions

Bluestem entered into the following transactions with Bluestem Group Inc. ("BGI Holding Company"), the ultimate parent company of Bluestem.

During fiscal 2017, following the exit of the PayCheck Direct business, Bluestem sold $43.3 million PayCheck Direct accounts receivable to BGI Holding Company under an arms-length transaction for an 8.6% discount of net book value for proceeds of $29.8 million in order to accelerate the cash collection of PayCheck Direct receivables to Bluestem. In connection with the transaction Bluestem was paid an upfront servicing fee or $2.7 million of which the Company will recognize as income over the expected collection period of the PayCheck Direct receivables. The servicing fee paid was deemed to be adequate compensation given the services provided by Bluestem.

During fiscal 2017, Bluestem sold the Irvine Distribution Center to BGI Holding Company under an arms-length sale-leaseback transaction for net proceeds of $24.3 million which will be reinvested in the business over the course of the twelve months following the transaction. Bluestem recorded a $7.5 million deferred gain on the sale of the facilities to BGI Holding Company and will recognize as income over the twenty year period of the lease Bluestem entered into with BGI Holding Company. Bluestem recorded $2.8 million and $1.2 million of rent expense related to the Irvine Distribution Center leaseback arrangement in the years ended February 1, 2019 and February 2, 2018, respectively .

Bluestem had intercompany payables to BGI Holding Company of $16.5 million and $14.1 million as of February 1, 2019 and February 2, 2018 , respectively for the allocation of stock compensation expense for stock options granted to officers and key employees of the Company.

17. 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 $12.9 million and $14.8 million during the fiscal years ended February 1, 2019 and February 2, 2018. Rent expense related to distribution centers and international sourcing is included in cost of goods sold, rent expense for retail stores is included in sales and marketing expenses and all other rent expense is included in general and administrative expenses in the Consolidated Statements of Comprehensive Loss.

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 February 1, 2019, were as follows (in thousands):

Fiscal Years	**Operating**	**Capital**
2019	$ 12,212	$ 540
2020	12,342	—
2021	10,976	—
2022	10,605	—
2023	10,417	—
Thereafter	48,909	—
Sublease Income	(738)	—
Total future minimum lease payments	$ 104,723	$ 540
Less: Amount representing interest		(5)
Present value of future minimum lease payments		$ 535

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
The Company 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.

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 fiscal years ended February 1, 2019 and

February 2, 2018, the liability recorded, including interest, amounted to $2.1 million and $1.8 million, respectively. These amounts are included in accrued costs and other liabilities in the Consolidated Balance Sheets.

Letters of Credit

The Company had $15.1 million and $10.6 million of outstanding letters of credit at February 1, 2019 and February 2, 2018, respectively. Letters of credit are primarily used to support the Company's customs bonds, insurance requirements and other vendor trade requirements.

Litigation

The Company may be subject to potential liability under laws and government regulations and other legal actions that are pending or may be asserted against it. The Company 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 Company periodically is involved in legal proceedings arising in the ordinary course of business, including, among others, claims relating to collection activities, including claims under the Telephone Consumer Protection Act. As of April 11, 2019,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. Selective legal proceedings to which the Company is a party are set forth below.

Bluestem is party to a putative class and collective action lawsuit filed in federal court in the United States by Tina Norris on November 18, 2016. The lawsuit alleges violations of various wage and hour laws. One of the named plaintiffs in the case also alleges a claim for retaliation. Among other things, the plaintiffs seek unspecified money damages and attorneys' fees. The Court granted-in-part the plaintiffs' motion for class certification, and the class opt-in period closed with 107 total class members. After undertaking class action discovery, the plaintiffs agreed to dismiss the case with prejudice for no monetary payment. On February 25, 2019, Bluestem filed an unopposed motion for decertification, and the parties await final dismissal of the case.

Bluestem is party to a putative class action lawsuit filed in federal court in the United States by Elizabeth Busch on March 14, 2016. The lawsuit alleges violations of the Telephone Consumer Protection Act ("TCPA"). The named plaintiff in this case sought $500 - $1,500 per call in statutory damages and an injunction prohibiting Bluestem from violating the TCPA. On November 15, 2018, the parties attended mediation, and on March 12, 2019, the parties attended a second mediation and reached an updated preliminary confidential settlement of all class claims. The proposed settlement remains subject to court approval. This matter does not have a material effect on the Company's financial statements and the liability has been fully accrued.

Bluestem is party to a putative class action lawsuit filed in federal court in the United States by Waddell Williams on August 21, 2017. The lawsuit alleges violations of the TCPA. The named plaintiff in the case seeks up to $1,500 per call in statutory damages and an injunction prohibiting Bluestem from violating the TCPA. On September 25, 2018, the parties attended mediation and reached a preliminary settlement of all class claims for $1,000,000 plus the cost of class administration. The parties filed a motion of preliminary approval of the settlement with the Court on November 21, 2018 and await the Court's approval. This matter does not have a material effect on the Company's financial statements and the liability has been fully accrued.

18. Subsequent Events

These financial statements include consideration of subsequent events through April 11, 2019, the date the Consolidated Financial Statements were issued.

On March 8, 2019, the Bluestem Group, Inc. announced the appointment of Bruce M. Cazenave as President and Chief Executive Officer and member of the Board of Directors of Bluestem Group, effective April 1, 2019. Mr. Cazenave succeeds Lisa Gavales, interim Chief Executive Officer. Mrs. Gavales will remain a member of Bluestem Group, Inc.'s Board of Directors.