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

BLUESTEM GROUP INC.

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BLUESTEM GROUP INC.
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FORWARD-LOOKING STATEMENTS

This report contains statements that are "forward-looking statements". Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. All statements contained herein that are not clearly historical in nature are forward-looking. In some cases, you can identify these statements by use of forward-looking words, such as "may," "will," "should," "anticipate," "estimate," "expect," "plan," "believe," "predict," "potential," "project," "intend," "could," or similar expressions. In particular, statements regarding Bluestem Group Inc. and its consolidated subsidiaries' plans, strategies, prospects, and expectations regarding its business are forward-looking statements. You should be aware that these statements and any other forward-looking statements in this document only reflect Bluestem Group Inc. and its consolidated subsidiaries' beliefs, assumptions, and expectations, taking into account all information currently available to Bluestem Group Inc. and its consolidated subsidiaries, and they are not guarantees of future performance. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to Bluestem Group Inc. and its consolidated subsidiaries or are within its control. If a change occurs, Bluestem Group Inc. and its consolidated subsidiaries' business, financial condition, and liquidity may vary materially from those expressed in its forward-looking statements.

Forward-looking statements involve risks and uncertainties. Many of these risks and uncertainties are beyond Bluestem Group Inc. and its consolidated subsidiaries' control and may cause actual results and performance to differ materially from Bluestem Group Inc. and its consolidated subsidiaries' expectations. Important factors that could cause our actual results to be materially different from our expectations include the risks and uncertainties set forth under "Risk Factors," below.

Accordingly, you should not place undue reliance on the forward-looking statements contained in this report. These forward-looking statements are made only as of April 11, 2019, the date of this report. Bluestem Group Inc. and its consolidated subsidiaries undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

BUSINESS

As used in this report:

- “BGI,” “we,” “us,” “our,” or “the Company” refers to Bluestem Group Inc. with its consolidated subsidiaries
- “BGI Holding Company” refers to the Bluestem Group Inc. legal entity, excluding its subsidiaries
- “Bluestem” refers to Bluestem Brands, Inc., an indirect subsidiary of BGI 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
- “Capmark Portfolio” or "Capmark" refers to the commercial real estate finance operations of BGI

The Company

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 including Appleseed’s, Bedford Fair, Blair, Draper’s & Damon’s, Gold Violin, Haband, Norm Thompson, Old Pueblo Traders, Sahalie, Tog Shop and WinterSilks. These brands 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.

At the end of 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 Traders. 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. Restructuring costs consisting primarily of employee severance costs were recorded in the Corporate and other segment and a restructuring liability was established. In addition, an inventory write-down of $6.5 million was recorded as a result of actions taken to monetize the inventory of the exited brands. See Note 9, *Restructuring* of the Notes to Consolidated Financial Statements 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 "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 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.

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.

See Note 5, *Serviced Credit Portfolio*, of the Notes to Consolidated Financial Statements, for more information on SCUSA-owned and Bluestem-owned accounts receivable.

Bluestem operates on a fiscal calendar widely used by the retail industry which results in fiscal years consisting of a 52- or 53-week period ending on the Friday closest to January 31 of the following year. In these consolidated statements, including the notes thereto, financial results are for the 52-week periods ended February 1, 2019 (“fiscal 2018”) and February 2, 2018 (“fiscal 2017”).

The Company is a Nevada corporation which was incorporated on April 17, 1998 and is headquartered in Eden Prairie, Minnesota. We had approximately 2,600 and 2,700 employees, as of February 1, 2019 and February 2, 2018, respectively. Our recent quarterly and annual reports, Bluestem Brands, Inc. stand-alone reports and other periodic filings are available free of charge on our website, www.bluestem.com.

Chief Executive Officer and Board of Directors
Steven H. Nave served as our President and Chief Executive Officer during fiscal 2017. On February 7, 2018, Steve Nave, informed the Board of his decision to step down from both positions effective immediately upon his resignation. Lisa Gavales, was named interim Chief Executive Officer while the Company conducted a comprehensive search for a permanent successor. Effective March 29, 2019, Bruce M. Cazenave joined the Company and will serve as President and Chief Executive Officer and member of the Board of Directors.

In addition to Mr. Cazenave, our Board of Directors is composed of Charles H. Cremens, Eugene I. Davis, Lisa A. Gavales, Matthew Kabaker, Thomas F. Maher, Rubin McDougal, Alberto Sanchez, Scott A. Schroepfer, and Alexander W. Smith.

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

Nature and Extent of Facilities
We lease our corporate headquarters located at 7075 Flying Cloud Drive, Eden Prairie, Minnesota. We have additional offices, warehouses, distribution centers and call centers at owned and leased facilities to assist in operating the business.

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

Our “Management’s Commentary on Results of Operations, Liquidity and Capital Resources” is organized as follows:

- *OVERVIEW AND BASIS OF PRESENTATION:* This section provides a discussion of our consolidated company and the presentation of our segment results.
- *RESULTS OF OPERATIONS:* This section presents our consolidated results of operations, segment results, a detailed analysis of each segment’s results of operations, and a discussion of information that we believe is meaningful to understand our results of operations.
- *LIQUIDITY AND CAPITAL RESOURCES:* This section provides an analysis of our liquidity and cash flows.

OVERVIEW AND BASIS OF PRESENTATION

Bluestem Group Inc. is a holding company whose businesses include Bluestem, a multi-brand retailer of a broad selection of name-brand and private label general merchandise, and Capmark, which is focused on managing a commercial real estate-related business and existing assets, including monetizing these assets when appropriate.

We present our business results based on the organizational structure we use to evaluate performance and make decisions on allocating resources and assessing performance. Our consolidated business results are presented in three reportable segments (referred to herein as “segments”): Northstar Portfolio, Orchard Portfolio and Corporate and other.

Northstar Portfolio

The Northstar Portfolio consists of our Fingerhut and Gettington retail brands. These brands are national multi-channel retailers serving low- to middle-income consumers by offering products with multiple payment plans through revolving credit lines or installment loans offered by WebBank as the originating bank. While numerous retailers sell merchandise via the internet and catalogs focusing on low-to middle-income customers, we believe our Northstar Portfolio has created a differentiated business model by utilizing direct-marketing expertise to integrate proprietary credit offerings with broad general merchandise offerings including consumer electronics, domestics, housewares, fashion and home furnishings. The vast majority of sales are on revolving customer credit accounts, originated through WebBank, reflecting Northstar Portfolio’s ability to combine relevant merchandise offerings with an attractive consumer credit product aligned with the customer’s ability to pay. Fingerhut also offers the FreshStart program, which provides customers with the option of purchasing merchandise on installment credit terms after making an initial down payment.

Important drivers of Northstar Portfolio’s business performance include growth in new customer credit accounts, average order size, existing customer repurchase rates, the mix of merchandise sold, the overall performance and credit quality of the customer accounts receivable portfolio, and promotional performance.

Orchard Portfolio

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. 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.

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

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

Corporate and other

The Corporate and other segment includes certain costs consisting of indirect general and administrative expenses, amortization and depreciation not included in cost of goods sold, loss on impairment and the elimination of inter-segment activities. The segment also includes Capmark Portfolio and the PayCheck Direct business (which was exited during the first quarter of fiscal 2017). The Capmark Portfolio manages a real estate-related assets, including monetizing these assets when appropriate. As of February 1, 2019 and February 2, 2018, Capmark real estate assets were $23.9 million and $24.0 million, respectively, including $18.6 million and $16.9 million related to the Company's Irvine, Pennsylvania distribution center that BGI leases to Bluestem. PayCheck Direct was a program that was offered directly through employers or organizations as a voluntary benefit to employees and members. It allowed customers to purchase products with the convenience of paying over 12 months through payroll deductions or automatic bank withdrawals.

In connection with the 2018 Restructuring Plan, restructuring costs consisting primarily of employee severance costs were recorded in the Corporate and other segment and a restructuring liability was established. See Note 9, *Restructuring* of the Notes to Consolidated Financial Statements for more information.

RESULTS OF OPERATIONS

Consolidated Results of Operations

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

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Net sales	**$ 1,798,120**	**$ 1,891,552**
Costs and expenses		
Cost of goods sold	966,658	1,000,765
Sales and marketing expenses	429,641	470,988
Net credit expense	120,759	147,295
General and administrative expenses	198,884	221,090
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	**1,791,053**	**2,090,368**
Operating income (loss)	**7,067**	**(198,816)**
Interest expense, net	50,136	50,692
Loss before income taxes	**(43,069)**	**(249,508)**
Income tax benefit	(7,592)	(35,198)
Net loss	**$ (35,477)**	**$ (214,310)**
Other comprehensive loss		
Unrealized (gain) loss on interest rate swaps, net of tax	(837)	1,710
Comprehensive loss	**$ (36,314)**	**$ (212,600)**

Results of Operations by Segment

The business results for the fiscal years ended February 1, 2019 and February 2, 2018 reflect the adoption of the new revenue recognition accounting standard ("Topic 606"). The primary impact of the adoption of Topic 606 was to accelerate the timing of recognizing direct mail catalog advertising costs, which were previously capitalized and amortized over their expected period of future benefit but which are now recognized on the estimated date of first delivery to recipients. Prior year periods were not restated upon adoption of Topic 606.

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

	Fiscal Year Ended February 1, 2019			
	Northstar Portfolio	**Orchard Portfolio**	**Corporate and other**	**Total**
Net sales	**$ 1,021,122**	**$ 766,531**	**$ 10,467**	**$ 1,798,120**
Costs and expenses				
Cost of goods sold	576,268	391,232	(842)	966,658
Sales and marketing expenses	135,937	293,292	412	429,641
Net credit expense	120,658	—	101	120,759
General and administrative expenses	30,339	37,945	130,600	198,884
Amortization and depreciation not included in cost of goods sold	—	—	49,510	49,510
Loss on impairment	—	—	25,601	25,601
Total costs and expenses	**863,202**	**722,469**	**205,382**	**1,791,053**
Operating income (loss)	**$ 157,920**	**$ 44,062**	**$ (194,915)**	**$ 7,067**

	Fiscal Year Ended February 2, 2018			
	Northstar Portfolio	**Orchard Portfolio**	**Corporate and other**	**Total**
Net sales	**$ 1,017,226**	**$ 860,147**	**$ 14,179**	**$ 1,891,552**
Costs and expenses				
Cost of goods sold	581,355	418,075	1,335	1,000,765
Sales and marketing expenses	138,281	330,145	2,562	470,988
Net credit expense	142,820	—	4,475	147,295
General and administrative expenses	27,783	38,040	155,267	221,090
Amortization and depreciation not included in cost of goods sold	—	—	58,081	58,081
Loss on impairment	—	—	192,149	192,149
Total costs and expenses	**890,239**	**786,260**	**413,869**	**2,090,368**
Operating income (loss)	**$ 126,987**	**$ 73,887**	**$ (399,690)**	**$ (198,816)**

NORTHSTAR PORTFOLIO

Northstar Portfolio's net sales, costs of goods sold, gross profit, order and new customer data are summarized below (in thousands, except average order size):

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Sales by category:		
Home	$ 397,916	$ 413,177
Entertainment	432,651	447,849
Fashion	225,811	193,572
Total Sales	1,056,378	1,054,598
Returns and allowances	(54,733)	(57,837)
Commissions and other revenues	19,477	20,465
Net sales	1,021,122	1,017,226
Cost of goods sold	576,268	581,355
Gross profit	$ 444,854	$ 435,871
Gross profit percentage	43.6%	42.8%
Orders filled	4,612	4,490
Average order size	$ 229	$ 235
New revolving credit customers	563	459
New FreshStart customers	235	197

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

Sales to existing customers are driven by our ability to retain customers through our merchandise assortment, marketing campaigns, and credit line account management strategies. New customer accounts are acquired through catalog mailings, digital advertising, and other mass advertising.

Net sales for Northstar Portfolio for the fiscal year ended February 1, 2019 increased $3.9 million or 0.4% compared to the fiscal year ended February 2, 2018. Fingerhut net sales increased $2.3 million or 0.2% during the fiscal year ended February 1, 2019 primarily due to marketing efforts targeting inactive account holders to activate or reactivate their accounts and continued acquisition of new customers through external partners. Gettington net sales increased $1.6 million or 3.7% during fiscal year ended February 1, 2019 due to a repositioning of the brand executed beginning in the second quarter of fiscal 2018 led by new customer acquisition through renewed marketing investment in catalog, digital and third-party partners, partially offset by increased promotional discounts to drive demand.

Cost of Goods Sold
Cost of goods sold of Northstar Portfolio include the cost of merchandise sold (net of vendor rebates, purchase discounts, and estimated returns), shipping and handling costs, inbound freight costs, payroll and benefits for distribution center employees, rent, occupancy costs, depreciation of our distribution center equipment, and estimates of product obsolescence costs. Northstar Portfolios' cost of goods sold for the fiscal year ended February 1, 2019 included $1.6 million of inventory write-downs of merchandise inventory to be sold by the Northstar Portfolio in connection with the 2018 Restructuring Plan.

Gross Profit
Northstar Portfolio's gross profit percentage of 43.6% for the fiscal year ended February 1, 2019 represented an increase of 80 basis points compared to the fiscal year ended February 2, 2018, primarily due to an improved mix of higher margin fashion goods and private label electronics versus lower margin brand name electronics as well as improved margins across all categories.

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

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Catalog direct mail	$ 82,817	$ 87,674
Television and digital marketing	41,844	37,287
Order entry and customer service	8,864	10,460
Premium (free gift with purchase) and other	2,412	2,860
Sales and marketing expenses	$ 135,937	$ 138,281
Sales and marketing expenses as a percent of net sales	13.3%	13.6%

Sales and marketing expense as a percent of net sales decreased 30 basis points in the fiscal year ended February 1, 2019 compared to the fiscal year ended February 2, 2018 primarily due to improved customer response to marketing, reduced catalog mailings and discontinuation of television advertising in September 2017 as part of our efforts to upgrade the overall credit profile of new customers in our serviced credit portfolio, partially offset by growth in acquisition digital affiliate programs and new Gettington customer acquisition costs.

Net Credit Expense

The following table presents net credit expenses of Northstar Portfolio, by category (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	10,042
Total provision for doubtful accounts	97,554	103,370
Credit management costs	62,175	66,931
Finance charge and fee income, net	(3,424)	(2,799)
Servicing fee income	(32,465)	(28,347)
(Gain) loss on servicing right	(3,182)	3,665
Net credit expense	$ 120,658	$ 142,820
Annualized net credit expense as a percent of average customer accounts receivable	8.5%	10.0%
Average customer accounts receivable	$ 1,417,538	$ 1,428,350

Net credit expense includes a provision for doubtful accounts, credit management costs, finance charge and fee income on Company-owned accounts receivable, servicing fee income and portfolio profit sharing from SCUSA owned accounts receivable and gains or losses on the valuation of the servicing liability. As of February 1, 2019, total serviced customer accounts receivable was $1.5 billion, of which $16.0 million were Company-owned. As of February 2, 2018, total serviced customer accounts receivable was $1.5 billion, of which $17.2 million were Company-owned. The decrease in Company-owned accounts receivable is primarily due to the collection of outstanding receivables following the exit of the PayCheck Direct business in the first quarter of fiscal 2017. SCUSA bears risk of loss due to uncollectibility of the Standard Receivables it owns. Bluestem bears risk of loss due to uncollectibility on Nonstandard Receivables.

We maintain an allowance for doubtful accounts at a level intended to reduce the value of accounts receivable purchased from WebBank to the discounted value sold to SCUSA and to absorb probable losses on Nonstandard Receivables as of the balance sheet date. The Standard Receivables Sale Agreement states that if the Risk Adjusted Margin ("RAM") forecast projects RAM as a percentage of forecasted average program receivables to be less than 5% for the full fiscal year, then Bluestem shall implement a merchant discount rate on all Standard Receivables purchased by SCUSA for the remainder of the fiscal year. Sales of Standard Receivables to SCUSA were made at an average discount to par of 7.97% or $86.2 million and 8.68% or $93.3 million during the fiscal years ended February 1, 2019 and February 2, 2018, respectively.

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. Credit management costs for the fiscal year ended February 1, 2019 compared to the fiscal year ended February 2, 2018 decreased by $4.8 million, driven by operational improvements in collections combined with lower credit bureau cost.

Finance charges are accrued on Company-owned accounts receivable until the account balance is paid or charged off. A late fee is imposed if the customer does not pay at least the minimum payment by the payment due date and continues until the account is over 90 days delinquent for revolving accounts, or until the account initially becomes delinquent for installment accounts.

Northstar receives a servicing fee and shares in a portion of the profits as compensation for servicing customer accounts receivable owned by SCUSA. The Company has determined that the servicing fee received from SCUSA does not allow it to adequately recover the costs of servicing the portfolio nor earn a reasonable level of profit. As a result, the Company records a servicing liability which is adjusted each quarter for changes in its fair value. Changes in the fair value of the servicing liability resulted in a non-cash gain of $3.2 million during the fiscal year ended February 1, 2019 and a non-cash charge of $3.7 million during the fiscal year ended February 2, 2018. See Note 5, *Serviced Credit Portfolio* of the Notes to Consolidated Financial Statements, for more information.

General and Administrative Expenses
The following table presents general and administrative expenses of Northstar Portfolio, by category (in thousands):

	Fiscal Year Ended	
	February 1, 2019	February 2, 2018
Compensation and benefits	$ 23,670	$ 22,071
Professional fees	4,650	4,356
Rents and occupancy costs	1,108	283
Other	911	1,073
General and administrative expenses	$ 30,339	$ 27,783
General and administrative expenses as a percent of net sales	3.0%	2.7%

These expenses primarily consist of direct compensation, benefits and other overhead costs for credit, merchandising and marketing management.

General and administrative expenses for the fiscal year ended February 1, 2019 increased 30 basis points driven by increased incentive compensation due to performance and higher rent and occupancy costs.

ORCHARD PORTFOLIO

Orchard Portfolio's net sales, cost of goods sold, gross profit, order and gross customer data are summarized below (in thousands, except average order size):

	Fiscal Year Ended	
	February 1, 2019	February 2, 2018
Sales by category:		
Fashion	$ 801,241	$ 868,993
Home	33,413	59,812
Total Sales	834,654	928,805
Returns and allowances	(112,836)	(126,174)
Commissions and other revenues	44,713	57,516
Net sales	766,531	860,147
Cost of goods sold	391,232	418,075
Gross profit	$ 375,299	$ 442,072
Gross profit percentage	49.0 %	51.4%
Orders filled	12,516	13,425
Average order size	$ 68	$ 71
Gross new customers(1)(3)	1,858	2,091
Gross active customers(1)(4)	6,809	7,374
Unique new customers(2)(3)	712	706
Unique active customers(2)(4)	4,191	4,466

(1) Gross customer data is for individual customers that have made at least one purchase from a brand within the Orchard Portfolio, counted once for each brand from which a purchase has been made.
(2) Unique customers are individuals who have made at least one purchase from the Orchard Portfolio, counted only once without regard for purchases from multiple brands.
(3) New customers are individuals who have made a first-time purchase during the period presented.
(4) Active customers are individuals who have made at least one purchase in the previous 12-month period.

Net Sales
Net sales of Orchard Portfolio consist of sales of merchandise, shipping and handling revenue, and commissions earned from third parties that market their products to our customers. Merchandise sales are reported net of discounts and estimated sales returns, and exclude sales taxes.

Sales to existing customers are driven by our ability to retain customers through the use of a multi-channel marketing approach, including catalog mailings, digital marketing, site marketing and merchandising. The reactivation of former customers and acquisition of new customers are attained through visibility to our website generated by catalog mailings, space media and digital marketing.

For the fiscal year ended February 1, 2019, net sales decreased 10.9% compared to the fiscal year ended February 2, 2018, in part due to the fiscal 2017 exit of Draper's and Damon's retail stores and the LinenSource brand. Adjusted for exited businesses, net sales decreased 8.4% due to fewer active customers and a reduction in other revenue as a result of decreased enrollments in our loyalty programs.

At the end of the fourth quarter of fiscal 2018, the Company announced the 2018 Restructuring Plan to exit six of eleven Orchard brands: Bedford Fair, Gold Violin, Norm Thompson, Sahalie, The Tog Shop and Winter Silks. There was no impact on fiscal 2018 net sales related to this decision. 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.

Cost of Goods Sold

Cost of goods sold of Orchard Portfolio includes the cost of merchandise sold (net of vendor rebates, purchase discounts, and estimated returns), shipping and handling costs, inbound freight costs, payroll and benefits for distribution center employees, depreciation of distribution center facilities and assets and estimates of product obsolescence costs. Orchard Portfolios' cost of goods sold for the fiscal year ended February 1, 2019 included a $2.3 million merchandise inventory write-down and the establishment of a $2.5 million liability for committed inventory purchases in connection with the 2018 Restructuring Plan.

Gross Profit

The Orchard Portfolio's gross profit percentage decreased 240 basis points for the fiscal year ended February 1, 2019 compared to the fiscal year ended February 2, 2018, primarily due to reductions in other revenue as a result of decreased enrollments in our loyalty programs, inventory obsolescence costs due to sales trends, the write-down of exited brands inventory and increased promotional discounts to drive demand.

Sales and Marketing Expenses

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

	Fiscal Year Ended	
	February 1, 2019	February 2, 2018
Catalog direct mail	$ 224,438	$ 265,765
Digital marketing	28,090	18,611
Order entry and customer service	23,709	25,895
Premium (free gift with purchase) and other	17,055	19,874
Sales and marketing expenses	$ 293,292	$ 330,145
Sales and marketing expenses as a percent of net sales	38.3%	38.4%

Sales and marketing expense as a percent of net sales decreased 10 basis points, primarily due to a reduction in catalog circulation as part of our strategy to improve marketing productivity and profitability, partially offset by increased investment in digital advertising. Catalog direct mail costs for the fiscal year ended February 1, 2019 decreased $41.3 million compared to the fiscal year ended February 2, 2018.

General and Administrative Expenses

The following table presents general and administrative expenses of Orchard Portfolio, by category (in thousands):

	Fiscal Year Ended	
	February 1, 2019	February 2, 2018
Compensation and benefits	$ 27,979	$ 29,824
Professional fees	5,343	3,138
Rents and occupancy costs	3,180	3,583
Other	1,443	1,495
General and administrative expenses	$ 37,945	$ 38,040
General and administrative expenses as a percent of net sales	5.0%	4.4%

These expenses primarily consist of direct compensation, benefits and other overhead costs for merchandising and marketing management. Restructuring costs related to the fiscal 2017 exit of Draper's and Damon's retail stores and the LinenSource brand and the pending exit of the brands announced in fiscal 2018 were recorded in the Corporate and other segment.

Orchard Portfolio's general and administrative expenses as a percent of net sales increased 60 basis points for the fiscal year ended February 1, 2019 compared to the fiscal year ended February 2, 2018 as a result of increased professional fees related to operational improvement projects and deleveraged costs against lower net sales, partially offset by an increase in capitalized labor.

CORPORATE AND OTHER

Net Sales

Corporate and other's net sales, revenues and expenses are summarized below (in thousands):

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Net sales	**10,467**	**14,179**
Costs and Expenses		
Cost of goods sold	(842)	1,335
Sales and marketing expenses	412	2,562
Net credit expense	101	4,475
General and administrative expenses	130,600	155,267
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	**205,382**	**413,869**
Operating loss	**(194,915)**	**(399,690)**
Total interest expense, net	50,136	50,692
Income tax benefit	(7,592)	(35,198)
Net loss	$ (237,459)	$ (415,184)

The Corporate and other segment includes certain costs consisting of indirect general and administrative expenses, amortization and depreciation not included in cost of goods sold, loss on impairment and the elimination of inter-segment activities. In fiscal 2017, the Corporate and other segment also included adjustments to net sales, cost of goods sold, and sales and marketing expenses related to product estimated to be in-transit from shipping point to the customer.

The segment also includes the Capmark Portfolio and the PayCheck Direct business (which was exited during the first quarter of fiscal 2017). The Capmark Portfolio manages a real estate-related business and existing assets, including monetizing these assets when appropriate. Commercial real estate revenue includes Capmark's net gains on loans, equity in income of joint venture and partnerships and other gains and losses, net as our equity investments continue to wind down and approach the end of their lives. Commercial real estate assets held as of February 1, 2019 totaled $4.3 million.

PayCheck Direct was a program that was offered directly through employers or organizations as a voluntary benefit to employees and members. It allowed customers to purchase products with the convenience of paying over 12 months through payroll deductions or automatic bank withdrawals. PayCheck Direct net sales include sales of merchandise (reported net of discounts and estimated sales returns, and exclude sales taxes), shipping and handling revenue, and commissions earned from third parties that market their products to our customers.

The decrease in Corporate and other net sales for the fiscal year ended February 1, 2019 versus the fiscal year ended February 2, 2018 was primarily due to the exited PayCheck Direct business net sales.

Cost of Goods Sold

Corporate cost of goods sold consists of the elimination of inter-segment activities and the cost of goods sold of PayCheck Direct. PayCheck Direct 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, rent, occupancy costs, depreciation of our distribution center equipment, charges from third-party distribution centers, and estimates of product obsolescence costs.

The decrease in Corporate and other net cost of goods sold for the fiscal year ended February 1, 2019 versus the fiscal year ended February 2, 2018 was primarily due to the exited PayCheck Direct business cost of goods sold.

Sales and Marketing Expenses

Sales and marketing expenses decreased compared to the fiscal year ended February 2, 2018, primarily due to the exit of the PayCheck Direct business.

Net Credit Expense
Corporate and other's net credit expense for the fiscal year ended February 1, 2019 decreased compared to the fiscal year ended February 2, 2018, primarily due to the exit of the PayCheck Direct business.

General and Administrative Expenses
The following table presents general and administrative expenses of Corporate and other, by category (in thousands):

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Compensation and benefits	$ 78,311	$ 84,738
Professional fees and contract labor	20,256	30,987
Rents and occupancy costs	24,421	29,838
Other	7,612	9,704
General and administrative expenses	$ 130,600	$ 155,267

Corporate and other's general and administrative expenses for the fiscal years ended February 1, 2019 and February 2, 2018 included restructuring costs related to the 2017 Restructuring Plan of $0.1 million and $13.8 million, respectively, and $2.5 million in the fiscal year ended February 1, 2019 related to the 2018 Restructuring Plan. See Note 9, *Restructuring* of the Notes to Consolidated Financial Statements for more information.

Excluding restructuring costs, general and administrative expenses for the fiscal year ended February 1, 2019 decreased $13.4 million compared to the fiscal year ended February 2, 2018 primarily due to a decrease in compensation as a result of a workforce reduction completed in March 2017, and lower incentive compensation, professional services and other general expenses, partially offset by an increase in benefit expense for health and welfare.

Amortization and Depreciation not Included in Costs of Goods Sold
Amortization and depreciation expenses not included in cost of goods sold includes amortization of our customer relationship intangible assets, depreciation of our property and equipment including purchased and internally developed software, computer hardware, machinery and equipment, office furniture, property under capital lease, and leasehold improvements.

Amortization and depreciation expenses not included in cost of goods sold for the fiscal year ended February 1, 2019 decreased compared to the fiscal year ended February 2, 2018 primarily due to a change in the fair value of finite-lived intangible assets based on updated assumptions that was recorded in the first quarter of 2017 and a decline in capital expenditures.

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 AUS 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 file due to a decline in rebuy rates and declining new customer acquisition. In addition, the Company announced the exiting of six of Orchard Portfolio's brands during the fourth quarter of fiscal 2018. Accordingly, the Company identified an impairment indicator of possible intangible and long-lived asset impairment relating to the Orchard Portfolio. All of Orchard Portfolio's goodwill was impaired in fiscal 2017.

The Company performed an impairment test of Orchard Portfolio's tradenames and determined that certain tradenames were below carrying value as a result of declining sales and the Company's decision to exit six of Orchard Portfolio's brands. As a result, the Company recorded a $25.6 million non-cash loss on impairment of tradenames in fiscal 2018.

The Company 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 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 for Orchard 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 prior to the impairment. 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. For additional information see Note 7, Intangible Assets and Goodwill, of the Notes to Consolidated Financial Statements for more information.

Interest Expense, net

The following table presents interest expense by category, weighted average borrowings outstanding and weighted average interest rates (in thousands except for weighted average interest rates):

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Interest on debt	$ 46,204	$ 44,573
Interest on capital lease obligation	42	122
Interest rate swap net settlements	(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
Weighted average borrowings outstanding	$ 481,507	$ 518,873
Weighted average interest rate	9.6%	8.7%

The Company's interest expense is primarily related to the outstanding balances of its term loan and asset-backed line of credit. Interest expense for the fiscal year ended February 1, 2019 decreased slightly compared to the fiscal year ended February 2, 2018, primarily due to the favorable settlement of interest rate swaps that offset the effect of higher market interest rates. See the *"Liquidity and Capital Resources"* section below for additional information.

Income Tax Benefit

For the fiscal year ended February 1, 2019, an income tax benefit of $7.6 million was recognized on $43.1 million of loss before income taxes. The tax benefit was primarily related to releases of state unrecognized tax benefit liability and the valuation allowance offset by state and international taxes.

For the fiscal year ended February 2, 2018, an income tax benefit of $35.2 million was recognized on $249.5 million of loss before income taxes. The tax benefit was primarily related to the release of federal and state tax benefit liabilities and offset by state and international taxes. Based on our historical and cumulative losses, a tax benefit was not recognized for fiscal 2018 losses or carryforwards offsetting future years' income.

The Company recognized the income tax effects of the 2017 Tax Cuts and Jobs Act (the "Tax Act") in the February 2, 2018 consolidated financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC Topic 740, Income Taxes, and allowed up to one year to complete the required analyses and accounting for the Tax Act. At February 2, 2018 the Company was able to make reasonable estimates of the impact of the Tax Act for 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 NOL carryforwards and carrybacks, and added rules that limit the deductibility of interest expense. At February 2, 2018, the Company recorded a provisional income tax benefit of $24.3 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.

Based on the Company's historical and cumulative losses, a net tax benefit was not recognized for current year pre-tax losses or carryforwards offsetting future year income. Tax benefits from net operating loss carryforwards and other deferred assets are limited to temporary differences expected to generate future taxable income. Tax benefits from carryforwards and other deferred tax assets offsetting additional income beyond the current year may be recognized in the future and could be material.

LIQUIDITY AND CAPITAL RESOURCES

Bluestem's retail operations require a significant amount of capital to grow and fund operations. Such capital is required to fund (1) purchases of inventory, (2) purchases and production of promotional materials, (3) debt service payments, (4) capital investments in our business and (5) other general working capital needs. Ensuring adequate liquidity is, and will continue to be, at the forefront of Bluestem's business objectives.

We meet our working capital and debt service funding obligations through a combination of existing cash and cash equivalents, cash flow from operations with accelerated collection of receivables through our A/R Program, and inventory financing through our Asset-Backed Line of Credit.

Existing cash and cash equivalents.
As of February 1, 2019, we had $119.5 million in total cash and cash equivalents on hand, of which $112.4 million was held by BGI Holding Company. Cash equivalents consist primarily of money market accounts, commercial paper and credit card receivables due from third-party financial institutions received within 3-5 days. Cash is invested approximately 50% in commercial paper and approximately 50% in money market funds. We purchase money market funds that invest in U.S. dollar-denominated money market securities of domestic and foreign issuers rated in the highest categories or in diversified portfolios of high quality, short-term dollar-denominated debt securities issued or guaranteed by the U.S. government or its agencies. 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.

Cash Flow from Operations and Accelerated Collection of Receivables.
Bluestem's cash flow is highly dependent on the volume and profitability of its sales and the credit performance of the receivables sold to SCUSA. The majority of Northstar Portfolio's sales occur on customer credit accounts issued by WebBank. All eligible Northstar Portfolio revolving customer accounts receivable are sold to SCUSA on the day they are purchased by Bluestem from WebBank. As a result, working capital benefits from the quicker turn around than if those accounts receivable were held by Bluestem. The A/R Program Agreements contain financial covenants requiring Bluestem to maintain a minimum liquidity and leverage ratio. As of February 1, 2019 and February 2, 2018, Bluestem was in compliance with all financial covenants of the A/R Program Agreements. See Note 5, *Serviced Credit Portfolio,* of the Notes to Consolidated Financial Statements for a description of the A/R Program Agreements with WebBank and SCUSA and more information on our customer accounts receivables.

Under the agreements with WebBank, 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.

During fiscal years ended February 1, 2019 and February 2, 2018 in accordance with the A/R Program Agreements, sales of Standard Receivables to SCUSA were made at a discount to par. The A/R Program Agreements state if the RAM forecast projects RAM, as a percentage of forecasted average A/R Program receivables, to be less than 5% for the full fiscal year, then Bluestem shall implement a merchant discount rate on all Standard Receivables purchased by SCUSA. The merchant discount rate is determined by dividing the forecasted merchant discount fee by the forecast amount of Standard Receivables to be purchased by SCUSA during the remaining months of the current fiscal year. The RAM forecasts are updated each January, April, July, October, and at the option of SCUSA in December. The average merchant discount was 7.97% for the fiscal year ended February 1, 2019, and 8.68% for fiscal year ended February 2, 2018. In the event that the future RAM forecast predicts RAM to be at or above 5%, Bluestem will no longer be obligated to apply the merchant discount rate.

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. Bluestem expects that it will need to find an alternative receivables financing partner upon the expiration or termination of the current agreement with SCUSA or alternatively have the ability to finance and retain ownership of the receivables itself.

Orchard offers its customers financing through its private label credit cards, which are issued and managed by a third-party bank. Approximately 29% of Orchard's sales occurred on these cards during the fiscal years ended February 1, 2019 with the remaining sales primarily occurring on third-party debit and credit cards, resulting in a short-term use of working capital until the receivables are collected. Payable terms are managed with vendors in an effort to achieve a balance between working capital and liquidity.

Bluestem's reported losses in the fiscal years ended February 1, 2019 and February 2, 2018 were 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 actions to improve the performance and stability of the business. To date, actions have included workforce reductions, exiting certain brands and businesses that were neither accretive nor consistent with our strategic goals, tightening underwriting on the Northstar credit portfolio, eliminating unproductive or unprofitable Orchard marketing spend, investing more in digital advertising, and eliminating redundant facilities.

Asset-Backed Line of Credit.
Northstar Portfolio's cash requirements are seasonal, with peak needs occurring from September through November as marketing efforts increase and inventory grows in advance of the holiday season. Orchard Portfolio's cash requirements are also seasonal in nature, peaking in the first and third fiscal quarters due to the purchase of inventory and the production of promotional materials in advance of the Spring and Fall seasons.

To address the seasonal fluctuations in inventory, Bluestem entered into an Asset-Backed Line of Credit, 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. On October 5, 2018, the facility was amended to provide that 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. Bluestem's Asset-Backed Line of Credit is subject to the same minimum net liquidity and total leverage ratio financial covenants as the Term Loan (as described below under *Debt Financing*).

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.

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. Bluestem's Asset-Backed Line of Credit is subject to the same minimum net liquidity and total leverage ratio financial covenants as the Term Loan described below. 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 Financing.
On November 7, 2014, Bluestem Brands, Inc. entered into a $300 million Initial Term Loan facility with a syndication of investors. 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 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."

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.

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. See Note 8, *Debt and Other Financing*, of the Notes to Consolidated Financial Statements for more information.

The Term Loan is secured by a first lien on unencumbered Bluestem property and equipment and a second lien on Bluestem’s inventory and customer accounts receivable not otherwise pledged or sold. Under provisions of the Term Loan, Bluestem is expected to comply with certain financial covenants and ratios contained within the Term Loan agreement and the Asset-Backed Line of Credit agreement ("Lender Requirements"), as well as separate financial covenants and ratios under the A/R Program Agreements ("Program Requirements"). The Lender Requirements are based on Bluestem’s standalone financial results excluding unrestricted subsidiaries while the Program Requirements are based on Bluestem’s standalone financial results including all subsidiaries. Unrestricted subsidiaries are designated by Bluestem based on qualifications defined by the loan agreements.

Bluestem's performance against covenants as of February 1, 2019 were as follows (net liquidity in thousands):

	Leverage Ratio		Net Liquidity	
	Results	**Requirement**	**Position**	**Requirement**
Lender Requirements	2.99	< 4.50	$85,372	> $ 40,000
Program Requirements	2.99	< 5.00	$85,424	> $ 40,000

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. Due to changes in the tariff environment in fiscal 2018, we revisited our debt documents and identified additional allowable adjustments to the leverage ratio covenant related to tariffs and duties. As a result, the leverage ratio improved. Nonetheless, the Company's performance relative to certain financial covenants is expected 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.

The Asset-Backed Line of Credit agreement matures on July 10, 2020 and the Term Loan facility matures on November 7, 2020. At that time, assuming all scheduled payments are made, the remaining Term Loan balance of approximately $378 million and any outstanding asset-backed borrowings will need to be repaid or refinanced. Bluestem anticipates that we will need to refinance these obligations before they mature. If we are unable to refinance the obligations or otherwise extend the maturity dates or repay the debt, Bluestem would be in default. If an event of default were to occur under either credit agreement, the Term Loan and Asset-Backed Line of Credit lenders could accelerate the maturity of the loans and foreclose on substantially all of Bluestem’s assets, and we would not have sufficient liquidity to repay all of our outstanding indebtedness without new financing, which might not be possible on terms favorable to Bluestem or at all. Any such default under our credit agreements would also result in a cross-default under our program agreements with WebBank and SCUSA. Alternatively, if we are able to refinance these credit obligations successfully, any such new credit facilities may have materially different borrowing conditions, operating and financial covenants and collateral or guaranty requirements than currently exist under our existing arrangements.

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

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Net cash provided by operating activities	$ 104,235	$ 145,791
Net cash used in investing activities	$ (104,408)	$ (103,742)
Net cash used in financing activities	$ (5,868)	$ (131,781)

Operating cash flows resulted primarily from sales of products to our customers offset by cash payments for purchases of inventories, purchases and production of promotional materials, employee compensation, credit management costs, operating leases, interest payments on our debt obligations, and general working capital needs. The decrease in cash provided by operating activities for the fiscal year ended February 1, 2019 compared to the fiscal year ended February 2, 2018 was primarily due to a reduction in working capital in the fiscal 2017 period compared to an increase in working capital in fiscal 2018, partially offset by improved earnings net of non-cash charges.

Investing cash flows for the fiscal year ended February 1, 2019 resulted primarily from purchases of customer accounts receivable from WebBank and purchases of property and equipment, offset by proceeds from sales of our customer accounts receivable to SCUSA and distributions from equity investments. Cash used in investing activities for the fiscal year ended February 1, 2019 was comparable to the fiscal year ended February 2, 2018, as decreased net proceeds from the sale and purchase of customer accounts receivable was offset by decreased equity investment distributions due to the wind down of the Capmark's portfolio of commercial real estate assets.

Financing cash flows include primarily the net borrowings on our Asset-Backed Line of Credit, principal payments on the outstanding Term Loan and dividends paid to shareholders. On February 3, 2017, the Board of Directors declared a special cash dividend of $0.60 per share of the Company's outstanding common stock and Series A Participating Convertible Preferred Stock (the "Special Dividend"). The Special

Dividend resulted in an $80.2 million payment in the fiscal year ended February 2, 2018. The decrease in cash used in financing activities for the fiscal year ended February 1, 2019 compared to the fiscal year ended February 2, 2018 was primarily due to the fiscal 2017 Special Dividend and increased net borrowings on the asset-backed line of credit for working capital needs.

Intercompany Financing Arrangements
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 with 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. Subsequently $33.8 million of Paycheck Direct receivables were collected by BGI Holding Company and no Paycheck Direct receivables remain on the balance sheet as of February 1, 2019. BGI Holding Company also paid Bluestem $2.8 million to service the Paycheck Direct receivables during the run-off period.

On September 1, 2017, Bluestem sold its Irvine Distribution Center in Irvine, PA to BGI Holding Company under an arms-length transaction for net proceeds of $24.3 million, which has been used as a source of cash to fund Bluestem operations. BGI Holding Company and Bluestem entered into a lease agreement for the Irvine Distribution Center maturing in August 2037. Bluestem's primary sources of liquidity are (1) proceeds from the sales of customer accounts receivables to SCUSA, (2) cash flows from operations, (3) availability under an asset- backed line of credit, (4) cash and cash equivalents on hand, and (5) collections on the Company's owned accounts receivable portfolio.

Contractual Obligations and Commitments
The following table summarizes our material contractual cash obligations and commitments as of February 1, 2019:

	Payments due by Period (in thousands)				
Contractual Obligations	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Recorded contractual obligations:					
Term Loan [(1)]	428,155	28,802	399,353	—	—
Asset Backed Line of Credit	24,336	24,336	—	—	—
Capital Lease Obligations	535	535	—	—	—
Other	1,089	1,089	—	—	—
Unrecorded contractual obligations:					
Commitments to provide equity to equity method investees	3,590	3,590	—	—	—
Estimated Term Loan interest payments	72,449	42,615	29,834	—	—
Operating lease obligations	52,812	9,818	18,385	15,888	8,721
Letters of credit	15,118	15,118	—	—	—
Total	598,084	125,903	447,572	15,888	8,721

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

Off Balance Sheet Arrangements
We do not have any guarantee contracts, contingent interest in assets transferred, or variable interest entities that qualify as off-balance sheet arrangements.

RISK FACTORS

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

Risks Related to our Retail Business

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

We have agreements with WebBank that permit our Northstar Portfolio customers to establish credit accounts that may be used exclusively to purchase products and services from us. Approximately $0.7 billion of our fiscal 2018 Northstar net sales were originated by credit extended through WebBank, and therefore, we are dependent on WebBank to provide financing for a substantial portion of our sales. Bluestem also has granted WebBank the right, subject to limited exceptions, to be the exclusive originator of all credit products and programs in connection with Bluestem’s affiliated brands, which increases our dependence on WebBank.

Under our agreements with WebBank, we are responsible for marketing credit programs and products, applying WebBank's underwriting criteria and ongoing administration of the credit programs and products. In that regard, we are required to process all applications for credit accounts, determine whether WebBank's eligibility criteria are satisfied, and perform certain administrative, processing, custodial, and collection services. We are also required to purchase from WebBank our customers' accounts receivable after a contractual holding period, generally three business days, while WebBank retains full ownership of all accounts. If we fail to perform these obligations or otherwise are in default under our agreements with WebBank it can, among other things, terminate our agreements and stop lending to our Northstar Portfolio customers.

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

We are party to a backup credit issuer agreement with The Bank of Missouri, pursuant to which The Bank of Missouri has agreed to issue credit accounts to our Northstar Portfolio customers if our agreements with WebBank terminate. However, any transition to working with The Bank of Missouri as credit issuer for our customers could result in significant disruption to our business, and operating with The Bank of Missouri as credit issuer for our Northstar Portfolio customers would involve similar risks to our current arrangements with WebBank.

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

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

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

A loss or material reduction of the SCUSA purchase commitment would cause Bluestem to remain the owner of any receivables purchased from WebBank, with direct responsibility for the related collections. To the extent Bluestem maintains or acquires ownership of the receivables, Bluestem would no longer benefit from the receipt of upfront cash at the time of sale and would bear the resulting account collection risk over the life of the receivable in addition to having to self-fund customer receivables to maintain growth. If at any time Bluestem were to acquire or retain ownership of any portion of current or future receivables, in order to meet its future liquidity requirements, Bluestem would likely need to raise additional equity capital and/or obtain additional third party debt financing,. As of February 1, 2019, we had $133.0 million in total cash and cash equivalents and restricted cash (including $3.2 million credit card receivables due from third-party financial institutions and $13.5 million restricted cash) on hand, with $20.6 million of the total cash and cash equivalents and restricted cash (including all of the credit card receivables due from third-party financial institutions and restricted cash) being held by Bluestem.

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

In October 2015, SCUSA announced that it had reclassified its entire personal loan portfolio, including the Bluestem receivables owned by SCUSA as "held for sale." Bluestem's current agreement with SCUSA extends through April 2022. Although SCUSA has informed the Company that it intends to continue to perform in accordance with the terms and provisions of the current agreement with Bluestem, Bluestem expects that it will need to find an alternative receivables financing partner upon the expiration or termination of the current agreement with SCUSA or alternatively have the ability to finance and retain ownership of the receivables itself. The Company cannot assure you that it will be able to conclude a transaction with any such alternative partner or have the ability to finance and retain ownership of the receivables on terms that are favorable to Bluestem or at all.

Several of our material agreements, including our agreements with SCUSA and WebBank, contain financial covenants and/or other requirements and conditions and cross-default provisions, where a termination of one agreement may lead to a similar result under other agreements.

Bluestem's A/R Program Agreements with SCUSA and WebBank provide that any event that permits SCUSA or WebBank to terminate a related agreement could allow the other counterparty to terminate its agreement with Bluestem relating to the purchase and sale of Bluestem receivables. If WebBank terminated its role in originating receivables for Bluestem, or if SCUSA terminated its role purchasing standard revolving receivables from Bluestem, then the arrangements contemplated by the A/R Program Agreements could be terminated and Bluestem could need to find a replacement originator and receivables purchaser, which might not be possible on terms favorable to Bluestem or at all.

In addition, a termination of the A/R Program Agreements, or an uncured event of default that would allow WebBank or SCUSA to terminate the A/R Program Agreements, would lead to a default under Bluestem's Term Loan and Asset-Backed Line of Credit agreements. Any default under the Term Loan agreement for any reason also results in a default under Bluestem's Asset-Backed Line of Credit agreement and other contracts that are material to Bluestem's operations. If an event of default were to occur under either credit agreement, the Term Loan and Asset-Backed Line of Credit lenders could accelerate the maturity of the loans, and we would not have sufficient liquidity to repay all of our outstanding indebtedness without new financing, which might not be possible on terms favorable to Bluestem or at all.

Under Bluestem's agreements with WebBank and SCUSA, Bluestem undertakes substantial commitments to comply with, or is affected significantly by, the regulatory regimes affecting consumer credit and the operations of banks and other financial institutions such as WebBank and SCUSA.

Bluestem's operations, and the operations of WebBank and SCUSA, are or may be subject to the jurisdiction of federal, state, and local government authorities, including the Consumer Financial Protection Bureau (the "Bureau"), the Securities and Exchange Commission ("SEC"), the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Federal Trade Commission (the "FTC"), state regulators having jurisdiction over financial institutions and debt origination and collection, and state attorneys general. Because Bluestem acts as a service provider to WebBank and SCUSA, its business practices, including the terms of its marketing, servicing, and collection practices, and its application of underwriting criteria for new accounts, may be subject to both periodic and special reviews by these regulatory and enforcement authorities. These reviews could range from investigations of specific consumer complaints or concerns to broader inquiries into our practices generally. For example, in January 2016, Bluestem was notified that it had been the subject of an investigation by the Bureau primarily relating to credit offerings, debt collection, and the sale of debt portfolios. In September 2017, Bluestem responded to a Notice and Opportunity to Respond and Advise letter from the Bureau notifying Bluestem that the Bureau's Office of Enforcement was considering recommending that the Bureau take legal action against Bluestem due to alleged delays between the time when Bluestem received payments on already-sold debt and when it forwarded those payments to debt buyers. In October 2018, Bluestem settled those claims by entering in to a five year Consent Order with the Bureau and paying a $200,000 civil money penalty. Other regulatory or enforcement authorities also could require Bluestem to stop offering some of our products, either nationally or in selected states. In addition, an action by regulators may give rise to a right of termination by WebBank and SCUSA under the A/R Program Agreements.

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

Changes to regulatory requirements with which Bluestem must or has agreed to comply may adversely affect our business, financial condition, and operating results.

Bluestem's business involves a variety of highly regulated activities, and changes to the regulatory requirements with which we must comply, either through the adoption of new laws and regulations, especially the Dodd-Frank Act, or through changes to existing interpretations of laws and regulations, either of which could have a material adverse effect on our business, financial condition, and operating results. For example, Bluestem undertakes collections activities pursuant to its agreement with WebBank and subject to WebBank's oversight. Although the Company believes Bluestem is not subject to the Fair Debt Collection Practices Act ("FDCPA") or state laws requiring licensing and registration of third-party debt collectors, regulators could change their interpretation of existing laws, rules, and regulations governing collections such that Bluestem could be determined to be a third-party collector subject to various laws, rules, and regulations. In addition, new laws and regulations governing debt collections could be enacted which could require Bluestem to register as a third-party debt collector and subject us to the FDCPA or similar state laws. Similarly, although WebBank establishes accounts for our Northstar Portfolio customers and originates receivables for those customers, private plaintiffs or state regulators could assert, and have asserted with respect to Bluestem and other partners with whom WebBank works, that WebBank's loans must comply with state laws relating to items such maximum interest rates and fees and/or that Bluestem must obtain licenses in connection with the activities we perform on WebBank's behalf. If, as a result of a change in the interpretation of existing laws or enactment of new laws, Bluestem became subject to enforcement actions or penalties by regulators or state attorneys general, we could be required to take various actions that could have a material adverse impact on its financial condition, results of operations and prospects, including:

- registering or obtaining licenses or approvals in certain states;
- changing the manner in which it collects debts from and services loans made to its Northstar Portfolio customers;
- modifying or discontinuing the manner in which its Northstar Portfolio customers currently obtain credit;
- modifying or terminating Bluestem's relationships with WebBank and SCUSA;
- modifying rates, fees and other terms of credit extended to Northstar Portfolio customers; or
- terminating access to proprietary credit to customers in certain jurisdictions.

The Bureau also has been actively involved in creating and proposing new consumer finance regulations and pursuing enforcement actions based on new or novel interpretations of consumer finance laws. For example, the Bureau has brought numerous enforcement actions focusing on the marketing and sale of debt cancelation and add-on products. If the Bureau's enforcement practices in these or other areas limit or eliminate our ability to sell certain types of products, or increase our cost of operations to continue selling certain products, our results of operations and prospects would suffer.

We also are subject to laws relating to the collection, use, retention, security and transfer of personally identifiable information about our customers. The interpretation and application of privacy and customer data protection laws are in flux and vary from jurisdiction to jurisdiction. These laws may be interpreted and applied inconsistently, and our current data protection policies and practices may not be consistent with those interpretations and applications. Complying with these varying requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. In addition, there is a likelihood of increased regulation relating to consumer privacy. For example, the California Consumer Privacy Act, which imposes various obligations on businesses regarding, among other things, the collection, sale, disclosure and protection of personal information, is scheduled to become operative on January 1, 2020. The passage of additional federal or state legislation governing data privacy also could occur as legislators, regulators and consumers are showing increasing interest in data privacy. Any failure to comply with current or future privacy laws or regulations could result in significant fines, penalties or damages payable by us and adversely affect our reputation.

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

The lack of willingness of Bluestem's vendors to do business with us or to provide acceptable payment terms could negatively impact Bluestem's liquidity and/or reduce the availability of products or services it can procure.

Bluestem depends on its vendors to provide financing on purchases of inventory and services. Certain of Bluestem's vendors have periodically sought to limit the availability of vendor credit or to modify the other terms under which they sell to Bluestem, or both, which negatively impacts Bluestem's liquidity. Any credit rating agency downgrades or sustained economic downturn that might occur in the future could exacerbate this risk. In addition, the inability of vendors to access liquidity, or the insolvency of vendors, could lead to their failure to deliver inventory or other services. Certain of Bluestem's vendors finance their operations and/or reduce the risk associated with collecting Bluestem accounts receivable by obtaining credit insurance, selling or "factoring" the receivables, or by obtaining various forms of protection from loss associated with Bluestem's credit risks. The ability of these vendors to do so is subject to Bluestem's perceived credit quality. Bluestem's vendors have been and could continue to be limited in their ability to obtain credit insurance, factor receivables or obtain credit protection because of Bluestem's perceived financial position and creditworthiness, which could reduce the availability of products or services Bluestem seeks to procure, increase its cost of those products and services, or both.

Acquisitions, significant investments in new businesses, or strategic transactions in which we may engage in the future, may result in a variety of risks, any of which could adversely affect our business.

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

- failure to achieve the financial and strategic goals for the acquired and combined business;
- overpayment for the acquired companies or assets;
- difficulty integrating the operations and personnel of the acquired businesses;
- disruption of our existing business;
- distraction of management from our ongoing business;
- dilution of our existing stockholders and earnings per share;
- incurrence of substantial indebtedness, which could limit our ability to invest in our businesses and execute our growth plan due to the need to service the indebtedness and comply with restrictive covenants in loan agreements;
- impairment charges, such as the $25.6 million and $192.1 million impairment charges taken in fiscal 2018 and fiscal 2017, respectively, due to the substantial amount of the acquisition purchase price allocated to goodwill and other identifiable intangible assets;
- unanticipated liabilities, legal risks and costs;
- increased regulatory and compliance requirements;
- retention of key personnel; and
- impairment of relationships with employees, customers and other business partners as a result of integration of new management personnel.

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

In January of 2019, the Company announced its intent to exit six of its thirteen brands all of which are part of the Orchard portfolio. In fiscal 2018, these brands combined to generate approximately five percent of the net sales of the Company while contributing negative EBITDA. The Company continues to explore multiple options for these brands including discontinuation, sale or combination with an existing brand.

Historically, we did not collect state or local sales, use, or other transaction-based taxes for all retail brands in all states. Any determination that we should have collected such taxes in the past could subject us to liability that could negatively impact our financial results.

Prior to the US Supreme Court's decision in *South Dakota v. Wayfair*, in June 2018, we generally did not collect state or local sales, use, or other transaction-based tax on sales of goods shipped to customers located in states where we had determined we had no physical presence. In *Wayfair*, the US Supreme Court decided that states can require sellers with no physical presence in a state to collect state and local taxes, such as sales tax, under certain circumstances. In response to this decision, tax laws in certain states have become effective imposing sales or use taxes on transactions with our customers in states where we previously did not collect and remit such taxes, and additional states are contemplating enacting similar laws.

Our customers in jurisdictions where we are, or may in the future, collect and remit sales or use taxes and where we historically have not done so might perceive the tax to be in the nature of a price increase, which could negatively impact our sales. We may also become less competitive with retailers that historically have collected, reported, and remitted sales and use taxes, depending on their base pricing levels. Since customer spending can be constrained by credit availability, funds spent on taxes are otherwise unavailable for making purchases from us. Consequently, sales-related tax impositions could directly and adversely impact revenues.

Collecting sales and use tax in additional jurisdictions also will impose additional administrative costs and burdens on us. We may not have sufficient lead time to build systems and processes to collect these taxes properly, or at all. Failure to comply with applicable tax laws, or a successful assertion by states requiring us to collect taxes where we do or have not, could result in substantial tax liabilities, including for past sales, as well as penalties and interest.

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

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

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

The financial performance of our retail business is affected by numerous factors that are beyond our control.

General economic conditions beyond our control may adversely affect our financial performance. In the United States, changes in interest rates, changes in fuel and other energy costs, weakness in the housing market, inflation or deflation or expectations of either inflation or deflation, higher levels of unemployment, the availability of consumer credit, higher consumer debt levels or efforts by consumers to reduce debt levels, higher tax rates and other changes in tax laws, overall economic slowdowns, war or terrorism or fears of war or terrorism, changes in consumer desires and other economic factors could adversely affect demand for the products and services we sell, change the mix of products we sell to a mix with a lower average gross margin, result in slower inventory turnover and greater markdowns on inventory and result in higher levels of slow payment, default and uncollectibility in our customers' accounts. We believe the potential for an adverse effect on sales due to macro-economic or other factors beyond our control is heightened for Bluestem given that many of its customers are to low- to middle-income consumers whose purchases of our products are discretionary. Higher interest rates, transportation costs, inflation, costs of labor, insurance and health care, foreign exchange rate fluctuations, higher tax rates and adverse changes in tax and other laws and regulations and other economic factors in the United States also can increase our cost of sales, commodity pricing, operating, selling, general and administrative expenses and interest expense, and otherwise adversely affect our operations and operating results. These factors affect not only our operations, but also the operations of our sources of consumer and commercial credit critical to our business, as well as suppliers from whom we purchase goods, a condition that can limit the availability of credit or goods to us or increase the cost to us of the goods we sell to, and credit we arrange for, our customers. Changes in U.S. trade policy, including the adoption or expansion of trade restrictions or the expansion of existing "trade wars," could result in increased cost of goods imported into the United States or in Bluestem sourcing partners limiting their trade with us.

In addition, natural disasters can significantly affect consumer purchasing and payment patterns. For example, hurricanes that struck North Carolina, Georgia, Florida in 2018 and Texas, Florida and Puerto Rico in fiscal 2017 negatively impacted our ability to sell products to and collect payments from consumers in the areas affect by those natural disasters. Future natural disasters, which could become more frequent or more severe due to changing climate patterns, could adversely affect our results of operations by lowering our sales and negatively impacting the performance of our credit portfolio in certain locations.

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

Our Northstar Portfolio largely consists of low-to-middle income consumers that utilize the credit provided by third parties such as WebBank. The nature of our Northstar Portfolio customer base makes this business segment sensitive to adverse changes in economic conditions. If general economic conditions worsen, our customers, especially in our Northstar Portfolio, might become less willing to make purchases on credit. An adverse economic environment also could restrict the ability of our customers to meet underwriting standards established by third party credit providers such as WebBank. As a result, during periods of adverse economic conditions, we may experience decreases in the growth of new customers or purchases by existing customers, which would adversely affect our net sales and profitability.

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

Our Northstar Portfolio customer base is largely composed of low-to-middle income consumers that utilize the proprietary credit products that we market to purchase our products in connection with the credit accounts originated by WebBank. These customers are at greater risk for credit delinquency and default than those with higher incomes and less dependency on credit. We purchase receivables generated by WebBank in respect of Northstar Portfolio customer accounts on a daily basis. We sell all Standard Receivables purchased from WebBank related to revolving credit accounts to SCUSA on the same business day. While SCUSA bears the risk of nonpayment on accounts purchased from us, our cost to service the portfolio generally increases and our servicing compensation generally decreases as the credit performance of the portfolio deteriorates, which adversely affect our results of operations and financial condition. The prices at which SCUSA purchases receivables from us also decrease based on adverse developments to the historic or projected future performance of the standard revolving receivables portfolio. Any changes to underwriting standards that might be made to address the greater credit risk our Northstar Portfolio customers represent also can adversely affect our net sales and growth prospects.

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

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

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

The Company relies heavily on internally developed and vendor models to operate its business. Several new models have been put in place in 2017 and 2018. The accurate modeling of risks is critical to our business, particularly with respect to managing underwriting for credit extensions made by WebBank. Our expectations regarding response rates, customer repayment levels, and other accounting estimates are based in large part on internal modeling. We also rely heavily on internal models in making a variety of other decisions crucial to the successful operation of our business, including pricing the products we sell. It is therefore important that our models are accurate, and any failure in this regard could have a material adverse effect on our results.

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

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

New initiatives and adding new customers and products are important to our business strategy and may not be successful.

During fiscal 2017 and then again in the fourth quarter of fiscal 2018, we initiated several restructuring actions that are intended to reduce our costs and improve our operating performance, including reducing the size of our workforce and exiting certain brands that were not accretive or were inconsistent with our strategic goals. If the cost reductions we anticipate from our restructuring actions are not realized, then our financial results could be adversely impacted. The reduction in the size of our workforce as part of this restructuring and subsequent attrition could result in the loss of specific knowledge relating to our operations and industry that could be difficult to replace. Also, we now operate with fewer employees, who have assumed additional duties and responsibilities. The restructuring actions and related workforce changes could negatively impact communication, morale, management cohesiveness and effective decision-making, which could have an adverse impact on our operations, customer experience, sales and results of operations.

We may seek to grow our business through the introduction of new credit products. The introduction of new credit products may also require WebBank, SCUSA, and us to comply with additional regulatory and licensing requirements. These requirements may entail additional investment of time and capital, including additional marketing expenses, legal costs, and other incremental operating costs or restrict our ability to leverage existing marketing and customer acquisition strategies. Any failure to comply with applicable regulations could result in fines, suspensions, or legal actions against WebBank, SCUSA, and/or us or limit our ability to grow new accounts and sales and could have a material adverse effect on our business, prospects, results of operations, and financial condition. Our failure to offer new products in an efficient manner, or low customer demand for any of these new products, could have a material adverse effect on our business, prospects, results of operations and financial condition. To the extent we explore but do not launch new products, our investments in exploring the new product will be lost and our operating results will be adversely affected.

We also regularly seek to grow our business by acquiring new customers. The costs of acquiring new customers are frequently not recovered until years subsequent to account activation. Newer customers also present a higher risk of delinquency and default than established accounts. If we fail to appropriately manage the customer acquisition costs, default and collection risks associated with our adding new customers, it could have significant adverse effects on our business and results of operations. Conversely, limitations on our new customer acquisition efforts to mitigate those risks would have an adverse effect on our growth and prospects.

We face intense competition.

The retail industry is highly competitive. We have many competitors, including traditional retailers, catalog merchants and e-commerce services. Credit card issuers, banks, financial technology or fintech companies and consumer credit agencies also compete with us for consumer lending that is critical to our customers, particularly with respect to our Northstar Portfolio. Many of our competitors have greater resources and brand recognition than we do. Their more significant purchasing power and higher efficiency may permit them to offer products at more attractive prices and credit terms to customers, develop and promote brands that are better known than the proprietary brands in our Orchard and Northstar Portfolios, and identify and respond to changes in consumer preferences quicker than we can.

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

The easing by other lenders in general purpose and private label credit card underwriting standards for low-to-middle income consumers in recent years has had, and could continue to have, an adverse impact our net sales and profitability in several ways. First, this trend has increased credit offers from third parties received by our current and prospective consumers, thereby expanding their access to available credit and reducing the attractiveness and utilization of the proprietary credit offered to our Northstar Portfolio customers. It also has increased the direct mailing by others to our customers, affecting our catalog response rate and reducing our marketing efficiency. This trend also can cause adverse selection for individuals applying for our proprietary credit products. For example, lower risk credit customers might not respond to our offers in the same proportion as higher risk credit customers. More freely available credit to consumers also generally results in higher overall consumer leverage, which impacts our customers' ability to pay for debt incurred in connection with their purchases from us.

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

The nature of our business involves the receipt, processing and storage of personal information about our customers, both internally and by third parties. Techniques used to gain unauthorized access to data are constantly evolving, and we may be unable to anticipate or prevent unauthorized access to data pertaining to our customers, business partners and employees. Like all internet retailers, we are vulnerable to software bugs, computer viruses, internet worms, break-ins, phishing attacks, attempts to overload servers with denial-of-service or other attacks and similar disruptions, any of which could lead to system interruptions, delays, or shutdowns, causing loss of critical data or the unauthorized access to personal data. Computer malware, viruses, computer hacking and phishing attacks have become more prevalent, have occurred on our systems in the past, and may occur on our systems in the future. Any failure to protect the personal information of our customers, whether by us or our business partners, could lead to lost future sales, adversely affect our results of operations, damage our brand, and require us to expend considerable resources on alterations to our data security systems or business practices and for the restoration of our reputation.

Although we take what we believe to be reasonable and appropriate security measures to protect customer information, it is not possible to assure that the measures will always be sufficient to protect consumer information, prevent fraudulent transactions or deter other harm. Furthermore, criminal or fraudulent actions by third parties, including spoofing, confidence schemes and other malfeasance associated with our brands could have impacts similar to data security breaches.

Data compromises or security breaches could result in data loss and/or identity theft leading to significant liability or costs to us from notification requirements, lawsuits brought by consumers, shareholders or other businesses seeking monetary redress. We could also be exposed to enforcement actions by state and federal authorities for fines and penalties. Interruptions caused by cyber incidents could force us to suspend selling activities during periods required to investigate and remediate technology threats. Such service interruptions and the negative publicity associated with cyber incidents, could damage our reputation and limit customer willingness to purchase products from us.

Businesses in the retail industry have experienced material persistent sales declines after discovering data breaches and our business could be similarly impacted. Theft of credit card numbers of consumers could result in significant fines and consumer settlement costs, litigation costs, FTC audit requirements, third party claims by credit card issuers and processors, and internal administrative costs.

In addition to possible claims for security breaches involving customer information, the secure processing, maintenance and transmission of customer information is critical to our operations and business strategy, and we devote significant resources to protect our customer information. The expenses associated with complying with a patchwork of state laws imposing differing security requirements depending on the residence of our customers could reduce our operating margins. As mentioned above, there have been continuing efforts to increase the legal and regulatory obligations and restrictions on companies conducting commerce, primarily in the areas of taxation, consumer privacy and protection of consumer personal information, and we may have to devote significant additional resources to information security.

We have agreements with SCUSA and WebBank regarding each party's obligation to ensure compliance with the Gramm-Leach-Bliley Act and similar laws, rules, and regulations which relate to the use, disclosure, storage, and safeguarding of customer information, but we have indemnification obligations to WebBank and SCUSA with respect to any violations of laws which may occur as a result of a security breach. Breaches of security and the failure to protect personal information generally, such as the cyber breach announced by Equifax in 2017 that affected millions of consumers, also could cause an overall decrease in consumers' trust in credit reporting agencies or third-party data providers, which could make them less willing to participate in borrowing or online activities generally and negatively impact our business.

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

Approximately 54% of our net sales in fiscal 2018 were driven by products we held in inventory. Our success is tied to our ability to anticipate changes in trends and customer expectations. Since we need to order merchandise well in advance of customer orders, we must order our merchandise based on our best projections of consumers' tastes, current trends and anticipated demand. We cannot guarantee that such projections will be accurate, which may impact net sales and customer experience. Conversely, if items do not achieve projected sales projections, we may have surplus or un-saleable inventory that would force us to take significant inventory markdowns and offer significant promotions to sell merchandise, which could impact profitability.
Our ability to accurately predict customer demand also impacts our fulfillment operations and impacts the decision around marketing expenditures, staffing and operations. Shortfalls in sales volume may be reflected in lower than expected margins.

We rely on dropship inventory vendors that could fail to meet the merchandise demands of our customers or could create a poor experience for our customers, which could damage the reputation of our brands and impact future net sales and profitability.

In recent years, our Northstar Portfolio has expanded the proportion of its products sold using dropship vendors. For fiscal 2018, approximately 16% of our net sales were made using dropship vendors. Dropship vendors ship product directly to our customers from their warehouses using their packing and shipping processes, materials, quality assurance programs and logistic partners. While we require service level and compliance standards, vendors may not meet those standards and may not have inventory sufficient to satisfy our customer demands, which could adversely impact our net sales, profitability and relationships with our customers.

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

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

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

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

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

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

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

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

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

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

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

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

A disproportionate amount of our retail net sales occur during our fourth fiscal quarter. For example, in fiscal 2018, approximately 33% of our net sales occurred during our fourth fiscal quarter. If we and/or our dropship vendors do not maintain adequate inventory to meet seasonal customer demand, it could significantly affect our net sales and future growth. Conversely, if we overstock seasonal products in excess of demand, we may have to offer significant pricing markdowns or take inventory write-offs. If too many customers access our telephone order lines, servicing connections or websites within a short period, particularly during holidays, it could prevent us from taking orders or reduce customer satisfaction. A similar adverse impact would result from inadequate staffing in our customer service and ordering centers and warehouse fulfillment functions during times of peak volume.

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

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

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

International purchases subject us and our suppliers to inbound freight costs, tariffs, duties and currency fluctuations as well as other risks and could increase our costs and, therefore, decrease our gross profits as well as decrease our ability to ship our merchandise in a timely manner. Significant changes to U.S. trade policies, legislation, treaties, and tariffs could occur. At this time, it is unknown whether and to what extent new legislation will be passed into law, pending or new regulatory proposals will be adopted, international trade agreements will be negotiated, or the effect that any such action would have on Bluestem. Major developments in such trade relations could have a material adverse effect on our results of operations, financial condition and cash flows.

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

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

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

Our financial performance depends on the ability to purchase products in sufficient quantities at competitive prices. We offer a changing mix of products and, therefore, our buyers must develop and maintain relationships with vendors to locate sources for high quality, low cost and name brand merchandise they believe will interest our customers. In fiscal 2018, we purchased our products from over 2,146 domestic and foreign manufacturers. Our top ten suppliers accounted for approximately 23% of our merchandise inventory purchases in fiscal 2018. Inability to obtain merchandise from any of the larger vendors could cause supply disruptions that would hamper the business.

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

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

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

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

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

As of the end of fiscal 2018, the Company employed approximately 2,600 employees, of which approximately 178 were warehouse and order fulfillment employees subject to a collective bargaining agreement. Labor organizing activities could result in additional employees becoming unionized. Strikes, work stoppages and slowdowns by our employees or the employees of critical vendors could adversely affect our ability to fulfill orders and meet our customers' needs, and customers may move their business to competitors as a result. This could adversely affect our business, financial position and results of operations. Increased unionization and the terms of future collective bargaining agreements also may affect our competitive position and results of operations.

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

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

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

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

Examples of critical vendors include the following:

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

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

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

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

We face the risk of litigation, including class action lawsuits challenging, among other things, our marketing and sales practices as well as our actions as a servicer for WebBank and SCUSA. In particular, our role as contract servicer for WebBank and SCUSA exposes us to liability under the Telephone Consumer Protection Act ("TCPA"), the Fair Credit Reporting Act ("FCRA") and related state law claims. The TCPA and the FCRA provide for extremely high damage awards especially in the class action context, and Bluestem has previously been a defendant in several putative class action lawsuits alleging violations of the TCPA. Other potential risks of litigation driven by our activities in the consumer finance area relate to lending terms, rates, disclosures, collections, debt sales and/or other practices, under state and federal consumer protection statutes and other laws, as well as licensing requirements relating to consumer lending activity.

In addition to private plaintiffs, state attorneys general, the Bureau, and other government prosecutors have been active in enforcing consumer protection laws, including laws relating to subprime lending, predatory lending practices and privacy. As the Company grows and becomes more visible, the risk of litigation is likely to increase. We may also be subject, from time to time, to employee claims alleging injuries, wage and hour violations, discrimination, harassment or wrongful termination. In addition to the risk of loss following an adverse ruling in any such litigation, all litigated matters involve costs, in terms of both monetary expenditures and the diversion of management's time and attention. In addition, litigation may result in orders that require us to change our business practices, pay settlement costs and damages and, in some cases, penalties. Any or all of these could negatively affect our business and financial results.

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

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

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

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

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

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

Bluestem's substantial leverage could adversely affect our ability to raise additional capital to fund its operations, limit our ability to react to changes in the economy or the retail industry and prevent Bluestem from meeting its debt obligations.

Substantially all of our outstanding debt is owed by Bluestem. As of February 1, 2019, Bluestem had $445.5 million of total debt. Bluestem's high degree of leverage could have important consequences, including:

- increasing its vulnerability to adverse economic, industry, or competitive developments;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on the indebtedness, reducing Bluestem's ability to use cash flow to fund operations, capital expenditures, and future business opportunities;
- making it more difficult for Bluestem to satisfy its obligations with respect to its indebtedness without financial assistance from BGI Holding Company, and any failure to comply with the obligations of Bluestem's indebtedness, including restrictive covenants and borrowing conditions, could result in an event of default under the applicable agreements and foreclosure on substantially all of Bluestem's assets;
- restricting Bluestem from making strategic acquisitions or causing it to make non-strategic divestitures;
- making it more difficult for Bluestem to obtain inventory from vendors and critical services from other business partners;
- limiting Bluestem's ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions, and general corporate or other purposes; and
- limiting Bluestem's flexibility in planning for, or reacting to, changes in its business or market conditions and placing it at a competitive disadvantage compared to competitors who are less highly leveraged.

Bluestem may not be able to refinance, extend or repay the indebtedness owed to our lenders, which could adversely affect our financial condition and business.

As of February 1, 2019, Bluestem owed $452.5 million to various major banks under its Term Loan and Asset-Backed Line of Credit agreements. The credit agreements contain maturity dates of November 7, 2020 and July 10, 2020 respectively, and Bluestem anticipates that we will need to refinance these obligations before they mature. If we are unable to refinance the obligations or otherwise extend the maturity dates or repay the debt, Bluestem would be in default. If an event of default were to occur under either credit agreement, the Term Loan and Asset-Backed Line of Credit lenders could accelerate the maturity of the loans and foreclose on substantially all of Bluestem's assets, and we would not have sufficient liquidity to repay all of our outstanding indebtedness without new financing, which might not be possible on terms favorable to Bluestem or at all. Any such default under our credit agreements would also result in a cross-default under our program agreements with WebBank and SCUSA. Alternatively, if we are able to refinance these credit obligations successfully, any such new credit facilities may have materially different borrowing conditions, operating and financial covenants and collateral or guaranty requirements than currently exist under our existing arrangements.

Due to the upcoming maturity dates, the Company is also at risk of its vendors requesting additional contractual covenants or letters of credit to continue doing business with them. If such covenants and letters of credit materially increase the cost of vendor relationships, they would adversely affect our ability to purchase inventory to sell to our customers, our ability to meet our cash flow needs, and our results of operations. Negotiating additional contractual covenants and obtaining letters of credit also would impose additional administrative costs and burdens on us. As a result, Bluestem's ability to refinance its indebtedness could have an adverse effect on our financial results.

Risks Related to the Operation of our Real Estate Business

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

The value of our real estate-related assets is sensitive to general business, economic, and market conditions in the markets in which these assets are located. These conditions include changes in short-term and long-term interest rates, inflation, deflation, fluctuations in the real estate and debt capital markets, and developments in national and local economies and changes in government policies and regulations.

The commercial real estate industry is cyclical and is subject to numerous economic factors including general business conditions, changes in interest rates, inflation, unemployment rates and oversupply of properties. An increase in the number of delinquencies, bankruptcies, or defaults generally or in the markets where real estate assets in which we have invested are located could result in a downward valuation adjustment on those assets or a failure to liquidate our commercial real estate assets at a value equal to or greater than the assets' carrying value, either of which could adversely affect our future results of operations.

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

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

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

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

Risks Related to our Consolidated Business

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

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

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

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

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

We recently have experienced significant changes in our senior management. Changes in senior management and other key personnel could disrupt our business and inhibit our ability to execute our business plan. The resources needed to fill senior management positions, including the on-going search for a new chief executive officer, and for a President of our Orchard Portfolio also could divert management and the Board of Directors' attention from the oversight and operation of our business, which could adversely affect our results of operations and financial position. We do not have key person life insurance policies nor do we have employment agreements for all of our key employees.

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

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

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

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

We cannot be certain that the intellectual property used in our business does not and will not infringe the intellectual property rights of others, and we are from time to time subject to third party infringement claims Any third party infringement claims against us, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us or the payment of damages. Moreover, should we be found liable for infringement, we may be required to enter into licensing agreements, which may not be available on acceptable terms or at all, or to exit portions of our product offering that are found infringing.

Risks Related to Ownership of Our Common Stock

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

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

- our ability to retain and attract customers and increase net sales;
- availability and pricing of, and the regulatory environment for, consumer and commercial credit;
- varying response rates to catalogs and other marketing activities;
- unanticipated delinquencies and losses in our customer accounts receivable portfolio;
- our ability to offer products on favorable terms, manage inventory, and fulfill orders;
- pricing pressures due to competition or otherwise;
- changes in consumer tastes and demand for particular products;
- changes in consumer willingness to purchase goods on credit via catalogs and through the Internet;
- weak economic conditions, economic uncertainty and lower consumer confidence and discretionary spending;
- changes in taxation of catalog and Internet sales;
- timing, effectiveness, and costs of expansion and upgrades of our systems and infrastructure;
- variations in the mix of products and services we offer and level of vendor returns;
- changes in key personnel;
- entry into new markets;
- announcements by us or our competitors of new product offerings or significant acquisitions;
- the public's response to press releases or other public announcements by us or third parties, and announcements relating to litigation;
- any financial projections we provide to the public, any changes in those projections or our failure to meet those projections;
- changes in financial estimates by any securities analysts who might in the future follow our common stock, or our failure to meet these estimates;
- ratings downgrades by any securities analysts who might in the future follow our common stock;

- the development and sustainability of an active trading market for our common stock;
- future sales of our common stock by our officers, directors and significant stockholders;
- results of litigation or changes in the consumer credit regulatory environment;
- other events or factors, including those resulting from war, acts of terrorism, natural disasters or responses to these events; and
- changes in accounting principles.

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

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

During fiscal 2018, Bluestem made, and continues to evaluate, changes to its business to improve its profitability and financial position. Changes made and evaluated include reducing the size of Bluestem's workforce, consolidating and ceasing to operate certain brands, changing certain marketing and pricing practices and deferring and reducing capital expenditures. If for any reason these changes do not sufficiently improve Bluestem's profitability or financial condition, we may choose to raise additional funds to fund Bluestem's operations. In the future, we also might seek additional funds to support growth for our business. Additional financing may not be available in sufficient amounts or on terms acceptable to us and may be dilutive to existing stockholders. If adequate funds are not available or are not available on acceptable terms, our ability to sustain our operations, fund growth, take advantage of new opportunities, develop or enhance our offerings, or otherwise respond to competitive pressures would be significantly limited.

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

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

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

As of February 1, 2019, we had $314.5 million of deferred tax assets for federal, state, and foreign net operating, and capital loss carryforwards ("Attributes"). The deferred tax assets are determined by applying the applicable tax rates to the Attributes. The $1.7 billion United States federal net operating losses ("NOLs") will begin to expire in fiscal year 2027. The Company believes that it is more likely than not that these deferred tax assets will only be realized to the extent of current year income and temporary differences that will result in future taxable income. A $299.5 million valuation allowance has been recorded against the balance of the deferred tax assets based on our assessment that they are less likely than not to be realized. The current year United States federal NOLs of $48.9 million will be carried forward indefinitely and therefore the Company determined no valuation allowance is necessary. Our tax Attributes have not been audited or otherwise validated by the Internal Revenue Service ("IRS"). Our ability to utilize the Attributes to reduce taxable income in future years may be limited for various reasons, including if projected future taxable income is insufficient to recognize the full benefit of NOL carry forwards prior to their expiration and/or the IRS challenges their use. There can be no assurance that we will have sufficient taxable income or that the IRS will not challenge the use of the losses in later years to enable us to use the Attributes before they expire.

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

Federal tax reform could adversely affect our business and financial condition.

On December 22, 2017, the Tax Cuts and Jobs Act (H.R. 1) (the "Tax Act") was signed into law by President Trump. The Tax Act contains significant changes to corporate taxation, including reduction of the Federal corporate tax rate from 35% to 21%, limitation of the tax deduction for interest expense to 30% of earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the Tax Act, including the effect of the Tax Act on the Attributes, is uncertain and is being evaluated by the Company, and our business and financial condition could be adversely affected by the Tax Act. Due to the overall limitation of tax deductions, we continue to expect our taxable income to increase under the new Tax Act over prior periods.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Bluestem Group Inc. 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, stockholders' 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 control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 consolidated 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 GROUP INC.
Consolidated Balance Sheets
(in thousands, except share data)

	February 1, 2019	February 2, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 119,507	$ 123,398
Restricted cash	13,508	15,759
Customer accounts receivable, net of allowance of $7,801 and $8,233	8,154	9,008
Merchandise inventories	210,658	194,693
Promotional material inventories	13,810	34,660
Other current assets	29,742	28,399
Total current assets	395,379	405,917
Property and equipment, net	90,376	106,246
Intangibles, net	120,921	163,377
Goodwill	36,717	36,717
Other assets	5,966	11,222
Total Assets	**$ 649,359**	**$ 723,479**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 140,992	$ 160,300
Accrued costs and other liabilities	73,349	67,754
Short-term debt	49,903	26,434
Total current liabilities	264,244	254,488
Long-term debt	395,819	420,297
Deferred income taxes	616	4,245
Other long-term liabilities	30,309	39,349
Total liabilities	690,988	718,379
Stockholders' equity:		
Series A participating convertible preferred stock, $0.01 par value, $5,000 stated value; shares authorized —10,000,000 at February 1, 2019 and February 2, 2018; shares issued and outstanding — 1,000 at February 1, 2019 and February 2, 2018	5,000	5,000
Common stock, $0.01 par value, shares authorized - 350,000,000 at February 1, 2019 and February 2, 2018; shares issued - 134,037,321 at February 1, 2019 and 133,208,110 at February 2, 2018; shares outstanding - 134,015,902 at February 1, 2019 and 133,186,691 at February 2, 2018	1,340	1,332
Treasury stock, at cost, 21,419 shares at February 1,2019 and February 2, 2018	(131)	(131)
Additional paid-in capital	297,310	293,892
Accumulated deficit	(346,642)	(297,324)
Accumulated other comprehensive income, net of tax	1,494	2,331
Total stockholders' equity	(41,629)	5,100
Total Liabilities and Stockholders' Equity	**$ 649,359**	**$ 723,479**

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

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

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Net sales	**$ 1,798,120**	**$ 1,891,552**
Costs and expenses		
Cost of goods sold	966,658	1,000,765
Sales and marketing expenses	429,641	470,988
Net credit expense	120,759	147,295
General and administrative expenses	198,884	221,090
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	**1,791,053**	**2,090,368**
Operating income (loss)	**7,067**	**(198,816)**
Interest expense, net	50,136	50,692
Loss before income taxes	**(43,069)**	**(249,508)**
Income tax benefit	(7,592)	(35,198)
Net loss	**$ (35,477)**	**$ (214,310)**
Loss per share - common stockholders		
Basic and diluted loss per share	$ (0.27)	$ (1.62)
Basic and diluted weighted average shares outstanding	132,865,441	132,217,503
Other comprehensive loss		
Unrealized (loss) gain on interest rate swaps, net of tax	(837)	1,710
Comprehensive loss	**$ (36,314)**	**$ (212,600)**

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

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

	Series A Convertible Preferred Stock		Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
BALANCE - February 3, 2017	**1,000**	**$ 5,000**	**132,326,876**	**$ 1,323**	**21,419**	**$ (131)**	**$ 289,789**	**$ (82,867)**	**$ 621**	**$ 213,735**
Net loss	—	—	—	—	—	—	—	(214,310)	—	(214,310)
Unrealized gain on interest rate swaps, net of tax	—	—	—	—	—	—	—	—	1,710	1,710
Stock-based compensation	—	—	—	—	—	—	4,103	—	—	4,103
Reversal of accumulated stock-based compensation forfeitures	—	—	—	—	—	—	—	(147)	—	(147)
Issuance of restricted common stock, net of cancelations	—	—	859,815	9	—	—	—	—	—	9
BALANCE - February 2, 2018	**1,000**	**$ 5,000**	**133,186,691**	**$ 1,332**	**21,419**	**$ (131)**	**$ 293,892**	**$ (297,324)**	**$ 2,331**	**$ 5,100**
Balance - February 2, 2018 as previously reported	1,000	5,000	133,186,691	1,332	21,419	(131)	293,892	(297,324)	2,331	5,100
Impact of change in accounting principle*	—	—	—	—	—	—	—	(13,841)	—	(13,841)
Adjusted balance - February 3, 2018	1,000	5,000	133,186,691	1,332	21,419	(131)	293,892	(311,165)	2,331	(8,741)
Net loss	—	—	—	—	—	—	—	(35,477)	—	(35,477)
Unrealized loss on interest rate swaps, net of tax	—	—	—	—	—	—	—	—	(837)	(837)
Restricted stock award vesting	—	—	—	—	—	—	860	—	—	860
Stock-based compensation	—	—	—	—	—	—	2,558	—	—	2,558
Issuance of restricted common stock, net of cancelations	—	—	829,211	8	—	—	—	—	—	8
BALANCE - February 1, 2019	**1,000**	**$ 5,000**	**134,015,902**	**$ 1,340**	**21,419**	**$ (131)**	**$ 297,310**	**$ (346,642)**	**$ 1,494**	**$ (41,629)**

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

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

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

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Operating Activities		
Net loss	$ (35,477)	$ (214,310)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization and depreciation expense	54,000	62,962
Loss on impairment	25,601	192,149
Provision for doubtful accounts	97,467	107,017
Provision for deferred income taxes	(3,643)	(33,227)
(Gain) loss on servicing right	(3,182)	3,665
Net losses (gains) on loans held-for-sale, investment securities and other	266	(1,834)
Stock-based compensation expense	3,197	4,391
Other, net	4,837	3,501
Net change in assets and liabilities:		
Customer account receivables	(10,307)	27,274
Merchandise inventories	(15,965)	35,277
Promotional material inventories	7,009	15,070
Other assets	(344)	11,752
Accounts payable and other liabilities	(19,224)	(67,896)
Net cash provided by operating activities	**104,235**	**145,791**
Investing Activities		
Purchases of customer accounts receivable	(1,080,963)	(1,072,357)
Proceeds from sale of customer accounts receivable	994,657	979,111
Net purchases of property and equipment	(21,244)	(20,462)
Distributions from equity investments	3,142	9,979
Other	—	(13)
Net cash used in investing activities	**(104,408)**	**(103,742)**
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)
Payment of dividends	—	(80,201)
Net cash used in financing activities	**(5,868)**	**(131,781)**
Effect of Foreign Exchange Rates on Cash	**(101)**	**150**
Net Decrease in Cash, Cash Equivalents and Restricted Cash	**(6,142)**	**(89,582)**
Cash, Cash Equivalents and Restricted Cash, Beginning of Period	**139,157**	**228,739**
Cash, Cash Equivalents and Restricted Cash, End of Period	**$ 133,015**	**$ 139,157**
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 44,933	$ 45,446
Income taxes refunded	$ (1,147)	$ (94)
Non-cash Transactions:		
Property and equipment purchases on account	$ 30	$ 664

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

1. Organization and Operations

As used in this report:

- "BGI" or "the Company" refers to Bluestem Group Inc. with its consolidated subsidiaries
- "BGI Holding Company" refers to the Bluestem Group Inc. legal entity, excluding its subsidiaries
- "Bluestem" refers to Bluestem Brands, Inc., an indirect subsidiary of BGI 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
- "Capmark Portfolio" or "Capmark" refers to the commercial real estate finance operations of BGI

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

The financial statements of subsidiaries outside the United States of America ("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 2017 and fiscal 2018 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 $13.8 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	29,742	(3,770)	25,972
Total current assets	395,379	5,405	400,784
Total assets	$ 649,359	$ 5,405	$ 654,764
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accrued costs and other liabilities	$ 73,349	$ (3,770)	$ 69,579
Total current liabilities	264,244	(3,770)	260,474
Total liabilities	690,988	(3,770)	687,218
Accumulated deficit	(346,642)	9,175	(337,467)
Total stockholders' equity	(41,629)	9,175	(32,454)
Total liabilities and stockholders' equity	$ 649,359	$ 5,405	$ 654,764

	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	1,791,053	4,666	1,795,719
Operating income	7,067	(4,666)	2,401
Loss before income taxes	(43,069)	(4,666)	(47,735)
Net loss	$ (35,477)	$ (4,666)	$ (40,143)

Revenue is disaggregated by merchandise category - see Note 19, *Segment Information* for more information. 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	Net Loss Per Share	12	Income Taxes
5	Serviced Credit Portfolio	14	Derivative Instruments
7	Intangible Assets and Goodwill	16	Stock-Based Compensation
8	Debt and Other Financing	18	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 Adopte*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 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. Net Loss Per Share

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

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

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Net loss	$ (35,477)	$ (214,310)
Net loss per share, basic and diluted	$ (0.27)	$ (1.62)
Weighted average shares outstanding, basic and diluted	132,865	132,218

The following securities outstanding that could potentially dilute basic earnings per share in the future have been excluded from the computations of diluted earnings per share because such securities have an antidilutive impact (in thousands):

	Fiscal Year Ended	
	February 1, 2019	**February 2, 2018**
Options[(1)]	—	5,790
Restricted Stock Units[(1)]	9,718	—
Warrants	9,139	9,139
Preferred Stock	1,341	1,341
Restricted Stock	829	860
Total	21,027	17,130

[(1)] 9,801 outstanding options were exchanged for 4,721 restricted stock units on July 17, 2018. See Note 16, *Stock-Based Compensation*.

5. 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 WebBanks' 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
PayCheck Direct installment accounts receivable	—	2,884
Other	198	407
Customer accounts receivable - gross	15,955	17,241
Less: allowance for doubtful accounts	(7,801)	(8,233)
Customer accounts receivable - net	$ 8,154	$ 9,008

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 Income (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	11,311	13,689
Total provision for doubtful accounts	97,467	107,017
Credit management costs	62,363	67,759
Finance charge and fee income, net	(3,424)	(2,799)
Servicing fee income	(32,465)	(28,347)
(Gain) loss on servicing right	(3,182)	3,665
Net credit expense	$ 120,759	$ 147,295

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	$ 8,233	$ 17,041
Provision for doubtful accounts (1)	97,467	107,017
Principal charge-offs (1)	(98,403)	(116,749)
Recoveries	504	925
Balance as of the end of the period	$ 7,801	$ 8,234

(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 15, *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

6. 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 8, *Debt and Other Financing* for more information.

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

	February 1, 2019	February 2, 2018
Land and building	$ 32,349	$ 29,556
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	231,767	210,623
Less: Accumulated depreciation and amortization	(141,391)	(104,377)
Property and equipment, net	$ 90,376	$ 106,246

Depreciation and amortization expense related to property and equipment was $36.6 million and $44.1 million for the fiscal years ended February 1, 2019 and February 2, 2018, respectively, of which $3.9 million and $4.9 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.

7. 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 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.

8. Debt and Other Financing

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

	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
Collateralized borrowings	217	217
Long-term debt	$ 395,819	$ 420,297

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.

Bluestem has interest rate swap agreements under which a fixed rate is paid and a variable rate is received. 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 swap agreements are designated as cash flow hedges. See Note 14, *Derivative Instruments*, of the Notes to Consolidated Financial Statements for more information.

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

9. 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 7, 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 the 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

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[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

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(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.

10. 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	$ 18,188	$ 14,918
Other accounts receivables	10,043	10,825
Current income tax receivable	1,511	2,656
Total other current assets	$ 29,742	$ 28,399
Other Assets		
Equity investments	$ 4,292	$ 7,140
Deferred charges and other	1,674	4,082
Total other assets	$ 5,966	$ 11,222
Accrued Costs and Other Liabilities		
Accrued liabilities	$ 47,762	$ 32,683
Deferred revenue	5,243	20,193
Accrued payroll and benefits	20,344	14,878
Total accrued costs and other liabilities	$ 73,349	$ 67,754
Other Long-Term Liabilities		
Servicing liability	$ 22,806	$ 25,988
Unrecognized tax benefits	1,339	6,069
Other	6,164	7,292
Total other long-term liabilities	$ 30,309	$ 39,349

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	$ 119,507	$ 123,398
Restricted cash	13,508	15,759
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 133,015	$ 139,157

11. Variable Interest Entities

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

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

The Company has made investments in real estate partnerships and similar vehicles in the United States and Europe that are considered to be VIEs. The investments were generally in the form of limited or membership ownership interests in the United States and share ownership interests in Europe. These real estate partnerships invested in various real estate ventures with local operating partners. The Company's maximum exposure to loss for these entities is limited to the Company's investment in these equity method investees and the contractual commitment to provide additional equity in certain circumstances. The Company ceased making any new investments as part of this business line, but continues to have contractual commitments to make additional investments in certain funds. The remaining commitments are solely for existing assets and fund operations. The Company is not considered the primary beneficiary for these fund investments because the Company does not have the power to direct the activities that most significantly impact the economic performance of the VIEs.

The following table sets forth the total assets and maximum exposure to loss of its equity investments in real estate investment funds and other real estate ventures for which the Company is not considered to be the primary beneficiary and which are not consolidated by the Company, including significant variable interests as well as sponsored entities with a variable interest (in thousands):

	February 1, 2019	February 2, 2018
Size of VIEs [1]	$ 217,613	$ 349,044
Carrying amount of assets [2]	$ 4,292	$ 7,133
Maximum exposure to loss [3]		
Commitments	$ 3,590	$ 3,937
Loans, equity investments and other investments	4,292	7,133
Total	$ 7,882	$ 11,070

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

(2) Amounts represent the carrying amount of the Company's variable interest included in assets on the Company's Consolidated Balance Sheets. The Company has no variable interest included in liabilities on the Company's Consolidated Balance Sheets.

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

12. Income Taxes

The Company has recorded an income tax benefit of $7.6 million for the fiscal year ended February 1, 2019. This benefit was recognized on $43.1 million of loss before income taxes. The tax benefit was primarily related to releases of state unrecognized tax benefit liability and the valuation allowance (VA) offset by state and international taxes and the current year loss. The Company continues to maintain a VA on the historical balance of its finite lived federal NOLs, tax credits and various state tax attributes.

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 $24.3 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 fiscal year 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 $4.9 million interest expense carryforward deferred tax asset, which has a full valuation allowance.

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	(4,576)	(1,031)
Foreign	360	433
Total current income tax (benefit) expense	$ (4,216)	$ (1,971)
Deferred income tax benefit:		
Federal	$ (1,520)	$ (32,260)
State	(1,855)	(967)
Total deferred income tax benefit	(3,375)	(33,227)
Total income tax benefit	$ (7,591)	$ (35,198)

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

	Fiscal Years Ended	
	February 1, 2019	February 2, 2018
Income tax benefit at statutory rate	$ (9,065)	$ (84,151)
Change in valuation allowances on tax benefits	6,293	5,166
State income taxes, net of federal tax	(5,471)	(1,031)
Nondeductible stock transaction expenses	—	(154)
Effects of non-U.S. operations	80	455
Goodwill impairment	—	55,939
Change in federal tax rate	—	(10,102)
Other, net	572	(1,320)
Total income tax benefit	$ (7,591)	$ (35,198)

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)	$ 314,532	$ 301,327
Business interest limit	4,919	—
Reserves	3,760	3,818
Deferred revenue	—	1,606
Accrued compensation	6,587	5,668
Inventory	5,212	5,037
Service liability	5,560	7,177
Other deferred tax asset	1,899	596
Total deferred tax assets	342,469	325,229
Valuation allowance	(299,455)	(276,636)
Total deferred tax assets, net	$ 43,014	$ 48,593
Liabilities:		
Indefinite life intangible	$ 11,636	$ 17,826
Definite life intangible	16,864	20,921
Equity investment valuation	910	289
Deferred advertising	3,810	6,944
Depreciation and leases	8,280	4,468
Other deferred tax liabilities	2,129	2,391
Total deferred tax liabilities	43,629	52,839
Net deferred tax liabilities	$ (615)	$ (4,246)

The Company has U.S. federal NOL and capital loss carryforwards of $1.7 billion for both fiscal years ended February 1, 2019 and February 2, 2018. Most of the Company's NOL carryforwards expire from fiscal year 2027 through fiscal year 2029. Due to the 2017 Tax Act, the NOL of $48.9 million created in the current year does not expire. Unrecognized tax benefit liabilities were $104.6 million and $106.6 million for the fiscal years ended February 1, 2019 and February 2, 2018, respectively. These liabilities relate to the NOL carryforwards and are recorded as a reduction to the deferred tax asset and valuation allowance. The current year decrease in unrecognized tax benefit liabilities is primarily due to the release of state liability.

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

The Company has various state and foreign NOL carryforwards. However, based on the location of operations, the Company does not expect to utilize a large amount of state NOLs. The deferred tax asset and valuation allowance were reduced for state and foreign NOLs that are not expected to be utilized based on the current location of business activity.

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	$ 106,604	$ 173,527
Reductions for tax position related to prior years	(1,988)	(65,675)
Settlements with taxing authorities	—	(1,248)
Balance as of the end of the period	$ 104,616	$ 106,604

Of the $104.6 million and $106.6 million liability for unrecognized tax benefits at February 1, 2019 and February 2, 2018 respectively, the entire amount could impact the Company's effective tax rate in future periods.

The Company recognized a liability of approximately $0.4 million and $3.2 million attributable to interest and penalties as of February 1, 2019 and February 2, 2018, respectively. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. Related to the unrecognized tax benefits noted above, the Company recognized a decrease of $2.8 million and $0.7 million of gross interest and penalties in fiscal years ended February 1, 2019 and February 2, 2018, respectively.

The Company operates in multiple tax jurisdictions, both within and outside the United States. Accordingly, the Company is, from time to time, under examination in certain tax jurisdictions and remains subject to examination until the statute of limitations expires for the respective tax jurisdiction. Within specific countries, the Company may be subject to audit by various tax authorities, or subsidiaries operating within the country may be subject to different statute of limitations expiration dates. The following table summarizes the tax years that remain subject to examination in the Company’s major tax jurisdictions as of 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.

13. Capital Stock

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

The Company issued restricted stock awards of 829,211 and 859,815 shares to the non-management members of the Company’s Board of Directors in fiscal 2018 and fiscal 2017, respectively. The fiscal 2017 award shares vested in fiscal 2018. See Note 16, *Stock-Based Compensation* for further information.

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

Centerbridge provided assistance to the Company in identifying acquisition opportunities under the terms of the Investment Agreement. In connection with the November 2014 acquisition of Bluestem Brands, Centerbridge exercised 33.9 million Warrants. Following the expiration of the investment period in May 2016, the exercise price of the remaining 9.1 million Warrants was fixed at $4.10 per share based on 110% of the Company’s Adjusted Book Value per share (as defined in the Investment Agreement), subject to customary anti-dilution adjustments. On February 3, 2017, the Company and Centerbridge agreed to amend the Warrant’s anti-dilution adjustment provisions applicable to certain dividends and to extend the expiration date of the Warrants to May 8, 2021. As adjusted for payment of the Special Dividend described below, the exercise price of the Warrants was fixed at $3.50 per share as of February 3, 2017, subject to further customary anti-dilution adjustments, if applicable.

In accordance with the Amended and Restated Articles of Incorporation, the Company has the authority to issue 10,000,000 shares of preferred stock at a par value of $0.01 per share. On May 8, 2014, pursuant to the Investment Agreement, 1,000 shares of Preferred Stock were issued to Centerbridge with a stated value of $5,000 per share. The Preferred Stock is entitled to receive the same dividends when declared by the Company’s Board of Directors and has the same voting rights as common stock on an as-converted basis. The Preferred Stock has a liquidation preference in advance of the common stock or any junior series of preferred stock. The Preferred Stock can be converted to common stock based on the Company’s Adjusted Book Value per share as of the expiration date of the investment period in May 2016, which was fixed at $3.73 per share, or a total of 1,340,771 common shares. The Company can redeem all of the outstanding Preferred Stock at the stated value under certain circumstances including the date on which Centerbridge ceases to have the right to elect any directors or on the 12-year anniversary of issuance.

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

Special Dividend
On February 3, 2017, the Board of Directors declared a special cash dividend of $0.60 per share of the Company's outstanding common stock and Series A Participating Convertible Preferred Stock (the "Special Dividend"). The Special Dividend of $80.2 million was paid on February 28, 2017 to holders of record on February 15, 2017. Other than the Special Dividend, no other dividends were declared or paid during the fiscal year ended February 1, 2019 or February 2, 2018.

14. 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 15, *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	$ (837)	$ 1,710

15. 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 7, *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

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(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:					
Collateralized borrowings	Level 2	$ 217	$ 217	$ 217	$ 217
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.

16. 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 $2.6 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.

Restricted Stock Awards

Under the 2014 Incentive Plan (“Equity Incentive Plan”) the Company may grant restricted stock awards to non-management members of the Board of Directors of the Company.

The Company issued to the non-management members of the Company’s Board of Directors restricted stock grants totaling 829,211 shares on September 13, 2018 pursuant to the Equity Incentive Plan, which will fully vest on the earlier of June 21, 2019 or the date of the Company’s annual shareholders’ meeting. Restricted stock awards totaling 859,815 shares were issued on August 24, 2017, which fully vested on June 19, 2018. Stock compensation expense associated with these awards of $0.6 million and $0.9 million was recognized for the fiscal years ended February 1, 2019 and February 2, 2018, respectively.

These liability-classified awards related to stock-based compensation arrangements for non-vested shares are measured at the fair value of the award at the grant or measurement date and are remeasured at fair value on each subsequent reporting date. The related compensation expense is recognized over the vesting period of the award. The total fair value of shares that vested during the fiscal years ended February 1, 2019 and February 2, 2018 was $0.9 million and $0.4 million, respectively.

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

	February 1, 2019		February 2, 2018	
	Number of shares	Weighted average grant date fair value	Number of shares	Weighted average grant date fair value
Nonvested shares as of the beginning of the period	859,815	$ 1.50	290,598	$ 4.01
Granted	829,211	1.01	859,815	1.50
Vested	(859,815)	1.50	(290,598)	4.01
Nonvested shares as of the end of the period	829,211	$ 1.01	859,815	$ 1.50

17. 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.

18. 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 $10.1 million and $13.8 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	$ 9,818	$ 540
2020	9,900	—
2021	8,485	—
2022	8,064	—
2023	7,825	—
Thereafter	8,721	—
Sublease Income	(738)	—
Total future minimum lease payments	$ 52,075	$ 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.

Equity Investment Commitments

As of February 1, 2019, the Company had outstanding commitments for continuing operations to provide approximately $3.6 million of equity to equity method investees, within one year. As of February 2, 2018, the Company had outstanding commitments for continuing operations to provide $3.9 million within one year to equity method investees. As the investment periods for these investments have generally ended and most of the underlying assets have been liquidated it is highly unlikely that any significant amounts of capital will be called between now and when the investees are fully liquidated and dissolved.

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.

19. Segment Information

The Company reviews and presents the consolidated business results based on the organizational structure the Company's management uses to evaluate performance and make decisions on allocating resources and assessing performance. The Company's consolidated business results are presented in three reportable segments (referred to herein as "segments"): Northstar Portfolio, Orchard Portfolio and Corporate and other.

The accounting policies of the segments are the same as those described in Note 3, *Significant Accounting Policies and Recently Issued Accounting Standards*, except that disaggregated results have been prepared using a management approach. The disaggregated results are consistent with the basis and manner in which management internally disaggregates financial information for the purpose of the decision-making process. Segment merchandise sales and shipping and handling revenue are recorded at the time of shipment to the customer, During fiscal 2017 an adjustment to reduce sales by the estimated amount of orders in-transit to customers was recognized and reported in the Corporate and other segment. Material inter-segment transactions have been eliminated in consolidation. The Company does not disclose segment level balance sheet information as it is not used internally in the decision-making process.

Northstar Portfolio

The Northstar Portfolio consists of the Fingerhut and Gettington retail brands. These brands are national multi-channel retailers servicing low- to middle-income consumers by offering products with multiple payment plans through revolving credit lines or installment loans offered by WebBank as the originating bank. While numerous retailers sell merchandise via the internet and catalogs focusing on low- to middle-income customers, Northstar Portfolio has created a differentiated business model by utilizing direct-marketing expertise to integrate proprietary credit offerings with broad general merchandise offerings including consumer electronics, domestics, housewares, fashion and home furnishings. The majority of sales are on revolving customer credit accounts, originated through WebBank, reflecting Northstar Portfolio's ability to combine relevant merchandise offerings with an attractive consumer credit product aligned with the customer's ability to pay. Fingerhut also offers the FreshStart program, which provides customers the option of purchasing merchandise on installment credit terms after making a down payment.

Northstar Portfolios' cost of goods sold for the fiscal year ended February 1, 2019 included $1.6 million of inventory write-downs of merchandise inventory transferred to Northstar in connection with the 2018 Restructuring Plan.

Orchard Portfolio

The Orchard Portfolio consists of Appleseed's, Bedford Fair, Blair, Draper's & Damon's (whose 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. These brands are 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 various platforms including online and direct mail.

The Orchard Portfolio has an extensive proprietary database of customer information, including customer demographics and purchasing history. The Orchard Portfolio is able to design its marketing programs using this information. Marketing strategies are designed to grow lifetime value with customers by using the strength of its brand portfolio to meet more of its customers' needs. Multiple Orchard Portfolio brand relationships are fostered through circulation strategies, the design of its web universal cart and its use of a third-party private label credit platform across all brands.

Orchard Portfolios' cost of goods sold for the fiscal year ended February 1, 2019 included a $2.3 million merchandise inventory write-down and the establishment of a $2.5 million liability for committed inventory purchases in connection with the 2018 Restructuring Plan.

Corporate and Other

The Corporate and other segment includes certain costs consisting of indirect general and administrative expenses, amortization and depreciation not included in cost of goods sold, loss on impairment and the elimination of inter-segment activities. In fiscal 2017, the Corporate and other segment also included adjustments to net sales, cost of goods sold, and sales and marketing expenses related to product estimated to be in-transit from shipping point to the customer. In fiscal 2018, Orchard Portfolio companies changed the terms of their sales agreements such that risk of loss now passes to the customer upon delivery to the carrier. Following this change, all Bluestem sales are recognized at the time of shipment without adjustments to net sales, cost of goods sold, and sales and marketing expenses related to shipments in-transit.

Restructuring costs, consisting of employee related costs and professional services and other costs are presented as general and administrative expense in the Corporate and other segment. Total restructuring costs included in general and administrative expense for fiscal years ended February 1, 2019 and February 2, 2018 were $2.5 million and $13.8 million, respectively.

The segment also includes the Capmark Portfolio and the PayCheck Direct business (which was exited during the first quarter of fiscal 2017). The Capmark Portfolio manages a real estate-related business and existing assets, including monetizing these assets when appropriate. Commercial real estate revenue includes Capmark's net gains on loans, equity in income of joint venture and partnerships and other gains and losses, net as our equity investments continue to wind down and approach the end of their lives.

PayCheck Direct was a program that was offered directly through employers or organizations as a voluntary benefit to employees and members. It allowed customers to purchase products with the convenience of paying over 12 months through payroll deductions or automatic bank withdrawals. PayCheck Direct net sales include sales of merchandise (reported net of discounts and estimated sales returns, and exclude sales taxes), shipping and handling revenue, and commissions earned from third parties that market their products to our customers. In fiscal 2018, following the exit of PayCheck Direct, credit operations general and administrative expense formerly allocated to PayCheck Direct within the Corporate and other segment were allocated to the Northstar segment. We have restated fiscal 2017 segment information to reflect general and administrative expenses allocated in a manner consistent with fiscal 2018 segment information. Accordingly, $10.8 million of expense allocated to the Corporate and other segment in fiscal 2017 was reallocated to the

Northstar segment in the results of operations by segment presented below.

Results of Operations by Segment

The following tables summarize the results of operations through Loss before income taxes by segment for the fiscal years ended February 1, 2019 and February 2, 2018:

	Fiscal Year Ended February 1, 2019			
	Northstar Portfolio	Orchard Portfolio	Corporate and other	Total
Net sales	**$ 1,021,122**	**$ 766,531**	**$ 10,467**	**$ 1,798,120**
Costs and expenses				
Cost of goods sold	576,268	391,232	(842)	966,658
Sales and marketing expenses	135,937	293,292	412	429,641
Net credit expense	120,658	—	101	120,759
General and administrative expenses	30,339	37,945	130,600	198,884
Amortization and depreciation not included in cost of goods sold	—	—	49,510	49,510
Loss on impairment	—	—	25,601	25,601
Total costs and expenses	**863,202**	**722,469**	**205,382**	**1,791,053**
Operating income (loss)	**157,920**	**44,062**	**(194,915)**	**7,067**
Interest expense, net	—	—	50,136	50,136
Income (loss) before income taxes	$ 157,920	$ 44,062	$ (245,051)	$ (43,069)

	Fiscal Year Ended February 2, 2018			
	Northstar Portfolio	Orchard Portfolio	Corporate and other	Total
Net sales	**$ 1,017,226**	**$ 860,147**	**$ 14,179**	**$ 1,891,552**
Costs and expenses				
Cost of goods sold	581,355	418,075	1,335	1,000,765
Sales and marketing expenses	138,281	330,145	2,562	470,988
Net credit expense	142,820	—	4,475	147,295
General and administrative expenses	27,783	38,040	155,267	221,090
Amortization and depreciation not included in cost of goods sold	—	—	58,081	58,081
Loss on impairment	—	—	192,149	192,149
Total costs and expenses	**890,239**	**786,260**	**413,869**	**2,090,368**
Operating income (loss)	**126,987**	**73,887**	**(399,690)**	**(198,816)**
Interest expense, net	—	—	50,692	50,692
Income (loss) before income taxes	$ 126,987	$ 73,887	$ (450,382)	$ (249,508)

Sales by Merchandise Category

In addition to the presentation of financial information by segment, the Company reviews and presents consolidated Net sales information 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]	10,467	14,179
Returns and allowances	(167,569)	(184,011)
Commissions and other revenues	64,190	77,981
Net sales	**$ 1,798,120**	**$ 1,891,552**

[1] Includes shipping and handling revenue and is net of sales discounts

[2] The fiscal year ended February 2, 2018 includes the adjustment to Bluestem's net sales related to fiscal 2017 in-transit product sales from shipping point to estimated time of delivery and commercial real estate revenue. The fiscal year ended February 2, 2018 includes net of sales of PayCheck Direct, the elimination of inter-segment activities and commercial real estate revenue.

20. 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 Company announced the appointment of Bruce M. Cazenave as President and Chief Executive Officer and member of the Board of Directors, effective April 1, 2019. Mr. Cazenave succeeds Lisa Gavales, interim Chief Executive Officer. Mrs. Gavales will remain a member of the Board of Directors.