

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

**Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended August 2, 2019

-OR-

**Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-09769

**Lands' End, Inc.**

(Exact name of registrant as specified in its charter)

<b>Delaware</b> (State or Other Jurisdiction of Incorporation of Organization)	<b>36-2512786</b> (I.R.S. Employer Identification No.)
<b>1 Lands' End Lane</b> <b>Dodgeville, Wisconsin</b> (Address of Principal Executive Offices)	<b>53595</b> (Zip Code)
<b>(608) 935-9341</b> (Registrant's Telephone Number Including Area Code)	

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	LE	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES  NO

As of September 4, 2019 the registrant had 32,369,978 shares of common stock, \$0.01 par value, outstanding.

**LANDS' END, INC.**  
**INDEX TO QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE PERIOD ENDED AUGUST 2, 2019**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1.	Financial Statements (Unaudited) <a href="#">1</a>
	Condensed Consolidated Statements of Operations <a href="#">1</a>
	Condensed Consolidated Statements of Comprehensive Operations <a href="#">2</a>
	Condensed Consolidated Balance Sheets <a href="#">3</a>
	Condensed Consolidated Statements of Cash Flows <a href="#">4</a>
	Condensed Consolidated Statements of Changes in Stockholders' Equity <a href="#">5</a>
	Notes to Condensed Consolidated Financial Statements <a href="#">6</a>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations <a href="#">19</a>
Item 3.	Quantitative and Qualitative Disclosures about Market Risk <a href="#">29</a>
Item 4.	Controls and Procedures <a href="#">30</a>
<b>PART II OTHER INFORMATION</b>	
Item 1.	Legal Proceedings <a href="#">31</a>
Item 1A.	Risk Factors <a href="#">31</a>
Item 6.	Exhibits <a href="#">32</a>
	Signatures <a href="#">34</a>

---

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LANDS' END, INC.  
Condensed Consolidated Statements of Operations  
(Unaudited)

<i>(in thousands, except per share data)</i>	13 Weeks Ended		26 Weeks Ended	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Net revenue	\$ 298,267	\$ 307,945	\$ 560,700	\$ 607,770
Cost of sales (excluding depreciation and amortization)	169,182	171,179	311,741	337,979
<b>Gross profit</b>	129,085	136,766	248,959	269,791
Selling and administrative	122,260	129,041	239,104	253,041
Depreciation and amortization	7,408	6,897	15,026	13,058
Other operating (income) expense, net	(22)	(47)	126	290
Operating (loss) income	(561)	875	(5,297)	3,402
Interest expense	6,235	7,001	14,069	13,913
Other (income) expense, net	(608)	(412)	(1,475)	3,452
Loss before income taxes	(6,188)	(5,714)	(17,891)	(13,963)
Income tax benefit	(3,174)	(429)	(8,059)	(6,048)
<b>NET LOSS</b>	\$ (3,014)	\$ (5,285)	\$ (9,832)	\$ (7,915)
<b>NET LOSS PER COMMON SHARE</b>				
Basic:	\$ (0.09)	\$ (0.16)	\$ (0.30)	\$ (0.25)
Diluted:	\$ (0.09)	\$ (0.16)	\$ (0.30)	\$ (0.25)
Basic weighted average common shares outstanding	32,368	32,212	32,314	32,168
Diluted weighted average common shares outstanding	32,368	32,212	32,314	32,168

See accompanying Notes to Condensed Consolidated Financial Statements.

**LANDS' END, INC.**  
**Condensed Consolidated Statements of Comprehensive Operations**  
**(Unaudited)**

<i>(in thousands)</i>	<u>13 Weeks Ended</u>		<u>26 Weeks Ended</u>	
	<u>August 2, 2019</u>	<u>August 3, 2018</u>	<u>August 2, 2019</u>	<u>August 3, 2018</u>
<b>NET LOSS</b>	\$ (3,014)	\$ (5,285)	\$ (9,832)	\$ (7,915)
Other comprehensive loss, net of tax				
Foreign currency translation adjustments	(2,234)	(1,540)	(2,468)	(3,176)
<b>COMPREHENSIVE LOSS</b>	<u>\$ (5,248)</u>	<u>\$ (6,825)</u>	<u>\$ (12,300)</u>	<u>\$ (11,091)</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

**LANDS' END, INC.**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

<i>(in thousands, except share data)</i>	<b>August 2, 2019</b>	<b>August 3, 2018</b>	<b>February 1, 2019</b>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 82,616	\$ 194,391	\$ 193,405
Restricted cash	1,826	1,953	1,948
Accounts receivable, net	24,632	25,925	34,549
Inventories, net	405,793	349,597	321,905
Prepaid expenses and other current assets	39,391	40,967	36,574
<b>Total current assets</b>	<b>554,258</b>	<b>612,833</b>	<b>588,381</b>
Property and equipment, net	153,933	142,261	149,894
Operating lease right-of-use asset	28,980	—	—
Goodwill	110,000	110,000	110,000
Intangible asset, net	257,000	257,000	257,000
Other assets	5,333	8,349	5,636
<b>TOTAL ASSETS</b>	<b>\$ 1,109,504</b>	<b>\$ 1,130,443</b>	<b>\$ 1,110,911</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable	\$ 230,158	\$ 186,207	\$ 123,827
Lease liability - current	6,997	—	—
Other current liabilities	92,957	91,747	117,424
<b>Total current liabilities</b>	<b>330,112</b>	<b>277,954</b>	<b>241,251</b>
Long-term debt, net	380,555	484,350	482,453
Lease liability - long-term	26,911	—	—
Long-term deferred tax liabilities	55,516	58,420	58,670
Other liabilities	4,145	10,494	5,826
<b>TOTAL LIABILITIES</b>	<b>797,239</b>	<b>831,218</b>	<b>788,200</b>
Commitments and contingencies (Note 9)			
<b>STOCKHOLDERS' EQUITY</b>			
Common stock, par value \$0.01 authorized: 480,000,000 shares; issued and outstanding: 32,369,978, 32,212,290 and 32,220,080, respectively	324	320	320
Additional paid-in capital	356,324	349,338	352,733
Accumulated deficit	(28,732)	(36,665)	(17,159)
Accumulated other comprehensive loss	(15,651)	(13,768)	(13,183)
<b>Total stockholders' equity</b>	<b>312,265</b>	<b>299,225</b>	<b>322,711</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,109,504</b>	<b>\$ 1,130,443</b>	<b>\$ 1,110,911</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

**LANDS' END, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

<i>(in thousands)</i>	<b>26 Weeks Ended</b>	
	<b>August 2, 2019</b>	<b>August 3, 2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (9,832)	\$ (7,915)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	15,026	13,058
(Gain) loss on property and equipment	(141)	284
Amortization of debt issuance costs	864	965
Stock-based compensation	4,303	2,696
Noncash lease impacts	830	—
Deferred income taxes	(1,877)	128
Change in operating assets and liabilities:		
Inventories	(86,350)	(20,223)
Accounts payable	111,427	33,678
Other operating assets	6,358	18,545
Other operating liabilities	(23,570)	(16,384)
Net cash provided by operating activities	<u>17,038</u>	<u>24,832</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(24,843)	(22,203)
Net cash used in investing activities	<u>(24,843)</u>	<u>(22,203)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on term loan facility	(102,575)	(2,575)
Payments of employee withholding taxes on share-based compensation	(708)	(533)
Net cash used in financing activities	<u>(103,283)</u>	<u>(3,108)</u>
Effects of exchange rate changes on cash, cash equivalents and restricted cash	177	(1,114)
<b>NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	<u>(110,911)</u>	<u>(1,593)</u>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD</b>	<u>195,353</u>	<u>197,937</u>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD</b>	<u>\$ 84,442</u>	<u>\$ 196,344</u>
<b>SUPPLEMENTAL CASH FLOW DATA</b>		
Unpaid liability to acquire property and equipment	\$ 5,222	\$ 4,990
Income taxes paid, net of refunds	\$ 3,036	\$ 1,349
Interest paid	\$ 12,702	\$ 12,938

See accompanying Notes to Condensed Consolidated Financial Statements.

**LANDS' END, INC.**  
**Condensed Consolidated Statements of Changes in Stockholders' Equity**  
**(Unaudited)**

	Common Stock Issued		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
<i>(in thousands except share data)</i>						
<b>Balance at February 1, 2019</b>	32,220,080	\$ 320	\$ 352,733	\$ (17,159)	\$ (13,183)	\$ 322,711
Net loss	—	—	—	(6,818)	—	(6,818)
Cumulative translation adjustment, net of tax	—	—	—	—	(234)	(234)
Change in accounting principle related to lease accounting	—	—	—	(1,741)	—	(1,741)
Stock-based compensation expense	—	—	1,974	—	—	1,974
Vesting of restricted shares	185,052	4	(4)	—	—	—
Restricted stock shares surrendered for taxes	(41,912)	—	(687)	—	—	(687)
<b>Balance at May 3, 2019</b>	32,363,220	\$ 324	\$ 354,016	\$ (25,718)	\$ (13,417)	\$ 315,205
Net loss	—	\$ —	\$ —	\$ (3,014)	\$ —	\$ (3,014)
Cumulative translation adjustment, net of tax	—	—	—	—	(2,234)	(2,234)
Stock-based compensation expense	—	\$ —	\$ 2,329	\$ —	\$ —	\$ 2,329
Vesting of restricted shares	9,096	\$ —	\$ —	\$ —	\$ —	\$ —
Restricted stock shares surrendered for taxes	(2,338)	\$ —	\$ (21)	\$ —	\$ —	\$ (21)
<b>Balance at August 2, 2019</b>	32,369,978	\$ 324	\$ 356,324	\$ (28,732)	\$ (15,651)	\$ 312,265

	Common Stock Issued		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
<i>(in thousands except share data)</i>						
<b>Balance at February 2, 2018</b>	32,101,793	\$ 320	\$ 347,175	\$ (29,810)	\$ (10,592)	\$ 307,093
Net loss	—	—	—	(2,630)	—	(2,630)
Cumulative translation adjustment, net of tax	—	—	—	—	(1,636)	(1,636)
Change in accounting principle related to revenue recognition	—	—	—	1,060	—	1,060
Stock-based compensation expense	—	—	967	—	—	967
Vesting of restricted shares	132,620	—	—	—	—	—
Restricted stock shares surrendered for taxes	(26,295)	—	—	—	—	—
<b>Balance at May 4, 2018</b>	32,208,118	\$ 320	\$ 348,142	\$ (31,380)	\$ (12,228)	\$ 304,854
Net loss	—	\$ —	\$ —	\$ (5,285)	\$ —	\$ (5,285)
Cumulative translation adjustment, net of tax	—	—	—	—	(1,540)	(1,540)
Stock-based compensation expense	—	—	1,730	—	—	1,730
Vesting of restricted shares	6,173	—	—	—	—	—
Restricted stock shares surrendered for taxes	(2,001)	—	(534)	—	—	(534)
<b>Balance at August 3, 2018</b>	32,212,290	\$ 320	\$ 349,338	\$ (36,665)	\$ (13,768)	\$ 299,225

See accompanying Notes to Condensed Consolidated Financial Statements.

**LANDS' END, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. BACKGROUND AND BASIS OF PRESENTATION**

**Description of Business**

Lands' End, Inc. ("Lands' End" or the "Company") is a leading multi-channel retailer of casual clothing, accessories and footwear as well as home products. The Company offers products online at [www.landsend.com](http://www.landsend.com), international websites, on third party online marketplaces, and through retail locations.

Terms that are commonly used in the Company's notes to Condensed Consolidated Financial Statements are defined as follows:

- ABL Facility - Asset-based senior secured credit agreements, dated as of November 16, 2017, with Wells Fargo Bank, N.A. and certain other lenders
- Adjusted EBITDA - Net loss net of Income tax benefit, Other income (expense), net, Interest expense, Depreciation and amortization and certain significant items
- ASC - FASB Accounting Standards Codification, which serves as the source for authoritative GAAP, as supplemented by rules and interpretive releases by the SEC which are also sources of authoritative GAAP for SEC registrants
- ASU - FASB Accounting Standards Update
- CAM - Common area maintenance for leased properties
- Debt Facilities - Collectively, the ABL Facility and the Term Loan Facility
- Deferred Awards - Time vesting stock awards
- EPS - Earnings per share
- ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert
- FASB - Financial Accounting Standards Board
- First Quarter 2018 - The 13 weeks ended May 4, 2018
- First Quarter 2019 - The 13 weeks ended May 3, 2019
- Fiscal 2018 - The 52 weeks ended February 1, 2019
- Fiscal 2019 - The 52 weeks ending January 31, 2020
- GAAP - Accounting principles generally accepted in the United States
- Lands' End Shops at Sears - Lands' End shops operated within Sears stores
- LIBOR - London inter-bank offered rate
- Option Awards - Stock option awards
- Performance Awards - Performance-based stock awards
- Sears Holdings or Sears Holdings Corporation - Sears Holdings Corporation, a Delaware corporation, and its consolidated subsidiaries
- SEC - United States Securities and Exchange Commission
- Second Quarter 2018 - The 13 weeks ended August 3, 2018
- Second Quarter 2019 - The 13 weeks ended August 2, 2019



## [Table of Contents](#)

- Separation - On April 4, 2014 Sears Holdings distributed 100% of the outstanding common stock of Lands' End to its shareholders
- Term Loan Facility - Term loan credit agreements, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- Third Quarter 2018 - The 13 weeks ended November 2, 2018
- Third Quarter 2019 - The 13 weeks ended November 1, 2019
- Transform Holdco - Transform Holdco LLC, an affiliate of ESL, which on February 11, 2019 acquired from Sears Holdings substantially all of the go-forward retail footprint, and other assets and component businesses of Sears Holdings as a going concern
- UTBs - Gross unrecognized tax benefits
- Year-to-Date 2018 - The 26 weeks ended August 3, 2018
- Year-to-Date 2019 - The 26 weeks ended August 2, 2019

### **Basis of Presentation**

The Condensed Consolidated Financial Statements include the accounts of Lands' End, Inc. and its subsidiaries. All intercompany transactions and balances have been eliminated.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all material adjustments which are of a normal and recurring nature necessary for a fair presentation of the results for the periods presented have been reflected. Dollar amounts are reported in thousands, except per share data, unless otherwise noted. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the Lands' End Annual Report on Form 10-K filed with the SEC on March 28, 2019.

**NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS**

*Leases*

In February 2016 the FASB issued ASU 2016-02, Leases (“ASC 842”), which changed how companies account for leases. On February 2, 2019, the Company adopted the guidance using the modified retrospective approach. Lands' End elected the practical expedient package, which among other practical expedients, includes the option to retain the historical classification of leases entered into prior to February 2, 2019. The Company also elected the practical expedient related to lease versus non-lease components, allowing the Company to combine lease and non-lease components as a single lease. Additionally, the Company adopted an optional transition method finalized by the FASB in July 2018 that waives the requirement to apply ASC 842 in the comparative periods presented within the financial statements in the year of adoption.

The Company is a lessee under various lease agreements for its equipment and retail operations. The determination of whether an arrangement contains a lease and the classification of a lease, if applicable, is made at lease possession (date in which the Company takes possession of the asset). At lease possession the Company also measures and recognizes a right-of-use asset, representing the Company’s right to use the underlying asset, and a lease liability, representing the Company’s obligation to make lease payments under the terms of the arrangement. The lease term is defined as the noncancelable portion of the lease term plus any periods covered by an option to extend the lease, if it is reasonably certain that the option will be exercised. For the purposes of recognizing right-of-use assets and lease liabilities associated with the Company’s leases, the Company has elected the practical expedient of not recognizing a right-of-use asset or lease liability for short-term leases, which are leases with a term of twelve months or less. The Company's leases are classified as operating leases, which are included in the Operating lease right-of-use asset, Lease liability - current and Lease liability - long-term on the Company's Condensed Consolidated Balance sheets.

Right-of-use assets and lease liabilities are recognized based on the present value of the future minimum lease payments, over the lease term, as of the possession date. Minimum lease payments include the fixed lease component of the agreement as well as any variable rate payments that depend on an index, initially measured using the index at the lease commencement date. Lease terms may include options to renew. If it is determined the lease will more likely than not be renewed, the right-of-use asset and lease liability for that lease will be adjusted to reflect the updated lease term. The Company does not have any leases with residual value guarantees or restrictions or covenants imposed by the lease.

The Company reviews its long-lived assets, including Operating lease right-of-use assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of the asset group exceeds the sum of undiscounted cash flows expected to result from the use and eventual disposition of the asset, the Company performs an impairment analysis. An impairment charge is recognized to the extent the sum of the estimated discounted future cash flows from the use of the asset is less than the carrying value. This charge is then allocated pro-rata to the assets in the asset group, including the Operating lease right-of-use asset. No assets are written down below their indicated fair value which, for the Operating lease right-of-use assets, can be based on market comparisons of rent.

Due to the absence of an implicit rate in the Company’s lease contracts, the Company estimates its incremental borrowing rate for each lease based on the lease term, lease currency and the Company’s credit spread. The yield curve selected at the lease possession date represents one notch above the Company’s unsecured credit rating, and therefore is considered a close proxy for the incremental borrowing rate the Company would incur for secured debt.

Lease expense is recognized on a straight-line basis over the lease term and is included in Selling and administrative expense in the Condensed Consolidated Statements of Operations. Variable lease payments that do not depend on a rate or index and short-term rentals (leases with terms less than 12 months) are expensed as incurred.

The impact of adoption of the new lease guidance on the Condensed Consolidated Balance Sheets as of February 2, 2019 was:

[Table of Contents](#)

<i>(in thousands)</i>	<b>February 1, 2019 (As reported)</b>	<b>Impact of Adoption</b>	<b>February 2, 2019</b>
<b>Assets:</b>			
Operating lease right-of-use asset	\$ —	\$ 27,494	\$ 27,494
<b>Liabilities:</b>			
Lease liability - current	—	9,892	9,892
Lease liability - long-term	—	21,700	21,700
<b>Stockholders' Equity:</b>			
Accumulated deficit	(17,159)	(1,741) <sup>(1)</sup>	(18,900)

(1) At the time of implementation, the Company determined certain Operating lease right-of-use assets were impaired and recorded an adjustment to beginning retained earnings related to these impairments, net of tax.

See Note 13, *Leases* for additional disclosures.

**NOTE 3. LOSS PER SHARE**

The numerator for both basic and diluted EPS is net loss. The denominator for basic EPS is based upon the number of weighted average shares of Lands' End common stock outstanding during the reporting periods. The denominator for diluted EPS is based upon the number of weighted average shares of Lands' End common stock and common stock equivalents outstanding during the reporting periods using the treasury stock method in accordance with U.S. GAAP. Potentially dilutive securities for the diluted EPS calculations consist of nonvested equity shares of common stock and in-the-money outstanding options where the current stock price exceeds the option strike price, if any, to purchase the Company's common stock.

The following table summarizes the components of basic and diluted EPS:

<i>(in thousands, except per share amounts)</i>	<b>13 Weeks Ended</b>		<b>26 Weeks Ended</b>	
	<b>August 2, 2019</b>	<b>August 3, 2018</b>	<b>August 2, 2019</b>	<b>August 3, 2018</b>
Net loss	\$ (3,014)	\$ (5,285)	\$ (9,832)	\$ (7,915)
Basic weighted average common shares outstanding	32,368	32,212	32,314	32,168
Dilutive effect of stock awards	—	—	—	—
Diluted weighted average common shares outstanding	32,368	32,212	32,314	32,168
Basic Loss per share	\$ (0.09)	\$ (0.16)	\$ (0.30)	\$ (0.25)
Diluted Loss per share	\$ (0.09)	\$ (0.16)	\$ (0.30)	\$ (0.25)

Stock awards are considered anti-dilutive based on the application of the treasury stock method or in the event of a net loss. There were 779,299, 718,266, 779,299 and 718,266 anti-dilutive shares excluded from the diluted weighted average shares outstanding for Second Quarter 2019, Second Quarter 2018, Year-to-Date 2019 and Year-to-Date 2018, respectively.

**NOTE 4. OTHER COMPREHENSIVE LOSS**

Other comprehensive loss encompasses all changes in equity other than those arising from transactions with stockholders and is comprised solely of foreign currency translation adjustments.

<i>(in thousands)</i>	<b>13 Weeks Ended</b>		<b>26 Weeks Ended</b>	
	<b>August 2, 2019</b>	<b>August 3, 2018</b>	<b>August 2, 2019</b>	<b>August 3, 2018</b>
Beginning balance: Accumulated other comprehensive loss (net of tax of \$3,567, \$3,250, \$3,505 and \$2,816 respectively)	\$ (13,417)	\$ (12,228)	\$ (13,183)	\$ (10,592)
Other comprehensive income (loss):				
Foreign currency translation adjustments (net of tax (benefit) expense of \$599, \$410, \$660 and \$844 respectively)	(2,234)	(1,540)	(2,468)	(3,176)
Ending balance: Accumulated other comprehensive loss (net of tax of \$4,165, \$3,660, \$4,165 and \$3,660, respectively)	\$ (15,651)	\$ (13,768)	\$ (15,651)	\$ (13,768)

No amounts were reclassified out of Accumulated other comprehensive income (loss) during any of the periods presented.

**NOTE 5. DEBT**

The Company's debt consisted of the following:

<i>(in thousands)</i>	<b>August 2, 2019</b>		<b>August 3, 2018</b>		<b>February 1, 2019</b>	
	<b>Amount</b>	<b>Rate</b>	<b>Amount</b>	<b>Rate</b>	<b>Amount</b>	<b>Rate</b>
Term Loan Facility, maturing April 4, 2021	\$ 387,963 <sup>(1)</sup>	5.65%	\$ 493,113	5.34%	\$ 490,538	5.77%
ABL Facility, maturing November 16, 2022	—	—%	—	—%	—	—%
	387,963		493,113		490,538	
Less: Current maturities in Other current liabilities	5,150		5,150		5,150	
Less: Unamortized debt issuance costs	2,258		3,613		2,935	
Long-term debt, net	\$ 380,555		\$ 484,350		\$ 482,453	

(1) Reflects voluntary prepayment of \$100 million to the Term Loan Facility in First Quarter 2019.

The following table summarizes the Company's borrowing availability under the ABL Facility:

<i>(in thousands)</i>	<b>August 2, 2019</b>	<b>August 3, 2018</b>	<b>February 1, 2019</b>
ABL Facility maximum borrowing	\$ 175,000	\$ 175,000	\$ 175,000
Outstanding letters of credit	9,456	14,862	21,111
Borrowing availability under ABL	\$ 165,544	\$ 160,138	\$ 153,889

**Interest; Fees**

The interest rates per annum applicable to the loans under the Debt Facilities are based on a fluctuating rate of interest measured by reference to, at the borrowers' election, either (i) an adjusted LIBOR rate plus a borrowing margin, or (ii) an alternative base rate plus a borrowing margin. The borrowing margin is fixed for the Term Loan

## [Table of Contents](#)

Facility at 3.25% in the case of LIBOR loans and 2.25% in the case of base rate loans. For the Term Loan Facility, LIBOR is subject to a 1% interest rate floor. The borrowing margin for the ABL Facility is subject to adjustment based on the average excess availability under the ABL Facility for the preceding fiscal quarter. LIBOR borrowings will range from 1.25% to 1.75% for the ABL Facility. Base rate borrowings will range from 0.50% to 1.00% for the ABL Facility.

Customary agency fees are payable in respect of the Debt Facilities. The ABL Facility fees also include (i) commitment fees in an amount equal to 0.25% of the daily unused portions of the ABL Facility, and (ii) customary letter of credit fees.

### ***Representations and Warranties; Covenants***

Subject to specified exceptions, the Debt Facilities contain various representations and warranties, and restrictive covenants that, among other things, restrict the ability of Lands' End and its subsidiaries to incur indebtedness (including guarantees), grant liens, make investments, make dividends or distributions with respect to capital stock, make prepayments on other indebtedness, engage in mergers or change the nature of their business. In addition, if excess availability under the ABL Facility falls below the greater of 10% of the loan cap amount or \$15.0 million, Lands' End will be required to comply with a minimum fixed charge coverage ratio of 1.0 to 1.0. The Debt Facilities do not otherwise contain financial maintenance covenants. The Company was in compliance with all financial covenants related to the Debt Facilities as of August 2, 2019.

The Debt Facilities contain certain affirmative covenants, including reporting requirements such as delivery of financial statements, certificates and notices of certain events, maintaining insurance, and providing additional guarantees and collateral in certain circumstances.

## **NOTE 6. STOCK-BASED COMPENSATION**

The Company expenses the fair value of all stock awards over their respective vesting periods, ensuring that, the amount of cumulative compensation cost recognized at any date is at least equal to the portion of the grant-date fair value of the award that is vested at that date. The Company has elected to adjust compensation expense for an estimated forfeiture rate for those shares not expected to vest and to recognize compensation cost on a straight-line basis for awards that only have a service requirement with multiple vest dates.

The Company has granted the following types of stock awards to employees at management levels and above:

- i. Time vesting stock awards ("Deferred Awards") are in the form of restricted stock units and only require each recipient to complete a service period for the award to be earned. Deferred Awards generally vest over three years. The fair value of Deferred Awards is based on the closing price of the Company's common stock on the grant date and is reduced for estimated forfeitures of those awards not expected to vest due to employee turnover.
- ii. Performance-based stock awards ("Performance Awards") are in the form of restricted stock units and have, in addition to a service requirement, performance criteria that must be achieved for the awards to be earned. For Performance Awards granted in Fiscal 2018 and after, the Target Shares earned can range from 50% to 200% once minimum thresholds have been reached, and depend on the achievement of Adjusted EBITDA and revenue performance measures for the cumulative three-fiscal year performance period beginning in the fiscal year of the grant date. The applicable percentage of the Target Shares, as determined by performance, vest after the completion of the applicable three year performance period, and unearned Target Shares are forfeited. The fair value of the Performance Awards granted in Fiscal 2018 and after are based on the closing price of the Company's common stock on the grant date. Stock based compensation expense is recognized ratably over the related service period, reduced for estimated forfeitures of those awards not expected to vest due to employee turnover, and adjusted based on the Company's estimate of the percentage of the aggregate Target Shares expected to be earned. Based on performance to date, the Company is currently accruing for Performance Awards based on a 100% payout, which is reflected in the financial information below.
- iii. Stock option awards ("Option Awards") provide the recipient with the option to purchase a set number of shares at a stated exercise price over the term of the contract, which is ten years for all Option Awards currently outstanding. Options are granted with a strike price equal to the stock price on the date of grant and vest ratably over a four year period.

[Table of Contents](#)

The following table provides a summary of the Company's stock-based compensation expense, which is included in Selling and administrative expense in the Condensed Consolidated Statements of Operations:

<i>(in thousands)</i>	13 Weeks Ended		26 Weeks Ended	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Deferred Awards	\$ 1,531	\$ 1,231	\$ 2,896	\$ 1,940
Performance Awards	611	312	1,033	382
Option Awards	187	187	374	374
Total stock-based compensation expense	\$ 2,329	\$ 1,730	\$ 4,303	\$ 2,696

The following table provides a summary of the Deferred Awards activity for Year-to-Date 2019:

<i>(in thousands, except per share amounts)</i>	Deferred Awards	
	Number of Shares	Weighted Average Grant Date Fair Value per Share
Unvested as of February 1, 2019	594	\$ 21.96
Granted	412	15.71
Vested	(194)	22.27
Forfeited or expired	(32)	21.13
Unvested as of August 2, 2019	780	18.57

Total unrecognized stock-based compensation expense related to unvested Deferred Awards was approximately \$10.3 million as of August 2, 2019, which is expected to be recognized ratably over a weighted average period of 2.0 years. Deferred Awards granted to employees during Fiscal 2019 generally vest ratably over a period of three years.

The following table provides a summary of the Performance Awards activity for Year-to-Date 2019:

<i>(in thousands, except per share amounts)</i>	Performance Awards	
	Number of Shares	Weighted Average Grant Date Fair Value per Share
Unvested as of February 1, 2019	176	\$ 21.93
Granted	265	15.73
Vested	—	—
Forfeited or expired	(13)	19.58
Unvested as of August 2, 2019	428	18.18

Total unrecognized stock-based compensation expense related to unvested Performance Awards was approximately \$ 5.2 million as of August 2, 2019, which is expected to be recognized ratably over a weighted average period of 2.3 years. Performance Awards granted to employees during Fiscal 2019 vest, if earned, after completion of the applicable three-year performance period.

[Table of Contents](#)

The following table provides a summary of the Options Award activity for Year-to-Date 2019:

<i>(in thousands, except per share amounts)</i>	<b>Option Awards</b>	
	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value per Share</b>
Unvested as of February 1, 2019	257	\$ 8.73
Granted	—	—
Vested	(86)	8.73
Forfeited or expired	—	—
Unvested as of August 2, 2019	171	8.73

Total unrecognized stock-based compensation expense related to unvested Option Awards was approximately \$1.2 million as of August 2, 2019, which is expected to be recognized ratably over a weighted average period of 1.6 years. The Option Awards have a life of ten years and vest ratably over the first four years. The fair value of each Option Award was estimated on the grant date using the Black-Scholes option pricing model. As of August 2, 2019, 171,568 shares related to Option Awards were exercisable. No options have been exercised as of August 2, 2019.

**NOTE 7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

Restricted cash is reflected on the Condensed Consolidated Balance Sheets at fair value. The fair value of restricted cash was \$1.8 million, \$2.0 million and \$1.9 million as of August 2, 2019, August 3, 2018 and February 1, 2019, respectively based on Level 1 inputs. Restricted cash amounts are valued based upon statements received from financial institutions.

The carrying amount of the Company's Cash and cash equivalents, Accounts receivable, Accounts payable and Other current liabilities approximate their fair value as recorded due to the short-term maturity of these instruments.

Carrying values and fair values of long-term debt, including the short-term portion, in the Condensed Consolidated Balance Sheets are as follows:

<i>(in thousands)</i>	<b>August 2, 2019</b>		<b>August 3, 2018</b>		<b>February 1, 2019</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Long-term debt, including short-term portion and debt issuance costs	\$ 387,963	\$ 377,779	\$ 493,113	\$ 476,470	\$ 490,538	\$ 460,493

Long-term debt, including short-term portion was valued utilizing Level 2 valuation techniques based on the closing inactive market bid price on August 2, 2019, August 3, 2018, and February 1, 2019. There were no nonfinancial assets or nonfinancial liabilities recognized at fair value on a nonrecurring basis as of August 2, 2019, August 3, 2018, and February 1, 2019.

**NOTE 8. INCOME TAXES**

***Provision for Income Taxes***

The Company recorded an income tax benefit for the Second Quarter 2019 and Year-to-Date 2019 of 51.3% and 45.0%, respectively. This compares to 7.5% and 43.3% for Second Quarter 2018 and Year-to-Date 2018

respectively. The difference between current year and prior year is the result of the Company's election to treat certain foreign entities as a U.S. branch.

#### **NOTE 9. COMMITMENTS AND CONTINGENCIES**

##### **Legal Proceedings**

The Company is party to various claims, legal proceedings and investigations arising in the ordinary course of business. Some of these actions involve complex factual and legal issues and are subject to uncertainties. At this time, the Company is not able to either predict the outcome of these legal proceedings or reasonably estimate a potential range of loss with respect to the proceedings. While it is not feasible to predict the outcome of such pending claims, proceedings and investigations with certainty, management is of the opinion that their ultimate resolution should not have a material adverse effect on results of operations, cash flows or financial position.

#### **NOTE 10. RELATED PARTY TRANSACTIONS**

According to statements on Schedule 13D filed with the SEC by ESL, ESL beneficially owns significant portions of both the Company's and Sears Holdings Corporation's outstanding shares of common stock. Therefore, Sears Holdings Corporation, the Company's former parent company, is considered a related party.

On February 11, 2019 Transform Holdco acquired from Sears Holdings substantially all of the go-forward retail footprint, and other assets and component businesses of Sears Holdings as a going concern. The Company believes that ESL holds a significant portion of the membership interest of Transform Holdco and therefore considers that entity to be a related party as well.

In connection with and subsequent to the Separation, the Company entered into various agreements with Sears Holdings which, among other things, (i) govern specified aspects of the Company's relationship following the Separation, especially with regards to the Lands' End Shops at Sears, and (ii) establish terms pursuant to which subsidiaries of Sears Holdings Corporation are providing services to the Company. Some of these agreements have been assumed by and assigned to Transform Holdco in connection with the proceedings related to the Sears Filing (as defined below).

The components of the transactions between the Company and Sears Holdings or Transform Holdco, which exclude pass-through payments to or from third parties, are as follows:



**Lands' End Shops at Sears**

Related party costs charged by Sears Holdings or Transform Holdco to the Company related to Lands' End Shops at Sears are as follows:

<i>(in thousands, except for number of stores)</i>	<b>13 Weeks Ended</b>		<b>26 Weeks Ended</b>	
	<b>August 2, 2019</b>	<b>August 3, 2018</b>	<b>August 2, 2019</b>	<b>August 3, 2018</b>
Rent, CAM and occupancy costs	\$ 977	\$ 4,027	\$ 2,083	\$ 8,521
Retail services, store labor	871	3,723	1,858	7,853
Financial services and payment processing	75	452	143	841
Supply chain costs	10	106	87	236
<b>Total expenses</b>	<b>\$ 1,933</b>	<b>\$ 8,308</b>	<b>\$ 4,171</b>	<b>\$ 17,451</b>
Number of Lands' End Shops at Sears at period end	37	147	37	147

**General Corporate Services**

Related party costs charged by Sears Holdings or Transform Holdco to the Company for general corporate services are as follows:

<i>(in thousands)</i>	<b>13 Weeks Ended</b>		<b>26 Weeks Ended</b>	
	<b>August 2, 2019</b>	<b>August 3, 2018</b>	<b>August 2, 2019</b>	<b>August 3, 2018</b>
Sourcing	\$ 1,386	\$ 1,497	\$ 2,981	\$ 3,314
Shop Your Way	20	215	55	382
Shared services	48	48	95	95
<b>Total expenses</b>	<b>\$ 1,454</b>	<b>\$ 1,760</b>	<b>\$ 3,131</b>	<b>\$ 3,791</b>

**Use of Intellectual Property or Services**

Related party revenue and costs charged by the Company to and from Sears Holdings or Transform Holdco for the use of intellectual property or services is as follows:

<i>(in thousands)</i>	<b>13 Weeks Ended</b>		<b>26 Weeks Ended</b>	
	<b>August 2, 2019</b>	<b>August 3, 2018</b>	<b>August 2, 2019</b>	<b>August 3, 2018</b>
Lands' End business outfitters revenue	\$ 1	\$ 293	\$ 3	\$ 618
Credit card revenue	81	169	155	322
Royalty income	78	86	101	113
Gift card expense	(3)	(4)	(5)	(8)
<b>Total income</b>	<b>\$ 157</b>	<b>\$ 544</b>	<b>\$ 254</b>	<b>\$ 1,045</b>

**Additional Balance Sheet Information**

On October 15, 2018, Sears Holdings Corporation and certain of its subsidiaries filed voluntary petitions in the United States Bankruptcy Court for the Southern District of New York seeking relief under Chapter 11 of Title 11 of the United States Code (collectively the "Sears Filing"). Following the Sears Filing, the Company began netting payables due to Sears Holdings or Transform Holdco, as applicable, against receivables due from Sears Holdings or Transform Holdco if and as allowed under its contracts. As a result, receivables and payables have been netted, and are presented as a net receivable balance in Accounts receivable, net in the Condensed Consolidated Balance Sheets.

[Table of Contents](#)

At August 2, 2019, the Company recorded an Accounts payable, net balance of \$0.2 million to Sears Holdings or Transform Holdco in the Condensed Consolidated Balance Sheets. On August 3, 2018 the Company recorded \$1.9 million in Accounts receivable, net, to reflect amounts due from Sears Holdings and \$2.0 million in Accounts payable to reflect amounts due to Sears Holdings in the Condensed Consolidated Balance Sheets. At February 1, 2019, the Company recorded a \$0.1 million net receivable balance from Sears Holdings in Accounts receivable, net in the Consolidated Balance Sheets.

In the Third Quarter 2018, the Company recorded a non-cash charge of \$2.6 million in Other expense, net, in its Condensed Statement of Operations to reflect a reserve relating to pre-Separation UTBs (including penalties and interest) for which Sears Holdings Corporation indemnified the Company under a Tax Sharing Agreement entered into in connection with the Separation, the recovery of which had become uncertain as a result of the Sears Filing. Sears Holdings rejected the Tax Sharing Agreement, per an order approved on April 4, 2019. There was not an indemnification receivable as of August 2, 2019 and February 1, 2019.

**NOTE 11. SEGMENT REPORTING**

The Company is a leading multi-channel retailer of casual clothing, accessories and footwear, as well as home products. Lands' End is growing its multi-channel distribution network which allows the consumer to interact with the Company with a consistent customer experience whether on Company websites, third party marketplaces, at Company Operated stores or other distribution channels. As the Company expands this distribution network, and in conjunction with the accelerated closures of Lands' End Shops at Sears, the historical structure of separate reportable segments for retail stores and direct-to-consumer was no longer representative of the way the current Chief Operating Decision Maker evaluates the business units and allocates resources.

Therefore, as of February 1, 2019, the Company updated its segment reporting to better align with this multi-channel strategy. The Company's operating segments consist of U.S. eCommerce, Outfitters, Europe eCommerce, Japan eCommerce and Retail. The Company determined that each of the operating segments share similar economic and other qualitative characteristics thus the results of the operating segments are aggregated into one reportable external segment, consistent with the Company's multi-channel business approach. Prior year information has been restated to reflect this change.

Net revenue is presented by product channel in the following table:

<i>(in thousands)</i>	13 Weeks Ended		26 Weeks Ended	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Net revenue:				
eCommerce	\$ 218,651	\$ 203,796	\$ 427,552	\$ 402,565
Outfitters	65,452	72,806	108,536	147,410
Retail	14,164	31,343	24,612	57,795
Total net revenue	<u>\$ 298,267</u>	<u>\$ 307,945</u>	<u>\$ 560,700</u>	<u>\$ 607,770</u>

**NOTE 12. REVENUE**

Revenue includes sales of merchandise and delivery revenue related to merchandise sold. Substantially all of the Company's revenue is recognized when control of product passes to customers, which for the eCommerce and Outfitters channels is when the merchandise is expected to be received by the customer and for the Retail channel is at the time of sale in the store. The Company recognizes revenue, including shipping and handling fees billed to customers, in the amount expected to be received when control of the Company's products transfers to customers, and is presented net of various forms of promotions, which range from contractually-fixed percentage price reductions to sales returns, discounts, and other incentives that may vary in amount. Variable amounts are estimated based on an analysis of historical experience and adjusted as better estimates become available. There were no changes to estimates in Second Quarter 2019.

[Table of Contents](#)

The Company's revenue is disaggregated by product channel and geographic location. Revenue by product channel is presented in Note 11, *Segment Reporting*. Revenue by geographic location was:

<i>(in thousands)</i>	13 Weeks Ended		26 Weeks Ended	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Net revenue:				
United States	\$ 252,975	\$ 265,998	\$ 469,944	\$ 516,540
Europe	30,296	27,063	61,025	59,233
Asia	11,794	11,471	23,638	24,760
Other	3,202	3,413	6,093	7,237
Total Net revenue	\$ 298,267	\$ 307,945	\$ 560,700	\$ 607,770

**Contract Liabilities**

Contract liabilities consist of payments received in advance of the transfer of control to the customer. As products are delivered and control transfers, the Company recognizes the deferred revenue in Net revenue in the Condensed Consolidated Statements of Operations. The following table summarizes the deferred revenue associated with payments received in advance of the transfer of control to the customer, which is reported in Other current liabilities in the Condensed Consolidated Balance Sheets, as well as amounts recognized through Net revenue for each period presented. The remainder of deferred revenue as of August 2, 2019 is expected to be recognized in Net revenue in the fiscal quarter ending November 1, 2019, as products are delivered to customers.

<i>(in thousands)</i>	13 Weeks Ended		26 Weeks Ended	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Deferred Revenue Beginning of Period	\$ 10,199	\$ 16,062	\$ 9,051	\$ 12,993
Deferred Revenue Recognized in Period	(10,199)	(16,062)	(9,051)	(12,993)
Revenue Deferred in Period	9,411	8,796	9,411	8,796
Deferred Revenue End of Period	\$ 9,411	\$ 8,796	\$ 9,411	\$ 8,796

Revenue from gift cards is recognized when (i) the gift card is redeemed by the customer for merchandise, or (ii) as gift card breakage, an estimate of gift cards which will not be redeemed where the Company does not have a legal obligation to remit the value of the unredeemed gift cards to the relevant jurisdictions. Gift card breakage is recorded within Net revenue in the Condensed Consolidated Statements of Operations. Prior to their redemption, gift cards are recorded as a liability, included within Other current liabilities in the Condensed Consolidated Balance Sheets. The total contract liability related to gift cards issued was \$20.4 million, \$16.6 million and \$18.2 million as of August 2, 2019, August 3, 2018 and February 1, 2019, respectively. The liability is estimated based on expected breakage that considers historical patterns of redemption. The following table provides the reconciliation of the contract liability related to gift cards:

<i>(in thousands)</i>	13 Weeks Ended		26 Weeks Ended	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Balance as of Beginning of Period	\$ 20,010	\$ 19,290	\$ 18,191	\$ 19,272
Gift cards sold	13,907	9,281	29,024	25,353
Gift cards redeemed	(13,047)	(11,683)	(26,080)	(26,347)
Gift card breakage	(427)	(262)	(692)	(1,652)
Balance as of August 2, 2019	\$ 20,443	\$ 16,626	\$ 20,443	\$ 16,626

**Refund Liabilities**

Refund liabilities, primarily associated with product sales returns and retrospective volume rebates, represent variable consideration and are estimated and recorded as a reduction to Net revenue based on historical experience. As of August 2, 2019, August 3, 2018 and February 1, 2019, \$18.5 million, \$18.6 million and \$22.2 million, respectively, of refund liabilities, primarily associated with product returns, were reported in Other current liabilities in the Condensed Consolidated Balance Sheets. An asset for product returns is recorded in Prepaid expenses and other current assets in the Condensed Consolidated Balance sheets.

**NOTE 13. LEASES**

The Company is a lessee under various lease agreements for its retail operations and equipment including a master lease agreement for its Lands' End Shops at Sears. Refer also to Note 10, *Related Party Transactions*. All leases are classified as operating leases. The Company's leases have remaining terms of less than one year to ten years and contain various renewal options. The period which is subject to an option to extend the lease is included in the lease term if it is reasonably certain that the option will be exercised. Options to extend are reviewed within two years of the option date.

Rent expense totaled \$2.3 million in the Second Quarter 2019 and includes operating lease expense of \$1.8 million, as well as expenses for variable lease payments that do not depend on a rate or index, including items such as CAM and real estate taxes for the Company's real estate leases, in the amounts of \$0.4 million. Short-term lease cost was not material for Second Quarter 2019.

Supplemental balance sheet information related to operating leases are as follows:

<i>(in thousands)</i>	<b>26 Weeks Ended August 2, 2019</b>	
Operating lease right-of-use asset	\$	28,980
Lease liability - current		6,997
Lease liability - long-term		26,911
Weighted average remaining lease term in years		7.25
Weighted average discount rate		6.26%

Supplemental cash flow information related to operating leases are as follows:

<i>(in thousands)</i>	<b>13 Weeks Ended August 2, 2019</b>	
Operating cash outflows from operating leases		2,732

Maturities of operating lease liabilities as of August 2, 2019 are as follows (in thousands):

2019, excluding the 26 weeks ended August 2, 2019	\$	5,370
2020		6,717
2021		5,527
2022		4,785
2023		4,015
Thereafter		17,164
Total operating lease payments	\$	43,578
Less imputed interest		9,670
Present value of lease liabilities	\$	33,908

## [Table of Contents](#)

Total future commitments under the Company's operating leases as of February 1, 2019 were as follows for the fiscal years ending (in thousands):

2019	\$	10,851
2020		6,338
2021		4,873
2022		3,828
2023		2,839
Thereafter		10,590
Total minimum payments required	\$	39,319

The table above was updated from the version previously included in the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2019 within the Notes to Consolidated Financial Statements to adjust for certain inconsistencies that management identified in First Quarter 2019 during the implementation of ASC 842, *Leases*. Specifically, the Company corrected the schedule to include additional lease commitments for lease contracts signed in Fiscal 2018, with commencement dates in Fiscal 2019.

During Second Quarter 2019, the Company took possession of a retail space that resulted in increases in Operating lease right-of-use asset of \$2.3 million, Lease liability - current of \$0.1 million and Lease liability - long-term of \$2.8 million. Additionally, the Company entered into several leases where possession of a retail space will occur in Third Quarter 2019.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion in conjunction with the Condensed Consolidated Financial Statements and accompanying notes included elsewhere in this Quarterly Report on Form 10-Q. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. The matters discussed in these forward-looking statements are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from those made, projected or implied in the forward-looking statements. See "Cautionary Statements Concerning Forward-Looking Statements" below and "Item 1A. Risk Factors" in our Annual Report filed on Form 10-K for the year ended February 1, 2019 and "Part II, Item 1A Risk Factors" of this Quarterly Report on Form 10-Q, for a discussion of the uncertainties, risks and assumptions associated with these statements.*

*As used in this Quarterly Report on Form 10-Q, references to the "Company", "Lands' End", "we", "us", "our" and similar terms refer to Lands' End, Inc. and its subsidiaries. Our fiscal year ends on the Friday preceding the Saturday closest to January 31. Other terms that are commonly used in this Quarterly Report on Form 10-Q are defined as follows:*

- ABL Facility - Asset-based senior secured credit agreements, dated as of November 16, 2017, with Wells Fargo Bank, N.A. and certain other lenders*
- Company Operated stores - Lands' End retail stores in the Retail channel*
- Debt Facilities - Collectively, the ABL Facility and the Term Loan Facility*
- ERP - Enterprise resource planning software solutions*
- ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert*
- First Quarter 2018 - The 13 weeks ended May 4, 2018*
- First Quarter 2019 - The 13 weeks ended May 3, 2019*
- Fiscal 2018 - The 52 weeks ended February 1, 2019*
- Fiscal 2019 - The 52 weeks ending January 31, 2020*
- GAAP - Accounting principles generally accepted in the United States*

## [Table of Contents](#)

- *Lands' End Shops at Sears - Lands' End shops operated within Sears stores*
- *LIBOR - London inter-bank offered rate*
- *Sears Holdings or Sears Holdings Corporation - Sears Holdings Corporation, a Delaware corporation, and its consolidated subsidiaries*
- *SEC - United States Securities and Exchange Commission*
- *Second Quarter 2018 - The 13 weeks ended August 3, 2018*
- *Second Quarter 2019 - The 13 weeks ended August 2, 2019*
- *Separation - On April 4, 2014 Sears Holdings distributed 100% of the outstanding common stock of Lands' End to its shareholders*
- *Term Loan Facility - Term loan credit agreements, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders*
- *Transform Holdco - Transform Holdco LLC, an affiliate of ESL, which on February 11, 2019 acquired from Sears Holdings substantially all of the go-forward retail footprint, and other assets and component businesses of Sears Holdings as a going concern*
- *UTBs - Gross unrecognized tax benefits*
- *Year-to-Date 2018 - The 26 weeks ended August 3, 2018*
- *Year-to-Date 2019 - The 26 weeks ended August 2, 2019*

## **Executive Overview**

### ***Description of the Company***

Lands' End, Inc. is a leading multi-channel retailer of casual clothing, accessories and footwear, as well as home products. We offer products online at [www.landsend.com](http://www.landsend.com), on international websites, third party online marketplaces, and through retail locations. We are a classic American lifestyle brand with a passion for delivering quality products, legendary service and value to our customers and we seek to deliver timeless style for women, men, kids and the home.

Lands' End was founded in 1963 by Gary Comer and his partners to sell sailboat hardware and equipment by catalog. While our product focus has shifted significantly over the years, we have continued to adhere to our founder's motto as one of our guiding principles: "Take care of the customer, take care of the employee and the rest will take care of itself."

As the Company evolves its multi-channel strategy, and in conjunction with the accelerated closures of Lands' End Shops at Sears, during Fiscal 2018 we determined it was more appropriate to combine the previously disclosed external reportable segments of Direct and Retail, into one combined external reportable segment as it more closely represents how we are managing the Company. We identify our operating segments according to how our business activities are managed and evaluated. Our operating segments consist of U.S. eCommerce, Retail, Outfitters, Europe eCommerce and Japan eCommerce. We have determined that each of our operating segments share similar economic and other qualitative characteristics, and therefore the results of our operating segments are aggregated into one external reportable segment.

### ***Basis of Presentation***

The Condensed Consolidated Financial Statements have been prepared in accordance with GAAP and include the accounts of Lands' End, Inc. and its subsidiaries. All intercompany transactions and balances have been eliminated.

### ***Related party***

Following the Separation, we began operating as a separate, publicly traded company, independent from Sears Holdings. According to statements on Schedule 13D filed with the SEC by ESL, ESL beneficially owned significant portions of both the Company's and Sears Holdings Corporation's outstanding shares of common stock. Therefore Sears Holdings Corporation, the Company's former parent company, is considered a related party both prior to and subsequent to the Separation. On February 11, 2019, Transform Holdco acquired from Sears Holdings substantially all of the go-forward retail footprint, and other assets and component businesses of Sears Holdings as a going concern. We believe that ESL holds a

significant portion of the membership interests of Transform Holdco and therefore consider that entity to be a related party as well.

**Seasonality**

We experience seasonal fluctuations in our net revenue and operating results and historically have realized a significant portion of our net revenue and earnings for the year during our fourth fiscal quarter. We generated an average of 35.1% of our Net revenue in the fourth fiscal quarter of the past three years. Thus, lower than expected fourth quarter net revenue could have an adverse impact on our annual operating results.

Working capital requirements typically increase during the second and third quarter of the fiscal year as inventory builds to support peak shipping/selling period and, accordingly, typically decrease during the fourth quarter of the fiscal year as inventory is shipped/sold. Cash provided by operating activities is typically higher in the fourth quarter of the fiscal year due to reduced working capital requirements during that period.

**Results of Operations**

The following table sets forth, for the periods indicated, selected income statement data:

<i>(in thousands)</i>	<b>13 Weeks Ended</b>			
	<b>August 2, 2019</b>		<b>August 3, 2018</b>	
	<b>\$'s</b>	<b>% of Net revenue</b>	<b>\$'s</b>	<b>% of Net revenue</b>
Net revenue	\$ 298,267	100.0 %	\$ 307,945	100.0 %
Cost of sales (excluding depreciation and amortization)	169,182	56.7 %	171,179	55.6 %
Gross profit	129,085	43.3 %	136,766	44.4 %
Selling and administrative	122,260	41.0 %	129,041	41.9 %
Depreciation and amortization	7,408	2.5 %	6,897	2.2 %
Other operating income, net	(22)	— %	(47)	— %
Operating (loss) income	(561)	(0.2)%	875	0.3 %
Interest expense	6,235	2.1 %	7,001	2.3 %
Other income, net	(608)	(0.2)%	(412)	(0.1)%
Loss before income taxes	(6,188)	(2.1)%	(5,714)	(1.9)%
Income tax benefit	(3,174)	(1.1)%	(429)	(0.1)%
<b>NET LOSS</b>	<b>\$ (3,014)</b>	<b>(1.0)%</b>	<b>\$ (5,285)</b>	<b>(1.7)%</b>

  

<i>(in thousands)</i>	<b>26 Weeks Ended</b>			
	<b>August 2, 2019</b>		<b>August 3, 2018</b>	
	<b>\$'s</b>	<b>% of Net revenue</b>	<b>\$'s</b>	<b>% of Net revenue</b>
Net revenue	\$ 560,700	100.0 %	\$ 607,770	100.0 %
Cost of sales (excluding depreciation and amortization)	311,741	55.6 %	337,979	55.6 %
Gross profit	248,959	44.4 %	269,791	44.4 %
Selling and administrative	239,104	42.6 %	253,041	41.6 %
Depreciation and amortization	15,026	2.7 %	13,058	2.1 %
Other operating expense, net	126	— %	290	— %
Operating (loss) income	(5,297)	(0.9)%	3,402	0.6 %
Interest expense	14,069	2.5 %	13,913	2.3 %
Other (income) expense, net	(1,475)	(0.3)%	3,452	0.6 %
Loss before income taxes	(17,891)	(3.2)%	(13,963)	(2.3)%
Income tax benefit	(8,059)	(1.4)%	(6,048)	(1.0)%
<b>NET LOSS</b>	<b>\$ (9,832)</b>	<b>(1.8)%</b>	<b>\$ (7,915)</b>	<b>(1.3)%</b>

[Table of Contents](#)

Depreciation and amortization is not included in our cost of sales because we are a reseller of inventory and do not believe that including depreciation and amortization is meaningful. As a result, our gross margins may not be comparable to other entities that include depreciation and amortization related to the sale of their product in their gross margin measure.

*Net Income (Loss) and Adjusted EBITDA*

We recorded a Net loss of \$3.0 million in Second Quarter 2019 compared to a Net loss of \$5.3 million in the Second Quarter 2018. In addition to our Net loss determined in accordance with GAAP, for purposes of evaluating operating performance, we use an Adjusted EBITDA measurement. Adjusted EBITDA is computed as Net loss appearing on the Condensed Consolidated Statements of Operations net of Income tax benefit, Interest expense, Depreciation and amortization, and certain significant items set forth below. Our management uses Adjusted EBITDA to evaluate the operating performance of our businesses for comparable periods, and as an executive compensation metric. The methods used by the Company to calculate its non-GAAP financial measures may differ significantly from methods used by other companies to compute similar measures. As a result, any non-GAAP financial measures presented herein may not be comparable to similar measures provided by other companies. Adjusted EBITDA should not be used by investors or other third parties as the sole basis for formulating investment decisions as it excludes a number of important cash and non-cash recurring items.

While Adjusted EBITDA is a non-GAAP measurement, management believes that it is an important indicator of operating performance, and is useful to investors, because:

- EBITDA excludes the effects of financings, investing activities and tax structure by eliminating the effects of interest, depreciation and income tax
- Other significant items, while periodically affecting our results, may vary significantly from period to period and have a disproportionate effect in a given period, which affects comparability of results. We have adjusted our results for these items to make our statements more comparable and therefore more useful to investors as the items are not representative of our ongoing operations.
  - Gain or loss on property and equipment - management considers the gains or losses on asset valuation, including impairments, to result from investing decisions rather than ongoing operations.

	<b>13 Weeks Ended</b>			
	<b>August 2, 2019</b>		<b>August 3, 2018</b>	
	<b>\$'s</b>	<b>% of Net revenue</b>	<b>\$'s</b>	<b>% of Net revenue</b>
<i>(in thousands)</i>				
Net loss	\$ (3,014)	(1.0)%	\$ (5,285)	(1.7)%
Income tax benefit	(3,174)	(1.1)%	(429)	(0.1)%
Other (income) expense, net	(608)	(0.2)%	(412)	(0.1)%
Interest expense	6,235	2.1 %	7,001	2.3 %
Operating (loss) income	(561)	(0.2)%	875	0.3 %
Depreciation and amortization	7,408	2.5 %	6,897	2.2 %
Other operating expense	—	— %	2	— %
(Gain) loss on property and equipment	(22)	— %	(49)	— %
Adjusted EBITDA	<u>\$ 6,825</u>	<u>2.3 %</u>	<u>\$ 7,725</u>	<u>2.5 %</u>



	26 Weeks Ended			
	August 2, 2019		August 3, 2018	
	\$'s	% of Net revenue	\$'s	% of Net revenue
<i>(in thousands)</i>				
Net loss	\$ (9,832)	(1.8)%	\$ (7,915)	(1.3)%
Income tax benefit	(8,059)	(1.4)%	(6,048)	(1.0)%
Other (income) expense, net	(1,475)	(0.3)%	3,452	0.6 %
Interest expense	14,069	2.5 %	13,913	2.3 %
Operating (loss) income	(5,297)	(0.9)%	3,402	0.6 %
Depreciation and amortization	15,026	2.7 %	13,058	2.1 %
Other operating expense	207	— %	184	— %
(Gain) loss on property and equipment	(81)	— %	106	— %
Adjusted EBITDA	\$ 9,855	1.8 %	\$ 16,750	2.8 %

In assessing the operational performance of our business, we consider a variety of financial measures. We operate in three channels: eCommerce, Outfitters, and Retail. A key measure in the evaluation of our business is revenue performance by channel. We also consider gross margin and Selling and administrative expenses in evaluating the performance of our business.

To evaluate revenue performance for the eCommerce and Outfitters channels we use Net revenue. For our Retail channel, we use Company Operated stores sales as a key measure in evaluating performance. A store is included in Same Store Sales calculations when it has been open for at least 14 months and selling square footage has not changed by 15% or more within the past year. Online sales and sales generated through our in-store web portal are considered revenue in our eCommerce channel and are excluded from Same Store Sales.

**Discussion and Analysis**

**Second Quarter 2019 compared with Second Quarter 2018**

*Net Revenue*

Net revenue for Second Quarter 2019 was \$298.3 million, compared with \$307.9 million in the comparable period of the prior year, a decrease of \$9.7 million, or 3.1%. Sales growth in our eCommerce channel of 7.3% was more than offset by decreases in our Outfitters and Retail channels of 10.1% and 54.8% respectively.

eCommerce Net revenue was \$218.7 million for Second Quarter 2019, an increase of \$14.9 million or 7.3%, from the comparable period of the prior year. The increase was led by greater demand in key items and new customer acquisitions.

Outfitters Net revenue was \$65.5 million for Second Quarter 2019 a decrease of \$7.4 million or 10.1%, from the comparable period of the prior year. The decrease in Outfitters was attributable to the impact of the Delta Air Lines launch in the prior year. The decline was partially offset by growth in our school uniform business.

Retail Net revenue was \$14.2 million in Second Quarter 2019, a decrease of \$17.2 million or 54.8%, from the comparable period of the prior year. This decrease was primarily driven by a significant reduction in the number of our Lands' End Shops at Sears locations. Our U.S. Company Operated stores experienced an increase of 7.5% in Same Store Sales. On August 2, 2019 the Company had 23 Company Operated stores compared with 15 Company Operated stores on August 3, 2018. On August 2, 2019, the Company had 37 Lands' End Shops at Sears compared with 147 Lands' End Shops at Sears August 3, 2018.

***Gross Profit***

Gross profit decreased \$7.7 million to \$129.1 million primarily due to the impact of the Delta Air Lines launch in the prior year and fewer Lands' End Shops at Sears, partially offset by the growth in our eCommerce channel. Gross margin decreased to 43.3%, in Second Quarter 2019, compared with 44.4%, in Second Quarter 2018. The gross margin decrease of approximately 110 basis points was primarily related to pricing actions taken in response to additional promotional activity throughout the industry.

***Selling and Administrative Expenses***

Selling and administrative expenses decreased \$6.8 million to \$122.3 million or 41.0% of total Net revenue, in Second Quarter 2019, compared with \$129.0 million or 41.9% of Net revenue, in Second Quarter 2018. This 90 basis point decrease was primarily due to a reduction in the number of Lands' End Shops at Sears locations and efficient management of our variable cost structure.

***Depreciation and Amortization***

Depreciation and amortization expense was \$7.4 million in Second Quarter 2019, an increase of \$0.5 million or 7.4%, compared with \$6.9 million in Second Quarter 2018. This increase was primarily attributable to depreciation associated with our multi-year ERP system implementation and continued investment in our digital infrastructure.

***Other Operating (Income) Expense, Net***

Other operating (income) expense, net was insignificant in Second Quarter 2019 and Second Quarter 2018.

***Operating (Loss) Income***

Operating loss was \$0.6 million in Second Quarter 2019 compared to Operating income of \$0.9 million in Second Quarter 2018.

***Interest Expense***

Interest expense was \$6.2 million in Second Quarter 2019 compared to \$7.0 million in Second Quarter 2018, reflective of the \$100 million voluntary prepayment on the term loan, partially offset by increased interest rates.

***Other Income***

Other income was \$0.6 million in Second Quarter 2019 compared to Other income of \$0.4 million in Second Quarter 2018.

***Income Tax Benefit***

The Company recorded a tax benefit at an overall effective tax rate of 51.3% and 7.5% for Second Quarter 2019 and Second Quarter 2018, respectively. The difference was primarily the result of the Company's election to treat certain foreign entities as a U.S. branch.

***Net Loss***

As a result of the above factors, Net loss was \$3.0 million and diluted loss per share was \$0.09 in Second Quarter 2019 compared with a Net loss of \$5.3 million and diluted loss per share of \$0.16 in Second Quarter 2018.

***Adjusted EBITDA***

As a result of the above factors, Adjusted EBITDA was \$6.8 million in Second Quarter 2019 as compared to \$7.7 million in Second Quarter 2018.

## **Year-to-Date 2019 compared with Year-to-Date 2018**

### ***Net Revenue***

Net revenue for Year-to-Date 2019 was \$560.7 million, compared with \$607.8 million in the comparable period of the prior year, a decrease of \$47.1 million, or 7.7%. Sales growth in our eCommerce channel of 6.2% was more than offset by decreases in our Outfitters and Retail channels of 26.4% and 57.4% respectively.

eCommerce Net revenue was \$427.6 million for Year-to-Date 2019, an increase of \$25.0 million or 6.2%, from the comparable period of the prior year. The increase was primarily attributable to the growth in the U.S. eCommerce business driven by greater demand for key items and growth in new customer acquisitions.

Outfitters Net revenue was \$108.5 million for Year-to-Date 2019 a decrease of \$38.9 million or 26.4%, from the comparable period of the prior year. The decrease in Outfitters was primarily attributable to the Delta Air Lines launch in the prior year.

Retail Net revenue was \$24.6 million in Year-to-Date 2019, a decrease of \$33.2 million or 57.4%, from the comparable period of the prior year, primarily driven by a significant reduction in the number of our Lands' End Shops at Sears locations. Our U.S. Company Operated stores experienced an increase of 9.5% in Same Store Sales. On August 2, 2019, the Company had 23 Company Operated stores compared with 15 Company Operated stores on August 3, 2018. On August 2, 2019, the Company had 37 Lands' End Shops at Sears compared with 147 Lands' End Shops at Sears on August 3, 2018.

### ***Gross Profit***

Gross profit decreased \$20.8 million to \$249.0 million primarily due to the impact of the Delta Air Lines launch in the prior year and fewer Lands' End Shops at Sears, partially offset by the growth in our eCommerce channel. Gross margin remained approximately flat at 44.4% in Year-to-Date 2019, compared to Year-to-Date 2018.

### ***Selling and Administrative Expenses***

Selling and administrative expenses decreased \$13.9 million to \$239.1 million, or 42.6% of total Net revenue, in Year-to-Date 2019, compared with \$253.0 million, or 41.6% of Net revenue, in Year-to-Date 2018. The 100 basis point increase reflects deleverage primarily related to the Delta Air Lines launch in the prior year.

### ***Depreciation and Amortization***

Depreciation and amortization expense was \$15.0 million in Year-to-Date 2019, an increase of \$2.0 million or 15.1%, compared with \$13.1 million in Year-to-Date 2018. The increase is primarily attributable to depreciation associated with our multi-year ERP system implementation and continued investment in our digital infrastructure.

### ***Other Operating Expense***

Other operating expense was \$0.1 million in Year-to-Date 2019 compared to other Operating expense of \$0.3 million in Year-to-Date 2018.

### ***Operating (Loss) Income***

Operating loss was \$5.3 million in Year-to-Date 2019 compared to Operating income of \$3.4 million in Year-to-Date 2018 primarily due to the Delta Air Lines launch in the prior year, partially offset by growth in the eCommerce business.

### ***Interest Expense***

## [Table of Contents](#)

Interest expense was \$14.1 million in Year-to-Date 2019 compared to \$13.9 million in Year-to-Date 2018, reflective of the \$100 million voluntary prepayment on the term loan, partially offset by increased interest rates.

### ***Other Expense (Income), Net***

Other expense, net was \$1.5 million in Year-to-Date 2019 compared to Other income, net of \$3.5 million in Year-to-Date 2018. The change was driven by the prior year impact of the reversal of UTBs and related accrued interest resulting from favorable state tax audit settlements.

### ***Income Tax Benefit***

The effective tax rate was 45.0% in Year-to-Date 2019 compared with 43.3% in Year-to-Date 2018. The difference in the year to date tax rate for 2019 as compared to 2018 was primarily the result of the Company's election to treat certain foreign entities as a U.S. branch. The year to date tax rate for 2018 reflects the reversal of UTBs due to favorable state tax audit settlements for periods prior to the Separation.

### ***Net Loss***

As a result of the above factors, Net loss was \$9.8 million and diluted loss per share was \$0.30 in Year-to-Date 2019 compared with a Net loss of \$7.9 million and diluted loss per share of \$0.25 in Year-to-Date 2018.

### ***Adjusted EBITDA***

As a result of the above factors, Adjusted EBITDA was \$9.9 million in Year-to-Date 2019 as compared to \$16.8 million in Year-to-Date 2018.

## **Liquidity and Capital Resources**

Our primary need for liquidity is to fund working capital requirements of our business, capital expenditures, debt service and for general corporate purposes. Our cash and cash equivalents and the ABL Facility serve as sources of liquidity for short-term working capital needs and general corporate purposes. We expect that our cash on hand and cash flows from operations, along with our ABL Facility, will be adequate to meet our capital requirements and operational needs for at least the next 12 months. Cash generated from our net revenue and profitability, and somewhat to a lesser extent our changes in working capital, are driven by the seasonality of our business, with a significant amount of net revenue and operating cash flows generally occurring in the fourth fiscal quarter of each year.

### ***Description of Material Indebtedness***

#### ***Debt Arrangements***

On November 16, 2017, the Company entered into the ABL Facility, which provides for maximum borrowings of \$175.0 million for the Company, subject to a borrowing base. The ABL Facility has a letter of credit sub-limit of \$70.0 million. The ABL Facility is available for working capital and other general corporate purposes and, as of August 2, 2019, was undrawn other than for \$9.5 million in outstanding letters of credit. Upon entering into the ABL Facility, the Company incurred \$1.5 million in debt origination fees. The fees related to the Term Loan Facility were capitalized as debt issuance costs and are being amortized as an adjustment to Interest expense over the remaining life of the Debt Facilities.

On April 4, 2014, Lands' End entered into the Term Loan Facility of \$515.0 million, the proceeds of which were used to pay a dividend of \$500.0 million to a subsidiary of Sears Holdings Corporation immediately prior to the Separation and to pay fees and expenses associated with the Debt Facilities at that time of approximately \$11.4 million, with the remaining proceeds used for general corporate purposes. The fees were capitalized as debt issuance costs and are being amortized as an adjustment to Interest expense over the remaining life of the Debt Facilities. In First Quarter 2019, Lands' End made a \$100 million voluntary prepayment on the Term Loan from excess cash on hand.

## [Table of Contents](#)

### *Maturity; Amortization and Prepayments*

The Term Loan Facility amortizes at a rate equal to 1% per annum, and is subject to mandatory prepayment in an amount equal to a percentage of the borrower's excess cash flows (as defined in the Term Loan Facility) in each fiscal year, ranging from 0% to 50% depending on Lands' End's secured leverage ratio, and the proceeds from certain asset sales and casualty events.

The Term Loan Facility matures on April 4, 2021 while the ABL Facility will mature no later than November 16, 2022.

### *Guarantees; Security*

All domestic obligations under the Debt Facilities are unconditionally guaranteed by the Company and, subject to certain exceptions, each of its existing and future direct and indirect wholly-owned domestic subsidiaries. The ABL Facility is secured by a first priority security interest in certain working capital of the borrowers and guarantors consisting primarily of accounts receivable and inventory. The Term Loan Facility is secured by a second priority security interest in the same collateral, with certain exceptions.

The Term Loan Facility is also secured by a first priority security interest in certain property and assets of the borrowers and guarantors, including certain fixed assets and stock of subsidiaries. The ABL Facility is also secured by a second priority security interest in the same collateral.

### *Interest; Fees*

The interest rates per annum applicable to the loans under the Debt Facilities are based on a fluctuating rate of interest measured by reference to, at the borrowers' election, either (i) an adjusted LIBOR rate plus a borrowing margin, or (ii) an alternative base rate plus a borrowing margin. The borrowing margin is fixed for the Term Loan Facility at 3.25% in the case of LIBOR loans and 2.25% in the case of base rate loans. For the Term Loan Facility, LIBOR is subject to a 1% interest rate floor. The borrowing margin for the ABL Facility is subject to adjustment based on the average excess availability under the ABL Facility for the preceding fiscal quarter. In the case of LIBOR borrowings this adjustment will range from 1.25% to 1.75% for the ABL Facility. Base rate borrowings will range from 0.50% to 1.00% for the ABL Facility.

Customary agency fees are payable in respect of the Debt Facilities. The ABL Facility fees also include (i) commitment fees in an amount equal to 0.25% of the daily unused portions of the ABL Facility and (ii) customary letter of credit fees.

### *Representations and Warranties; Covenants*

Subject to specified exceptions, the Debt Facilities contain various representations and warranties and restrictive covenants that, among other things, restrict the ability of Lands' End and its subsidiaries to incur indebtedness (including guarantees), grant liens, make investments, make dividends or distributions with respect to capital stock, make prepayments on other indebtedness, engage in mergers or change the nature of their business. In addition, if excess availability under the ABL Facility falls below the greater of 10% of the loan cap amount or \$15.0 million, Lands' End will be required to comply with a minimum fixed charge coverage ratio of 1.0 to 1.0. The Debt Facilities do not otherwise contain financial maintenance covenants. The Company was in compliance with all financial covenants related to the Debt Facilities as of August 2, 2019.

The Debt Facilities contain certain affirmative covenants, including reporting requirements such as delivery of financial statements, certificates and notices of certain events, maintaining insurance, and providing additional guarantees and collateral in certain circumstances.

### *Events of Default*

The Debt Facilities include customary events of default including non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations or warranties, cross defaults related to certain other material indebtedness, bankruptcy and insolvency events, invalidity or impairment of guarantees or security interests, and material judgments and change of control.

### ***Cash Flows from Operating Activities***

Net cash provided by operating activities decreased to \$17.0 million in Year-to-Date 2019 from \$24.8 million in Year-to-Date 2018, primarily driven by collections of outstanding receivables from 2017.

### ***Cash Flows from Investing Activities***

Net cash used in investing activities was \$24.8 million and \$22.2 million for Year-to-Date 2019 and Year-to-Date 2018, respectively. Cash used in investing activities for both periods was primarily used for investments to update our information technology infrastructure and property and equipment.

For Fiscal 2019, we expect to invest a total of approximately \$40.0 million in capital expenditures for strategic investments and infrastructure, primarily associated with our Enterprise Order Management investment, other technology investments and general corporate needs.

### ***Cash Flows from Financing Activities***

Net cash used in financing activities was \$103.3 million and \$3.1 million for Year-to-Date 2019 and Year-to-Date 2018, respectively, consisting primarily of a \$100 million voluntary prepayment of our Term Loan Facility as well as quarterly scheduled payments.

### **Contractual Obligations and Off-Balance-Sheet Arrangements**

There have been no material changes to our contractual obligations and off-balance-sheet arrangements as discussed in our Annual Report on Form 10-K for the fiscal year ended February 1, 2019. During First Quarter 2019, Lands' End made a \$100 million voluntary prepayment on the Term Loan Facility, from excess cash on hand.

### **Financial Instruments with Off-Balance-Sheet Risk**

On November 16, 2017, the Company entered into the ABL Facility, which provides for maximum borrowings of \$175.0 million for the Company, subject to a borrowing base. The ABL Facility has a letter of credit sub-limit of \$70.0 million and will mature no later than November 16, 2022, subject to customary extension provisions provided for therein. The ABL Facility is available for working capital and other general corporate purposes and was undrawn at August 2, 2019, other than for \$9.5 million in outstanding letters of credit.

### **Application of Critical Accounting Policies and Estimates**

We believe that the assumptions and estimates associated with revenue, inventory valuation, goodwill and intangible asset impairment assessments and income taxes have the greatest potential impact on our financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

For a complete discussion of our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended February 1, 2019, and Note 2, *Recent Accounting Pronouncements*. There have been no significant changes in our critical accounting policies or their application since February 1, 2019.

### **Recent Accounting Pronouncements**

See Part I, Item 1, Note 2, *Recent Accounting Pronouncements*, of the Condensed Consolidated Financial Statements (Unaudited) included in this Quarterly Report on Form 10-Q for information regarding recent accounting pronouncements.

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This document contains forward-looking statements. Forward-looking statements reflect our current views with respect to, among other things, future events and performance. These statements may discuss, among other things, our net sales, gross margin, operating expenses, operating income, net income, cash flow, financial condition, impairments, expenditures, growth, strategies, plans, achievements, dividends, capital structure, organizational structure, future store openings, market opportunities and general market and industry conditions. We generally identify forward-looking statements by words such as "anticipate," "estimate," "expect," "intend," "project," "plan," "predict," "believe," "seek," "continue," "outlook," "may," "might," "will," "should," "can have," "likely" or the negative version of these words or comparable words. Forward-looking statements are based on beliefs and assumptions made by management using currently available information. These statements are only predictions and are not guarantees of future performance, actions or events. Forward-looking statements are subject to risks and uncertainties. If one or more of these risks or

uncertainties materialize, or if management's underlying beliefs and assumptions prove to be incorrect, actual results may differ materially from those contemplated by a forward-looking statement. These risks and uncertainties include those risks, uncertainties and factors discussed in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended February 1, 2019, as modified by "Part II, Item 1A Risk Factors" of this Quarterly Report on Form 10-Q. Forward-looking statements speak only as of the date on which they are made. We expressly disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by applicable securities laws and regulations.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The market risk inherent in our financial instruments represents the potential loss arising from adverse changes in currency rates. A significant portion of our business is transacted in U.S. dollars, and is expected to continue to be transacted in U.S. dollars or U.S. dollar-based currencies. As of August 2, 2019, we had \$14.2 million of cash denominated in foreign currencies, principally in British Pound Sterling, Euros and Yen. We do not enter into financial instruments for trading purposes or hedging and have not used any derivative financial instruments. We do not consider our foreign earnings to be permanently reinvested.

We are subject to interest rate risk with the Term Loan Facility and the ABL Facility, as both require the Company to pay interest on outstanding borrowings at variable rates. Each one percentage point change in interest rates associated with the Term Loan Facility would result in a \$3.9 million change in our annual cash interest expenses. Assuming our ABL Facility was fully drawn to a principal amount equal to \$175.0 million, each one percentage point change in interest rates would result in a \$1.8 million change in our annual cash interest expense.

**ITEM 4. CONTROLS AND PROCEDURES**

***Disclosure Controls and Procedures***

Based on their evaluation for the period covered by this Quarterly Report on Form 10-Q, Lands' End's Chief Executive Officer and President and Executive Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer have concluded that, as of August 2, 2019, the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) are effective.

***Changes in Internal Control over Financial Reporting***

There have been no changes in the Company's internal controls over financial reporting identified in connection with the evaluation required by Rules 13a-15 under the Exchange Act during the Second Fiscal Quarter Ended August 2, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are involved in various claims, legal proceedings and investigations arising in the ordinary course of business. Some of these actions involve complex factual and legal issues and are subject to uncertainties. At this time, the Company is not able to either predict the outcome of these legal proceedings or reasonably estimate a potential range of loss with respect to the proceedings. While it is not feasible to predict the outcome of pending claims, proceedings and investigations with certainty, management is of the opinion that their ultimate resolution should not have a material adverse effect on our results of operations, cash flows or financial position.

[Table of Contents](#)

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended February 1, 2019, which was filed with the SEC on March 28, 2019.

## Index of Exhibits

### ITEM 6. EXHIBITS

The following documents are filed as exhibits to this report:

- [3.1](#) Amended and Restated Certificate of Incorporation of Lands' End, Inc. (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by Lands' End, Inc. on March 20, 2014 (File No. 001-09769)).
- [3.2](#) Amended and Restated Bylaws of Lands' End, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on April 8, 2014 (File No. 001-09769)).
- [31.1](#) Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.\*
- [31.2](#) Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.\*
- [32.1](#) Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*
- 101.INS XBRL Instance Document\*
- 101.SCH XBRL Taxonomy Extension Schema Document\*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*
- 101.DEF XBRL Taxonomy Extension Definition Document\*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document\*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*
- \* Filed herewith.
- \*\* Furnished herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Lands' End, Inc.  
(Registrant)

Dated: September 5, 2019

By: /s/ James F. Gooch  
James F. Gooch  
Executive Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer  
(Principal Financial Officer)

## CERTIFICATIONS

I, Jerome S. Griffith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lands' End, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 5, 2019

/s/ Jerome S. Griffith

---

Jerome S. Griffith

Chief Executive Officer and President  
(Principal Executive Officer)

Lands' End, Inc.

## CERTIFICATIONS

I, James F. Gooch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lands' End, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 5, 2019

/s/ James F. Gooch

---

James F. Gooch

Executive Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer  
(Principal Financial Officer)

Lands' End, Inc.

**CERTIFICATION**

**Pursuant to 18 U.S.C. 1350 as adopted by Section 906 of the Sarbanes-Oxley Act of 2002**

Each of the undersigned, Jerome S. Griffith, Chief Executive Officer and President of Lands' End, Inc. (the "Company") and James F. Gooch, Executive Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer of the Company, has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 2, 2019 (the "Report").

Each of the undersigned hereby certifies that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

September 5, 2019

/s/ Jerome S. Griffith

---

Jerome S. Griffith

Chief Executive Officer and President  
(Principal Executive Officer)

September 5, 2019

/s/ James F. Gooch

---

James F. Gooch

Executive Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer  
(Principal Financial Officer)