

**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 November 1, 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)

**Delaware**

(State or Other Jurisdiction of  
Incorporation of Organization)

**1 Lands' End Lane  
Dodgeville, Wisconsin**

(Address of Principal Executive Offices)

**36-2512786**

(I.R.S. Employer  
Identification No.)

**53595**

(Zip Code)

**(608) 935-9341**

(Registrant's Telephone Number Including Area Code)

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

Title of each class	Trading Symbol(s)	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 December 2, 2019 the registrant had 32,372,693 shares of common stock, \$0.01 par value, outstanding.

**LANDS' END, INC.**  
**INDEX TO QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE PERIOD ENDED NOVEMBER 1, 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="#">7</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="#">30</a>
Item 4.	Controls and Procedures <a href="#">31</a>
<b>PART II OTHER INFORMATION</b>	
Item 1.	Legal Proceedings <a href="#">32</a>
Item 1A.	Risk Factors <a href="#">32</a>
Item 6.	Exhibits <a href="#">33</a>
	Signatures <a href="#">35</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		39 Weeks Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
Net revenue	\$ 340,023	\$ 341,570	\$ 900,723	\$ 949,340
Cost of sales (excluding depreciation and amortization)	185,848	190,608	497,589	528,587
<b>Gross profit</b>	154,175	150,962	403,134	420,753
Selling and administrative	135,417	135,274	374,521	388,315
Depreciation and amortization	8,076	7,361	23,101	20,420
Other operating (income) expense, net	(225)	(158)	(99)	132
Operating income	10,907	8,485	5,611	11,886
Interest expense	6,121	7,303	20,190	21,216
Other (income) expense, net	(166)	1,866	(1,640)	5,317
Income (loss) before income taxes	4,952	(684)	(12,939)	(14,647)
Income tax expense (benefit)	1,346	(3,978)	(6,713)	(10,026)
<b>NET INCOME (LOSS)</b>	\$ 3,606	\$ 3,294	\$ (6,226)	\$ (4,621)
<b>NET INCOME (LOSS) PER COMMON SHARE</b>				
Basic:	\$ 0.11	\$ 0.10	\$ (0.19)	\$ (0.14)
Diluted:	\$ 0.11	\$ 0.10	\$ (0.19)	\$ (0.14)
Basic weighted average common shares outstanding	32,371	32,211	32,333	32,182
Diluted weighted average common shares outstanding	32,398	32,314	32,333	32,182

See accompanying Notes to Condensed Consolidated Financial Statements.

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

<i>(in thousands)</i>	13 Weeks Ended		39 Weeks Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
<b>NET INCOME (LOSS)</b>	\$ 3,606	\$ 3,294	\$ (6,226)	\$ (4,621)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	2,290	(39)	(178)	(3,215)
<b>COMPREHENSIVE INCOME (LOSS)</b>	\$ 5,896	\$ 3,255	\$ (6,404)	\$ (7,836)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

<i>(in thousands, except share data)</i>	<b>November 1, 2019</b>	<b>November 2, 2018</b>	<b>February 1, 2019</b>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 15,859	\$ 105,933	\$ 193,405
Restricted cash	1,830	2,069	1,948
Accounts receivable, net	38,125	41,496	34,549
Inventories, net	499,855	431,950	321,905
Prepaid expenses and other current assets	47,538	49,001	36,574
<b>Total current assets</b>	<b>603,207</b>	<b>630,449</b>	<b>588,381</b>
Property and equipment, net	155,051	145,808	149,894
Operating lease right-of-use asset	31,380	—	—
Goodwill	110,000	110,000	110,000
Intangible asset, net	257,000	257,000	257,000
Other assets	5,204	5,461	5,636
<b>TOTAL ASSETS</b>	<b>\$ 1,161,842</b>	<b>\$ 1,148,718</b>	<b>\$ 1,110,911</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Current borrowings and short-term debt	\$ 85,150	\$ 5,150	\$ 5,150
Accounts payable	174,312	179,036	123,827
Lease liability - current	6,344	—	—
Other current liabilities	103,396	111,217	112,274
<b>Total current liabilities</b>	<b>369,202</b>	<b>295,403</b>	<b>241,251</b>
Long-term debt, net	379,606	483,401	482,453
Lease liability - long-term	30,971	—	—
Long-term deferred tax liabilities	56,109	58,462	58,670
Other liabilities	5,469	7,246	5,826
<b>TOTAL LIABILITIES</b>	<b>841,357</b>	<b>844,512</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: 32,372,693, 32,211,641 and 32,220,080, respectively	324	320	320
Additional paid-in capital	358,648	351,064	352,733
Accumulated deficit	(25,126)	(33,371)	(17,159)
Accumulated other comprehensive loss	(13,361)	(13,807)	(13,183)
<b>Total stockholders' equity</b>	<b>320,485</b>	<b>304,206</b>	<b>322,711</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,161,842</b>	<b>\$ 1,148,718</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>39 Weeks Ended</b>	
	<b>November 1, 2019</b>	<b>November 2, 2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (6,226)	\$ (4,621)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	23,101	20,420
(Gain) loss on property and equipment	(99)	121
Amortization of debt issuance costs	1,293	1,394
Stock-based compensation	6,632	4,432
Noncash lease impacts	1,837	—
Deferred income taxes	(1,899)	180
Change in operating assets and liabilities:		
Inventories	(178,016)	(103,177)
Accounts payable	50,173	26,742
Other operating assets	(14,755)	(2,864)
Other operating liabilities	(6,992)	5,125
Net cash used in operating activities	(124,951)	(52,248)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of property and equipment	—	127
Purchases of property and equipment	(28,487)	(33,160)
Net cash used in investing activities	(28,487)	(33,033)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowing under ABL Facility	95,000	—
Payments of borrowings under ABL Facility	(15,000)	—
Payments of term-loan	(103,863)	(3,865)
Payments of employee withholding taxes on share-based compensation	(713)	(543)
Net cash used in financing activities	(24,576)	(4,408)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	350	(246)
<b>NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>(177,664)</b>	<b>(89,935)</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD</b>	<b>195,353</b>	<b>197,937</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD</b>	<b>\$ 17,689</b>	<b>\$ 108,002</b>
<b>SUPPLEMENTAL CASH FLOW DATA</b>		
Unpaid liability to acquire property and equipment	\$ 5,494	\$ 4,707
Income taxes paid, net of refunds	\$ 3,225	\$ 1,420
Interest paid	\$ 18,455	\$ 19,792

See accompanying Notes to Condensed Consolidated Financial Statements.

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

<i>(in thousands except share data)</i>	Common Stock Issued		Additional Paid- in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
<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>	<b>32,363,220</b>	<b>\$ 324</b>	<b>\$ 354,016</b>	<b>\$ (25,718)</b>	<b>\$ (13,417)</b>	<b>\$ 315,205</b>
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>	<b>32,369,978</b>	<b>\$ 324</b>	<b>\$ 356,324</b>	<b>\$ (28,732)</b>	<b>\$ (15,651)</b>	<b>\$ 312,265</b>
Net income	—	—	—	3,606	—	3,606
Cumulative translation adjustment, net of tax	—	—	—	—	2,290	2,290
Stock-based compensation expense	—	—	2,329	—	—	2,329
Vesting of restricted shares	3,242	—	—	—	—	—
Restricted stock shares surrendered for taxes	(527)	—	(5)	—	—	(5)
<b>Balance at November 1, 2019</b>	<b>32,372,693</b>	<b>\$ 324</b>	<b>\$ 358,648</b>	<b>\$ (25,126)</b>	<b>\$ (13,361)</b>	<b>\$ 320,485</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

<i>(in thousands except share data)</i>	Common Stock Issued		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
<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	—	—	1,729	—	—	1,729
Vesting of restricted shares	6,173	—	—	—	—	—
Restricted stock shares surrendered for taxes	(2,001)	—	(533)	—	—	(533)
<b>Balance at August 3, 2018</b>	32,212,290	\$ 320	\$ 349,338	\$ (36,665)	\$ (13,768)	\$ 299,225
Net income	—	—	—	3,294	—	3,294
Cumulative translation adjustment, net of tax	—	—	—	—	(39)	(39)
Stock-based compensation expense	—	—	1,736	—	—	1,736
Vesting of restricted shares	1,320	—	—	—	—	—
Restricted stock shares surrendered for taxes	(1,969)	—	(10)	—	—	(10)
<b>Balance at November 3, 2018</b>	32,211,641	320	351,064	(33,371)	(13,807)	\$ 304,206

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 uni-channel retailer of casual clothing, accessories, footwear and home products. We offer products online at [www.landsend.com](http://www.landsend.com), on third party online marketplaces and through retail locations. We are a classic American lifestyle brand with a passion for quality, legendary service and real value, and seek to deliver timeless style for men, women, kids and the home.

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 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
- Fourth Quarter 2019 - the 13 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

- 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 39 weeks ended November 2, 2018
- Year-to-Date 2019 - The 39 weeks ended November 1, 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 Comparatives under 840 option approach which waives the requirement to apply ASC 842 in the comparative periods presented within the financial statements in the year of adoption. 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 to combine lease and non-lease components.

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:

<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. EARNINGS/(LOSS) PER SHARE

The numerator for both basic and diluted EPS is net income (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>39 Weeks Ended</b>	
	<b>November 1, 2019</b>	<b>November 2, 2018</b>	<b>November 1, 2019</b>	<b>November 2, 2018</b>
Net income (loss)	\$ 3,606	\$ 3,294	\$ (6,226)	\$ (4,621)
Basic weighted average common shares outstanding	32,371	32,211	32,333	32,182
Dilutive effect of stock awards	28	103	—	—
Diluted weighted average common shares outstanding	32,398	32,314	32,333	32,182
Basic earnings (loss) per share	\$ 0.11	\$ 0.10	\$ (0.19)	\$ (0.14)
Diluted earnings (loss) per share	\$ 0.11	\$ 0.10	\$ (0.19)	\$ (0.14)

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 653,235, 484,743, 763,163 and 714,530 anti-dilutive shares excluded from the diluted weighted average shares outstanding for Third Quarter 2019, Third Quarter 2018, Year-to-Date 2019 and Year-to-Date 2018, respectively.

**NOTE 4. OTHER COMPREHENSIVE INCOME (LOSS)**

Other comprehensive income (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>	13 Weeks Ended		39 Weeks Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
Beginning balance: Accumulated other comprehensive loss (net of tax of \$4,165, \$3,660, \$3,505 and \$2,816 respectively)	\$ (15,651)	\$ (13,768)	\$ (13,183)	\$ (10,592)
Other comprehensive income (loss):				
Foreign currency translation adjustments (net of tax expense (benefit) of \$(613), \$10, \$47 and \$854 respectively)	2,290	(39)	(178)	(3,215)
Ending balance: Accumulated other comprehensive loss (net of tax of \$3,552, \$3,670, \$3,552 and \$3,670 respectively)	\$ (13,361)	\$ (13,807)	\$ (13,361)	\$ (13,807)

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>	November 1, 2019		November 2, 2018		February 1, 2019	
	Amount	Rate	Amount	Rate	Amount	Rate
Term Loan Facility, maturing April 4, 2021	\$ 386,675 <sup>(1)</sup>	5.29%	\$ 491,825	5.49%	\$ 490,538	5.77%
ABL Facility, maturing November 16, 2022	80,000	3.54%	—	—%	—	—%
	466,675		491,825		490,538	
Less: Current maturities in Current liabilities	85,150		5,150		5,150	
Less: Unamortized debt issuance costs	1,919		3,274		2,935	
Long-term debt, net	\$ 379,606		\$ 483,401		\$ 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>	November 1, 2019	November 2, 2018	February 1, 2019
ABL Facility maximum borrowing	\$ 175,000	\$ 175,000	\$ 175,000
Current borrowings under ABL	80,000	—	—
Outstanding letters of credit	12,531	22,621	21,111
Borrowing availability under ABL	\$ 82,469	\$ 152,379	\$ 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 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 November 1, 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.

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		39 Weeks Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
Deferred Awards	\$ 1,531	\$ 1,237	\$ 4,429	\$ 3,177
Performance Awards	611	312	1,642	694
Option Awards	187	187	561	561
Total stock-based compensation expense	\$ 2,329	\$ 1,736	\$ 6,632	\$ 4,432

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	416	15.67
Vested	(197)	22.11
Forfeited or expired	(49)	20.29
Unvested as of November 1, 2019	764	18.57

Total unrecognized stock-based compensation expense related to unvested Deferred Awards was approximately \$8.8 million as of November 1, 2019, which is expected to be recognized ratably over a weighted average period of 1.8 years. Deferred Awards granted to employees during Fiscal 2019 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	(20)	19.09
Unvested as of November 1, 2019	421	18.15

Total unrecognized stock-based compensation expense related to unvested Performance Awards was approximately \$4.6 million as of November 1, 2019, which is expected to be recognized ratably over a weighted average period of 2.0 years. Performance Awards granted to employees during Fiscal 2019 vest, if earned, after completion of the applicable three-year performance period.

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

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

Total unrecognized stock-based compensation expense related to unvested Option Awards was approximately \$1.0 million as of November 1, 2019, which is expected to be recognized ratably over a weighted average period of 1.4 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 November 1, 2019, 171,567 shares related to Option Awards were exercisable. No options have been exercised as of November 1, 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, \$2.1 million and \$1.9 million as of November 1, 2019, November 2, 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, net, Accounts payable, Current borrowings, 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>	November 1, 2019		November 2, 2018		February 1, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including short-term portion	\$ 386,675	\$ 372,175	\$ 491,825	\$ 475,226	\$ 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 November 1, 2019, November 2, 2018, and February 1, 2019. There were no nonfinancial assets or nonfinancial liabilities recognized at fair value on a nonrecurring basis as of November 1, 2019, November 2, 2018, and February 1, 2019.

## NOTE 8. INCOME TAXES

### *Provision for Income Taxes*

The Company recorded an income tax expense for the Third Quarter 2019 of 27.2%. This results in an income tax benefit Year-to-Date 2019 of 51.9%. Comparatively, the Company reported an income tax benefit of 581.6% and 68.5% for Third Quarter 2018 and Year-to-Date 2018 respectively. The difference between the Third Quarter 2019 tax rate and the Third Quarter 2018 tax rate was primarily due to revised estimates of the impact of the Tax Act as more fully described below. The Year-to-Date 2019 tax rate reflects the benefit of the Company's election to treat certain





foreign entities as a U.S. branch. The Year-to-Date 2018 rate reflects revised estimates related to the Tax Act and the benefits of favorable state tax audit settlements for periods prior to Separation.

### Tax Act

The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017. Pursuant to Staff Accounting Bulletin No. 118, the Company revised estimates related to the Tax Act and recorded a benefit of \$3.7 million in the Third Quarter 2018.

## 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:

	13 Weeks Ended		39 Weeks Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
<i>(in thousands, except for number of stores)</i>				
Rent, CAM and occupancy costs	\$ 907	\$ 3,483	\$ 2,990	\$ 12,004
Retail services, store labor	779	3,231	2,637	11,084
Financial services and payment processing	106	350	249	1,191
Supply chain costs	5	126	93	362
Total expenses	\$ 1,797	\$ 7,190	\$ 5,969	\$ 24,641
Number of Lands' End Shops at Sears at period end	36	125	36	125

### General Corporate Services

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

	13 Weeks Ended		39 Weeks Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
<i>(in thousands)</i>				
Sourcing	\$ 3,192	\$ 2,830	\$ 6,173	\$ 6,144
Shop Your Way	25	251	79	633
Shared services	48	48	143	143
Total expenses	\$ 3,265	\$ 3,129	\$ 6,395	\$ 6,920

### 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:

	13 Weeks Ended		39 Weeks Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
<i>(in thousands)</i>				

Lands' End business outfitters revenue	\$	1	\$	216	\$	4	\$	834
Credit card revenue		92		184		248		506
Royalty income		30		43		131		156
Gift card expense		(3)		(4)		(8)		(12)
Total income	\$	120	\$	439	\$	375	\$	1,484

**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.

The Company recorded an Accounts receivable, net balance of \$1.2 million and \$1.0 million from Sears Holdings or Transform Holdco in the Condensed Consolidated Balance Sheets as of November 1, 2019 and November 2, 2018 respectively. The Company recorded an Accounts receivable, net balance of \$0.1 million from Sears Holdings or Transform Holdco in the Consolidated Balance Sheets as of February 1, 2019.

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 November 1, 2019 and February 1, 2019.

## NOTE 11. SEGMENT REPORTING

The Company is a leading multi-channel retailer of casual clothing, accessories, footwear and home products. Lands' End is growing its multi-channel distribution network which is designed to allow 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		39 Weeks Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
Net revenue:				
eCommerce	\$ 242,328	\$ 231,517	\$ 669,880	\$ 634,082
Outfitters	83,342	82,261	191,877	229,671
Retail	14,353	27,792	38,966	85,587
Total net revenue	\$ 340,023	\$ 341,570	\$ 900,723	\$ 949,340

## 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 Third Quarter 2019.

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		39 Weeks Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
Net revenue:				
United States	\$ 297,166	\$ 295,070	\$ 768,609	\$ 812,746
Europe	28,344	31,190	87,870	89,287
Asia	9,633	10,273	33,271	35,033
Other	4,880	5,037	10,973	12,274
Total Net revenue	\$ 340,023	\$ 341,570	\$ 900,723	\$ 949,340

## 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 November 1, 2019 is expected to be recognized in Net revenue in the fiscal quarter ending January 31, 2020, as products are delivered to customers.

	13 Weeks Ended		39 Weeks Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
<i>(in thousands)</i>				
Deferred Revenue Beginning of Period	\$ 9,411	\$ 8,796	\$ 9,051	\$ 12,993
Deferred Revenue Recognized in Period	(9,411)	(8,796)	(9,051)	(12,993)
Revenue Deferred in Period	15,178	22,117	15,178	22,117
Deferred Revenue End of Period	\$ 15,178	\$ 22,117	\$ 15,178	\$ 22,117

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 \$20.7 million, \$16.0 million and \$18.2 million as of November 1, 2019, November 2, 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:

	13 Weeks Ended		39 Weeks Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
<i>(in thousands)</i>				
Balance as of Beginning of Period	\$ 20,443	\$ 16,626	\$ 18,191	\$ 19,272
Gift cards sold	17,473	14,790	46,497	40,143
Gift cards redeemed	(17,041)	(15,258)	(43,121)	(41,605)
Gift card breakage	(171)	(183)	(863)	(1,835)
Balance as of November 1, 2019	\$ 20,704	\$ 15,975	\$ 20,704	\$ 15,975

#### 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 November 1, 2019, November 2, 2018 and February 1, 2019, \$22.9 million, \$23.7 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.

The components of lease expense are as follows:

<i>(in thousands)</i>	<b>13 Weeks Ended November 1, 2019</b>	<b>39 Weeks Ended November 1, 2019</b>
Operating lease expense	\$ 2,380	\$ 6,780
Variable lease expense	432	1,228
Lease expense	\$ 2,812	\$ 8,008

Short-term lease cost was not material for Third Quarter 2019 and Year-to-Date 2019.

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

<i>(in thousands, except as noted below)</i>	<b>November 1, 2019</b>
Operating lease right-of-use asset	\$ 31,380
Lease liability - current	6,344
Lease liability - long-term	30,971
Weighted average remaining lease term in years	7.72 years
Weighted average discount rate	6.47%

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

<i>(in thousands)</i>	<b>39 Weeks Ended November 1, 2019</b>
Operating cash outflows from operating leases	7,783

Maturities of operating lease liabilities as of November 1, 2019 are as follows (in thousands):

2019, excluding the 39 weeks ended November 1, 2019	\$ 2,847
2020	7,422
2021	6,237
2022	5,499
2023	4,732
Thereafter	21,806
Total operating lease payments	\$ 48,543
Less imputed interest	11,228
Present value of lease liabilities	\$ 37,315

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.

In Year-to-Date 2019, the Company took possession of retail spaces that resulted in an increase in Operating lease right-of-use asset of \$9.9 million, Lease liability - current of \$0.7 million and Lease liability - long-term of \$11.3 million. Additionally, in Third Quarter 2019, the Company entered into several leases where possession of a retail space will occur in Fourth 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 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*
- *Fourth Quarter 2019 - the 13 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*
- *Sears Holdings or Sears Holdings Corporation - Sears Holdings Corporation, a Delaware corporation, and its consolidated subsidiaries*
- *SEC - United States Securities and Exchange Commission*
- *Third Quarter 2018 - The 13 weeks ended November 2, 2018*
- *Third Quarter 2019 - The 13 weeks ended November 1, 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*
- *Year-to-Date 2018 - The 39 weeks ended November 2, 2018*
- *Year-to-Date 2019 - The 39 weeks ended November 1, 2019*

## Executive Overview

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

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

	13 Weeks Ended			
	November 1, 2019		November 2, 2018	
	\$'s	% of Net revenue	\$'s	% of Net revenue
<i>(in thousands)</i>				
Net revenue	\$ 340,023	100.0 %	\$ 341,570	100.0 %
Cost of sales (excluding depreciation and amortization)	185,848	54.7 %	190,608	55.8 %
Gross profit	154,175	45.3 %	150,962	44.2 %
Selling and administrative	135,417	39.8 %	135,274	39.6 %
Depreciation and amortization	8,076	2.4 %	7,361	2.2 %
Other operating income, net	(225)	(0.1)%	(158)	— %
Operating income	10,907	3.2 %	8,485	2.5 %
Interest expense	6,121	1.8 %	7,303	2.1 %
Other (income) expense, net	(166)	— %	1,866	0.5 %
Income (loss) before income taxes	4,952	1.5 %	(684)	(0.2)%
Income tax expense (benefit)	1,346	0.4 %	(3,978)	(1.2)%
<b>NET INCOME</b>	<b>\$ 3,606</b>	<b>1.1 %</b>	<b>\$ 3,294</b>	<b>1.0 %</b>

  

	39 Weeks Ended			
	November 1, 2019		November 2, 2018	
	\$'s	% of Net revenue	\$'s	% of Net revenue
<i>(in thousands)</i>				
Net revenue	\$ 900,723	100.0 %	\$ 949,340	100.0 %
Cost of sales (excluding depreciation and amortization)	497,589	55.2 %	528,587	55.7 %
Gross profit	403,134	44.8 %	420,753	44.3 %
Selling and administrative	374,521	41.6 %	388,315	40.9 %
Depreciation and amortization	23,101	2.6 %	20,420	2.2 %
Other operating income (expense), net	(99)	— %	132	— %
Operating income	5,611	0.6 %	11,886	1.3 %
Interest expense	20,190	2.2 %	21,216	2.2 %
Other (income) expense, net	(1,640)	(0.2)%	5,317	0.6 %
Loss before income taxes	(12,939)	(1.4)%	(14,647)	(1.5)%
Income tax benefit	(6,713)	(0.7)%	(10,026)	(1.1)%
<b>NET LOSS</b>	<b>\$ (6,226)</b>	<b>(0.7)%</b>	<b>\$ (4,621)</b>	<b>(0.5)%</b>

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 Net income of \$3.6 million in Third Quarter 2019 compared to Net income of \$3.3 million in the Third Quarter 2018. In addition to our Net income determined in accordance with GAAP, for purposes of evaluating operating performance, we use an Adjusted EBITDA measurement. Adjusted EBITDA is computed as Net income appearing on the Condensed Consolidated Statements of Operations net of Income tax expense/(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>November 1, 2019</b>		<b>November 2, 2018</b>	
	<b>\$'s</b>	<b>% of Net revenue</b>	<b>\$'s</b>	<b>% of Net revenue</b>
<i>(in thousands)</i>				
Net income	\$ 3,606	1.1 %	\$ 3,294	1.0 %
Income tax expense (benefit)	1,346	0.4 %	(3,978)	(1.2)%
Other (income) expense, net	(166)	— %	1,866	0.5 %
Interest expense	6,121	1.8 %	7,303	2.1 %
Operating income	10,907	3.2 %	8,485	2.5 %
Depreciation and amortization	8,076	2.4 %	7,361	2.2 %
Other operating (income) expense	(206)	(0.1)%	4	— %
(Gain) on property and equipment	(19)	— %	(162)	— %
Adjusted EBITDA	\$ 18,758	5.5 %	\$ 15,688	4.6 %

	<b>39 Weeks Ended</b>			
	<b>November 1, 2019</b>		<b>November 2, 2018</b>	
	<b>\$'s</b>	<b>% of Net revenue</b>	<b>\$'s</b>	<b>% of Net revenue</b>
<i>(in thousands)</i>				
Net loss	\$ (6,226)	(0.7)%	\$ (4,621)	(0.5)%
Income tax benefit	(6,713)	(0.7)%	(10,026)	(1.1)%
Other (income) expense, net	(1,640)	(0.2)%	5,317	0.6 %
Interest expense	20,190	2.2 %	21,216	2.2 %
Operating income	5,611	0.6 %	11,886	1.3 %
Depreciation and amortization	23,101	2.6 %	20,420	2.2 %
Other operating expense	—	— %	10	— %
(Gain) loss on property and equipment	(99)	— %	121	— %
Adjusted EBITDA	\$ 28,613	3.2 %	\$ 32,437	3.4 %

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 Same Store 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**

### **Third Quarter 2019 compared with Third Quarter 2018**

#### ***Net Revenue***

Net revenue for Third Quarter 2019 was \$340.0 million, compared with \$341.6 million in the comparable period of the prior year, a decrease of \$1.5 million, or 0.5%. Sales growth in our eCommerce channel of 4.7% and Outfitters of 1.3% was offset by a decrease in the Retail channel of 48.4%.

eCommerce Net revenue was \$242.3 million for Third Quarter 2019, an increase of \$10.8 million or 4.7%, from the comparable period of the prior year. The increase was led by greater demand in key items and growth in new customer acquisition.

Outfitters Net revenue was \$83.3 million for Third Quarter 2019, an increase of \$1.1 million or 1.3%, from the comparable period of the prior year. The increase was due to growth in our school uniform business.

Retail Net revenue was \$14.4 million in Third Quarter 2019, a decrease of \$13.4 million or 48.4%, from the comparable period of the prior year. This decrease was 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 8.3% in Same Store Sales. On November 1, 2019 the Company had 22 U.S. Company Operated stores compared with 16 U.S. Company Operated stores on November 2, 2018. On November 1, 2019, the Company had 36 Lands' End Shops at Sears compared with 125 Lands' End Shops at Sears November 2, 2018.

#### ***Gross Profit***

Gross profit increased \$3.2 million to \$154.2 million primarily due to growth in our eCommerce channel. Gross margin increased to 45.3%, in Third Quarter 2019, compared with 44.2%, in Third Quarter 2018. The gross margin increase of approximately 110 basis points was primarily due to a more disciplined promotional strategy.

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

Selling and administrative expenses increased \$0.1 million to \$135.4 million or 39.8% of total Net revenue, in Third Quarter 2019, compared with \$135.3 million or 39.6% of Net revenue, in Third Quarter 2018. This increase was primarily due to planned higher marketing spend, offset by the continued focus on the efficient management of our cost structure.

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

Depreciation and amortization expense was \$8.1 million in Third Quarter 2019, an increase of \$0.7 million or 9.7%, compared with \$7.4 million in Third Quarter 2018. This increase was primarily attributable to depreciation associated with our multi-year ERP system implementation, continued investment in our digital infrastructure and an increased number of U.S. Company Operated stores.

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

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

***Operating Income***

Operating income was \$10.9 million in Third Quarter 2019 compared to Operating income of \$8.5 million in Third Quarter 2018.

***Interest Expense***

Interest expense was \$6.1 million in Third Quarter 2019 compared to \$7.3 million in Third Quarter 2018, reflective of the \$100 million voluntary prepayment on the term loan, partially offset by increased interest rates.

***Other (Income) Expense***

Other income was \$0.2 million in Third Quarter 2019 compared to Other expense of \$1.9 million in Third Quarter 2018.

***Income Tax Expense***

The Company recorded a tax expense at an overall effective tax rate of 27.2% for the Third Quarter 2019. This compares to an income tax benefit at an overall effective rate of 581.6% for Third Quarter 2018. The tax benefit recorded for Third Quarter 2018 was primarily due to revised estimates of the impact due to the Tax Cuts and Jobs Act enacted on December 22, 2017.

***Net Income***

As a result of the above factors, Net income was \$3.6 million and diluted earnings per share was \$0.11 in Third Quarter 2019 compared with a Net income of \$3.3 million and diluted earnings per share of \$0.10 in Third Quarter 2018.

***Adjusted EBITDA***

As a result of the above factors, Adjusted EBITDA was \$18.8 million in Third Quarter 2019 as compared to \$15.7 million in Third Quarter 2018.

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

***Net Revenue***

Net revenue for Year-to-Date 2019 was \$900.7 million, compared with \$949.3 million in the comparable period of the prior year, a decrease of \$48.6 million, or 5.1%. Sales growth in our eCommerce channel of 5.6% was more than offset by decreases in our Outfitters and Retail channels of 16.5% and 54.5% respectively.

eCommerce Net revenue was \$669.9 million for Year-to-Date 2019, an increase of \$35.8 million or 5.6%, 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 \$191.9 million for Year-to-Date 2019, a decrease of \$37.8 million or 16.5%, from the comparable period of the prior year. The decrease was primarily attributable to the Delta Air Lines launch in the prior year.

Retail Net revenue was \$39.0 million in Year-to-Date 2019, a decrease of \$46.6 million or 54.5%, 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 partially offset by growth in our U.S. Company Operated stores. Our U.S. Company Operated stores experienced an increase of 9.0% in Same Store Sales. On November 1, 2019, the Company had 22 U.S. Company Operated stores compared with 16 U.S. Company Operated stores on November 2, 2018. On November 1, 2019, the Company had 36 Lands' End Shops at Sears compared with 125 Lands' End Shops at Sears on November 2, 2018.

### ***Gross Profit***

Gross profit decreased \$17.6 million to \$403.1 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 increased to 44.8% in Year-to-Date 2019, compared to 44.3% Year-to-Date 2018. The gross margin increase of approximately 50 basis points was primarily related to a more disciplined promotional strategy.

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

Selling and administrative expenses decreased \$13.8 million to \$374.5 million, or 41.6% of total Net revenue, in Year-to-Date 2019, compared with \$388.3 million, or 40.9% of Net revenue, in Year-to-Date 2018. The 70 basis point increase reflects deleverage primarily related to the Delta Air Lines launch and significant reduction in the number of our Lands' End Shops at Sears locations from the prior year.

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

Depreciation and amortization expense was \$23.1 million in Year-to-Date 2019, an increase of \$2.7 million or 13.1%, compared with \$20.4 million in Year-to-Date 2018. This increase was primarily attributable to depreciation associated with our multi-year ERP system implementation, continued investment in our digital infrastructure, and an increased number of U.S. Company Operated stores.

### ***Other Operating (Income) Expense***

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

### ***Operating Income***

Operating income was \$5.6 million in Year-to-Date 2019 compared to Operating income of \$11.9 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***

Interest expense was \$20.2 million in Year-to-Date 2019 compared to \$21.2 million in Year-to-Date 2018, reflective of the \$100 million voluntary prepayment on the term loan in First Quarter 2019, partially offset by increased interest rates.

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

Other income, net was \$1.6 million in Year-to-Date 2019 compared to Other expense, net of \$5.3 million in Year-to-Date 2018. Other expense, net in 2018 was primarily attributable to the reversal of an indemnification asset and accrued interest due to a favorable state tax audit, and a reserve taken against the remaining indemnification asset.

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

The effective tax rate was 51.9% in Year-to-Date 2019 compared with 68.5% in Year-to-Date 2018. The Year-to-Date 2019 tax rate reflects the benefit of the Company's election to treat certain foreign entities as a U.S. branch. The Year-to-Date 2018 rate reflects revised estimates related to the Tax Cuts and Jobs Act enacted on December 22, 2017 and the benefits of favorable state tax audit settlements for periods prior to Separation.

### ***Net Loss***

As a result of the above factors, Net loss was \$6.2 million and diluted loss per share was \$0.19 in Year-to-Date 2019 compared with a Net loss of \$4.6 million and diluted loss per share of \$0.14 in Year-to-Date 2018.

### ***Adjusted EBITDA***

As a result of the above factors, Adjusted EBITDA was \$28.6 million in Year-to-Date 2019 as compared to \$32.4 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. As of November 1, 2019, the Company had outstanding borrowings of \$80.0 million, outstanding letters of credit of \$12.5 million and \$82.5 million in availability under the ABL Facility. 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.

#### ***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 November 1, 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 used in operating activities increased to \$125.0 million in Year-to-Date 2019 from \$52.2 million in Year-to-Date 2018, primarily driven by an increase in inventory supporting the Fourth Quarter 2019 American Airlines launch and accelerated shipments prior to the implementation of tariffs.

#### *Cash Flows from Investing Activities*

Net cash used in investing activities was \$28.5 million and \$33.0 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, expansion in U.S. Company Operated stores and general corporate needs.

#### *Cash Flows from Financing Activities*

Net cash used in financing activities was \$24.6 million and \$4.4 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 in First Quarter 2019 and quarterly scheduled payments offset by borrowings under the ABL Facility. Amounts borrowed during Third Quarter 2019 are expected to be repaid in full during Fourth Quarter 2019 using cash flows generated from operations.

#### **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. As of November 1, 2019, the Company had outstanding borrowings of \$80.0 million, outstanding letters of credit of \$12.5 million and \$82.5 million in availability under the ABL Facility.

### **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 November 1, 2019, we had \$7.3 million of cash denominated in foreign currencies, principally in British Pound Sterling, Euros, Yen and Hong Kong Dollars. 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 November 1, 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 Third Fiscal Quarter Ended November 1, 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.

**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.

**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: December 3, 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.

December 3, 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.

December 3, 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 November 1, 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.

December 3, 2019

/s/ Jerome S. Griffith

---

Jerome S. Griffith

Chief Executive Officer and President  
(Principal Executive Officer)

December 3, 2019

/s/ James F. Gooch

---

James F. Gooch

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