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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark one)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934.  
For the Quarter Ended JULY 30, 1999  
OR  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from ..... to .....

Commission file number 1-9769

LANDS' END, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE 36-2512786  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

Lands' End Lane, Dodgeville, WI 53595  
(Address of principal executive (Zip code)  
offices)

Registrant's telephone number, 608-935-9341  
including area code

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 the number of shares outstanding of each of the issuer's classes of  
common stock as of September 7, 1999:

Common stock, \$.01 par value 30,149,420 shares outstanding

LANDS' END, INC. & SUBSIDIARIES  
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LANDS' END, INC. & SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)

	Three months ended	
	July 30, 1999	July 31, 1998
	(Unaudited)	
Net sales	\$254,616	\$239,194
Cost of sales	136,400	123,716
Gross profit	118,216	115,478
Selling, general and administrative expenses	109,429	114,794
Reversal of non-recurring charge	(275)	-
Income from operations	9,062	684
Other income (expense):		
Interest expense	(358)	(1,993)
Interest income	36	-
Other	(1,672)	1,212
Total other expense	(1,994)	(781)

Income (loss) before income taxes	7,068	(97)
Income tax provision (benefit)	2,615	(36)
Net income (loss)	\$ 4,453	\$ (61)
Basic earnings per share	\$ 0.15	\$ 0.00
Diluted earnings per share	\$ 0.14	\$ 0.00
Basic weighted average shares outstanding	30,057	30,504
Diluted weighted average shares outstanding	30,783	30,801

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

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LANDS' END, INC. & SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)

	Six months ended	
	July 30, 1999	July 31, 1998
	(unaudited)	
Net sales	\$544,225	\$507,781
Cost of sales	300,575	267,563
Gross profit	243,650	240,218
Selling, general and administrative expenses	225,715	231,077
Reversal of non-recurring charge	(1,598)	-
Income from operations	19,533	9,141
Other income (expense):		
Interest expense	(967)	(2,999)
Interest income	38	1
Other	(1,204)	2,026
Total other expense	(2,133)	(972)
Income before income taxes	17,400	8,169
Income tax provision	6,438	3,022
Net income	\$ 10,962	\$ 5,147
Basic earnings per share	\$ 0.37	\$ 0.17
Diluted earnings per share	\$ 0.36	\$ 0.17
Basic weighted average shares outstanding	30,032	30,724
Diluted weighted average shares outstanding	30,656	31,069

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

LANDS' END, INC. & SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands)

	July 30, 1999 (unaudited)	Jan. 29, 1999 (audited)	July 31, 1998 (unaudited)
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 6,270	\$ 6,641	\$ 5,016
Receivables, net	13,060	21,083	12,087
Inventory	189,983	219,686	318,439
Prepaid advertising	17,964	21,357	22,364
Other prepaid expenses	6,311	7,589	5,459
Deferred income tax benefit	17,947	17,947	12,613
<b>Total current assets</b>	<b>251,535</b>	<b>294,303</b>	<b>375,978</b>
<b>Property, plant and equipment, at cost:</b>			
Land and buildings	102,437	102,018	94,256
Fixtures and equipment	158,675	154,663	139,780
Leasehold improvements	4,774	5,475	5,551
Construction in progress	-	-	5,126
<b>Total property, plant and equipment</b>	<b>265,886</b>	<b>262,156</b>	<b>244,713</b>
Less-accumulated depreciation and amortization	110,961	101,570	92,544
<b>Property, plant and equipment, net</b>	<b>154,925</b>	<b>160,586</b>	<b>152,169</b>
Intangibles, net	949	1,030	937
<b>Total assets</b>	<b>\$407,409</b>	<b>\$455,919</b>	<b>\$529,084</b>
<b>Liabilities and shareholders' investment</b>			
<b>Current liabilities:</b>			
Lines of credit	\$ 23,950	\$ 38,942	\$177,256
Accounts payable	70,979	87,922	85,524
Reserve for returns	4,027	7,193	3,610
Accrued liabilities	42,458	54,392	26,688
Accrued profit sharing	469	2,256	246
Income taxes payable	1,754	14,578	3,159
<b>Total current liabilities</b>	<b>143,637</b>	<b>205,283</b>	<b>296,483</b>
Deferred income taxes	8,133	8,133	8,747
<b>Shareholders' investment:</b>			
Common stock, 40,221 shares issued	402	402	402
Donated capital	8,400	8,400	8,400
Additional paid-in capital	28,665	26,994	26,661
Deferred compensation	(293)	(394)	(912)
Accumulated other comprehensive income	1,801	2,003	56
Retained earnings	417,358	406,396	380,358
Treasury stock, 10,156, 10,317 and 9,984 shares at cost, respectively	(200,694)	(201,298)	(191,111)
<b>Total shareholders' investment</b>	<b>255,639</b>	<b>242,503</b>	<b>223,854</b>
<b>Total liabilities and shareholders' investment</b>	<b>\$407,409</b>	<b>\$455,919</b>	<b>\$529,084</b>

The accompanying notes to consolidated financial statements are an integral part of these consolidated balance sheets.

LANDS' END, INC. & SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	Six Months Ended	
	July 30, 1999	July 31, 1998
	(unaudited)	
Cash flows from (used for) operating activities:		
Net income	\$ 10,962	\$ 5,147
Adjustments to reconcile net income to net cash flows from operating activities-		
Reversal of non-recurring charge	(1,598)	-
Depreciation and amortization	10,275	9,582
Deferred compensation expense	101	135
Loss on disposal of fixed assets	538	1,217
Changes in current assets and liabilities:		
Receivables, net	8,023	3,356
Inventory	29,703	(77,285)
Prepaid advertising	3,393	(3,851)
Other prepaid expenses	1,278	(374)
Accounts payable	(16,943)	1,781
Reserve for returns	(3,166)	(2,518)
Accrued liabilities	(9,922)	(8,655)
Accrued profit sharing	(1,787)	(4,040)
Income taxes payable	(12,824)	(17,318)
Other	(202)	(819)
Net cash flows from (used for) operating activities	17,831	(93,642)
Cash flows used for investing activities:		
Cash paid for capital additions	(5,486)	(29,178)
Net cash flows used for investing activities	(5,486)	(29,178)
Cash flows from (used for) financing activities:		
Proceeds from (payments of) short-term debt	(14,992)	144,819
Exercise of stock options	1,671	204
Purchases of treasury stock	(4,504)	(23,872)
Issuance of treasury stock	5,109	347
Net cash flows from (used for) financing activities	(12,716)	121,498
Net decrease in cash and cash equivalents	(371)	(1,322)
Beginning cash and cash equivalents	6,641	6,338
Ending cash and cash equivalents	\$ 6,270	\$ 5,016
Supplemental cash flow disclosures:		
Interest paid	\$ 958	\$ 2,674
Income taxes paid	18,516	20,033

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

LANDS' END, INC. & SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Interim financial statements

The condensed consolidated financial statements included herein have been prepared by Lands' End, Inc. (the company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and in the opinion of management contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and

regulations, although the company believes that the disclosures are adequate to make the information presented not misleading. The results of operations for the interim periods disclosed within this report are not necessarily indicative of future financial results. These consolidated financial statements are condensed and should be read in conjunction with the financial statements and the notes thereto included in the company's latest Annual Report on Form 10-K, which includes financial statements for the year ended January 29, 1999.

## 2. Reclassification

Certain financial statement amounts have been reclassified to be consistent with the current presentation.

## 3. Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting For Derivative Instruments and Hedging Activities". This statement addresses the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. The provisions of SFAS No. 133, as amended by SFAS 137, are effective for fiscal years beginning after June 15, 2000. The company intends to adopt this standard as of the beginning of the third quarter of fiscal 2000.

## 4. Earnings per share

The following table discloses the computation of the diluted earnings per share and the basic earnings per share.

(In thousands, except per share data)	Three months ended		Six months ended	
	July 30, 1999	July 31, 1998	July 30, 1999	July 31, 1998
Net income (loss)	\$ 4,453	\$ (61)	\$10,962	\$ 5,147
Average shares of common stock outstanding	30,057	30,504	30,032	30,724
Incremental shares from assumed exercise of stock options	726	297	624	345
Diluted weighted average shares of common stock outstanding	30,783	30,801	30,656	31,069
Basic earnings per share	\$ 0.15	\$ 0.00	\$ 0.37	\$ 0.17
Diluted earnings per share	\$ 0.14	\$ 0.00	\$ 0.36	\$ 0.17

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### LANDS' END, INC. & SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 5. Comprehensive income

In accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", the following table presents the company's comprehensive income (000's):

	Three months ended		Six months ended	
	July 30, 1999	July 31, 1998	July 30, 1999	July 31, 1998
Net income (loss)	\$ 4,453	\$ (61)	\$10,962	\$ 5,147
Change in cumulative translation adjustments, net	544	(691)	(202)	(819)
Total comprehensive income (loss)	\$ 4,997	\$ (752)	\$10,760	\$ 4,328

## 6. Non-recurring charge and related reversal

During fiscal year 1999, in connection with changes in executive management, the company announced a Plan designed to reduce administrative and operational costs stemming from duplicative responsibilities and certain non-profitable operations. This Plan included the reduction of staff

positions, the closing of three outlet stores, the liquidation of the Willis & Geiger operations and the termination of a licensing agreement with MontBell Co. Ltd. A non-recurring charge of \$12.6 million was recorded in fiscal 1999 related to these matters.

Below is a summary of related costs for the periods ended July 30, 1999.

(In thousands)	Balance 1/29/99	Costs Incurred	Charges Reversed	Balance 7/30/99
Severance costs	\$ 6,700	\$(3,674)	\$ 0	\$ 3,026
Asset impairments	3,199	(1,447)	(1,111)	641
Facility exit costs and other	2,590	(2,052)	(487)	51
Total	\$12,489	\$(7,173)	\$(1,598)	\$ 3,718

During the six months ended July 30, 1999, the company executed the Plan and incurred costs totaling \$7.2 million. In addition, there was a reversal of \$1.6 million of the reserves recorded in fiscal 1999. Those included \$0.5 million for better than expected lease termination settlements related to two store closings, and \$1.1 million for better than anticipated sell-through of Willis & Geiger inventory liquidations. Based on these two factors, there was an addition to net income of \$1.0 million, or \$0.03 per share in the first half of fiscal 2000.

LANDS' END, INC. & SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Segment disclosure

The company organizes and manages its three business segments (core, specialty and international) based on type of catalog, which focuses on specific customer needs and markets served. Certain catalogs are combined for purposes of assessing financial performance. The company evaluates the performance of its business segments based on operating profit.

The core segment consist of adult apparel in the regular monthly and prospecting catalogs, Beyond Buttondowns catalog, and First Person Singular catalog. The specialty segment includes Kids, Corporate Sales, and Coming Home catalogs. The international segment is composed of foreign-based operations in Japan, the United Kingdom, and Germany.

Segment sales represent sales to external parties. Sales from the Internet, export sales shipped from the United States, and liquidation sales are included in the respective business segments. Segment operating profit is revenue less direct and allocable operating expenses, which includes interest expense and interest income. Segment identifiable assets are those that are directly used in or identified with segment operations. "Other" includes corporate expenses, intercompany eliminations, and other income and deduction items that are not allocated to segments.

Pertinent financial data by operating segment for the periods ended July 30, 1999, and July 31, 1998 are as follows (in thousands):

	Quarter ended July 30, 1999				
	Core	Specialty	Inter- national	Other	Consoli- dated
Net sales	\$150,736	\$ 71,652	\$ 32,228	\$ -	\$254,616
Operating profit (loss)	2,590	6,283	(149)	(1,656)	7,068
Identifiable assets	239,483	115,981	51,945	-	407,409
Depreciation and					

amortization	2,956	1,404	573	-	4,933
Capital expenditures	2,595	1,251	526	-	4,372
Interest expense	143	67	148	-	358
Interest income	\$ 12	\$ 6	\$ 18	\$ -	\$ 36

Quarter ended July 31, 1998

	Core	Specialty	Inter- national	Other	Consoli- dated
Net sales	\$152,017	\$ 60,369	\$ 26,808	\$ -	\$239,194
Operating profit (loss)	40	698	(478)	(357)	(97)
Identifiable assets	337,285	134,694	57,105	-	529,084
Depreciation and amortization	3,344	1,310	471	-	5,125
Capital expenditures	8,908	3,511	6,031	-	18,450
Interest expense	1,102	436	455	-	1,993

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LANDS' END, INC. & SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended July 30, 1999

	Core	Specialty	Inter- national	Other	Consoli- dated
Net sales (2)	\$325,224	\$157,504	\$ 61,497	\$ -	\$544,225
Operating profit (loss) (1) (2)	6,879	13,867	(2,147)	(1,199)	17,400
Identifiable assets	239,483	115,981	51,945	-	407,409
Depreciation and amortization	6,136	2,971	1,168	-	10,275
Capital expenditures	3,229	1,564	693	-	5,486
Interest expense	419	203	345	-	967
Interest income	\$ 13	\$ 7	\$ 18	\$ -	\$ 38

Six months ended July 31, 1998

	Core	Specialty	Inter- national	Other	Consoli- dated
Net sales (2)	\$321,600	\$128,430	\$ 57,751	\$ -	\$507,781
Operating profit (loss) (2)	6,109	3,921	(1,447)	(414)	8,169
Identifiable assets	337,285	134,694	57,105	-	529,084
Depreciation and amortization	6,204	2,478	900	-	9,582
Capital expenditures	13,989	5,587	9,602	-	29,178
Interest expense	1,535	613	851	-	2,999
Interest income	\$ 1	\$ -	\$ -	\$ -	\$ 1

(1) Includes a reversal of non-recurring charges of \$1.2 million and \$0.4 million allocated to the specialty and core segments, respectively.

(2) First quarter of fiscal 2000 and 1999 have been restated to conform to second quarter presentation for both years.

Item 2.

MANAGEMENT'S DISCUSSION  
AND ANALYSIS

## Results of Operations

Three Months Ended July 30, 1999, compared with  
Three Months Ended July 31, 1998

The company's net sales for its second quarter ended July 30, 1999, totaled \$254.6 million, up 6.4 percent from sales of \$239.2 million in the same quarter last year. Most of the sales growth during the quarter just ended came from the company's specialty business segment, represented by the Corporate Sales, Kids and Coming Home catalogs, and from the international business segment. Sales from the core business segment were relatively flat. In particular, sales from the core monthly catalogs were lower, due to a reduction in the number of pages circulated, but productivity, or sales per page, increased. Sales on the company's Internet site [www.landsend.com](http://www.landsend.com) were about two and one-half times those in the same quarter last year. In the most recent fiscal year, Internet sales were \$61 million, about 4.5 percent of total net sales. For the first five weeks of the third quarter of fiscal 2000, the net sales are trending up approximately 5 percent.

Gross profit in this year's second quarter was \$118.2 million, or 46.4 percent of net sales, compared with \$115.5 million, or 48.3 percent of net sales, in the second quarter of the prior year. The decline in gross profit margin was mainly due to steeper markdowns on liquidated merchandise and lower initial markups. Liquidations of excess inventory were about 10 percent of net sales in the quarter just ended, compared with 8 percent in the prior year.

Selling, general and administrative (SG&A) expenses in the quarter just ended decreased 4.7 percent to \$109.4 million, compared with \$114.8 million for last year's second quarter. As a percentage of sales, SG&A was 43.0 percent, compared with 48.0 percent in the same period last year. The decrease in the SG&A ratio during the quarter was due to greater catalog productivity, or sales per page; lower paper prices; lower salaries and wages; and also from decreases in outside consulting services that are primarily related to the company's Y2K compliance efforts. These were partially offset by increased bonus and profit sharing expense due to a higher profit level in the quarter just ended.

During the quarter just ended, interest expense was \$0.4 million, compared with about \$2 million in the same quarter last year. Lower inventory, coupled with fewer capital expenditures and purchases of treasury stock, resulted in a decrease in the company's borrowings on short-term lines of credit, which stood at \$24 million at the end of the quarter, compared with \$177 million a year ago.

Inventory at the end of the quarter was \$190 million, down 40 percent from \$318 million in the prior year. Our fulfillment rate for the quarter was down from last year, and we shipped 84 percent of items at the time of order placement.

Net income for the quarter just ended was \$4.5 million, and diluted earnings per share were \$0.14, compared with a loss of \$61 thousand and break-even earnings per share in the second quarter last year. The quarter just ended includes \$1.0 million in foreign currency exchange losses (after-tax), compared with a \$0.8 million foreign currency exchange gain (after-tax) in the same quarter last year. Foreign currency exchange gains or losses occur due to currency market movements and the company's hedging strategy.

Six Months Ended July 30, 1999, compared with  
Six Months Ended July 31, 1998

The company's net sales in the first six months of fiscal 2000 increased 7.2 percent to \$544.2 million from \$507.8 million in the same period last year. The increase in net sales was due primarily to the same factors disclosed above for the three months ended July 30, 1999.

Gross profit of \$243.7 million for the first six months of fiscal 2000 increased 1.4 percent from \$240.2 million in the same six-month period last year. As a percentage of net sales, gross profit decreased from 47.3 percent in fiscal 1999 to 44.8 percent in fiscal 2000. The decrease in gross profit was due to higher sales of liquidated merchandise, at steeper markdowns and lower initial markups.

Selling, general and administrative expenses decreased 2.3 percent to \$225.7 million in the first six months of fiscal 2000 from \$231.1 million in the same period last year. As a percentage of net sales, selling, general and administrative expenses decreased to 41.5 percent in fiscal 2000 from 45.5 percent in fiscal 1999. The decrease in the SG&A ratio in the first half of fiscal 2000 was the result of greater catalog productivity, or sales per page; lower paper prices; lower salaries and benefit costs; lower shipping costs; and decreases in outside consulting services that were mainly related to the company's Y2K compliance efforts. These were partially offset by increased bonus and profit sharing expense.

Net income in the first half of fiscal 2000 was up 113 percent to \$11.0 million, or \$0.36 per share, compared with \$5.1 million, or \$0.17 per share in the first six months of the prior year. This year's first half includes an addition to net income (after-tax) of \$1.0 million, or \$0.03 per share, from the reversal of a portion of the non-recurring charge taken last year. This was due to better-than-anticipated sell-through of Willis & Geiger liquidations and favorable lease terminations related to two store closings.

#### Seasonality of business

The company's business is highly seasonal. Historically, a disproportionate amount of the company's net sales and a majority of its profits have been realized during the fourth quarter. If the company's sales were materially different from seasonal norms during the fourth quarter, the company's annual operating results could be materially affected. In addition, as the company continues to refine its marketing efforts by experimenting with the timing of its catalog mailings, quarterly results may fluctuate. Accordingly, results for the individual quarters are not necessarily indicative of the results to be expected for the entire year.

#### Outlook

In the last half of fiscal 1999, worldwide circulation of catalogs and pages was greatly increased in our efforts to reduce inventory levels. In the last half of this current fiscal year, we plan to reduce circulation by about 20 percent to eliminate unprofitable mailings. As a result, we expect that sales for the upcoming 6-month period may be flat compared to the prior year, particularly in the fourth quarter, but we also anticipate that the reduction in circulation will have a positive impact on our profitability rate by reducing SG&A expenses.

#### Liquidity and capital resources

To date, the bulk of the company's working capital needs have been met through funds generated from operations and from short-term bank loans. The company's principal need for working capital has been to meet peak inventory requirements associated with its seasonal sales pattern. In addition, the company's resources have been used to make asset additions and to purchase treasury stock.

At July 30, 1999, the company had unsecured domestic credit facilities totaling \$180 million, of which about \$14 million had been used. The company also maintains foreign credit lines for use in foreign operations totaling the

equivalent of approximately \$52 million as of July 30, 1999, of which \$10 million was used.

Since fiscal 1990, the company's board of directors has authorized the company from time to time to purchase a total of 12.7 million shares of treasury stock. As of September 7, 1999, 11.6 million shares have been purchased, and there is a balance of 1.1 million shares available to the company. The company purchased 0.1 million shares of treasury stock during the six months ended July 30, 1999. Currently the company is anticipating limited treasury stock purchases for the second half of fiscal 2000.

Capital expenditures for fiscal 2000 are currently planned to be about \$26 million, of which \$5 million had been expended through July 30, 1999. Major projects to date as of July 30, 1999, pertained mainly to new computer hardware and software. The company believes that its cash flow from operations and borrowings under its current credit facilities will provide adequate resources to meet its treasury stock purchases, capital requirements and operational needs for the foreseeable future.

Other matters

Year 2000

The "Year 2000" issue refers to the possibility that some date-sensitive computer software will not correctly interpret "00" references, possibly resulting in processing errors or system failures. We do not manufacture or sell any products that could encounter Year 2000 problems. However, the Year 2000 issue could affect computers that we use for entering orders from customers, for monitoring business information such as customer lists and inventory positions, and for other business processes, as well as microprocessors embedded in equipment used in our warehouses and other facilities. In addition, the Year 2000 issue could affect third parties on which we depend, such as our product vendors and suppliers of telephone communications, credit card processing, Internet support, product shipment, package delivery, catalog production and distribution, and other important services. Our facilities also depend on basic infrastructure items such as electricity and water utilities. Computer errors or failures in any of these areas have the potential to disrupt our business operations.

We began to address the Year 2000 issue in 1996 and established a Year 2000 project office in 1997. The project office works with our information systems department and outside consultants to identify and assess the Year 2000 readiness of our internal computer systems and microprocessors and, where appropriate, to remediate and test them. The project office is also working with our buyers, quality assurance and other personnel to assess the readiness

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of our suppliers to deal with the Year 2000 issue. The principal activities of our Year 2000 project office are as follows:

**Internal Systems:** Most of the software that is critical to our business runs on mainframe computers in a MVS operating environment, as well as on a few mid-range computers. Certain less important functions are performed on a mainframe computer in a VM operating environment. We have completed substantially all of the identification, assessment, remediation and unit testing efforts.

A substantial amount of the mainframe remediation and unit testing work has been performed by a consulting firm. Another firm has completed its assessment and recommendation for integration testing, which is underway and is currently expected to be substantially complete by the third quarter of 1999. However, due to the less critical nature of certain operations performed in the VM environment, further remediation in that area, as well as related unit and integration testing, is expected to continue throughout 1999 on a selectively prioritized basis, and some of these functions may not be remediated.

We completed an inventory and assessment of hardware and software associated with personal computers in 1998. We have also completed the remediation of all critical PC components, and currently expect to complete all PC remediation by the end of the third quarter of fiscal year 2000.

We have also identified and assessed the microprocessors used in our warehouses and other facilities in the United States, Japan and the United Kingdom. We have not identified significant problems in this area and have substantially completed all remediation in this area.

Suppliers: Our Year 2000 project office is working closely with other departments, including our merchandising, inventory and quality assurance staff, to track the Year 2000 readiness of our principal product vendors through written questionnaires, telephone calls and on-site visits. Among other things, we are evaluating the readiness of vendors' manufacturing processes and business operations and their ability to perform electronic data interchange with us. In addition, we are evaluating the vulnerability of vendors to possible interruption of the supply of key components of their products, such as fabric, buttons and zippers.

Our evaluation of product vendors is focused on 44 suppliers that collectively account for more than 85 percent of our unit volume of product purchases. Out of that group, we currently believe that approximately 98 percent are either Year 2000-ready or making substantial progress and should continue to be monitored, while approximately 2 percent may experience problems that will need to be addressed further in contingency planning. In addition, we have successfully verified and tested electronic data interchange with all product vendors.

We have also identified approximately 112 suppliers of services and infrastructure items that are most important to our business operations. Each of these service providers has been assigned a business leader who is responsible for ensuring the Year 2000 assessment information is current as well as establishing contingency plans as needed. We currently believe that approximately 90 percent are either compliant or making substantial progress, while 10 percent may experience Year 2000-related problems and merit increased monitoring and contingency planning. With respect to our most critical

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telecommunications, catalog production and delivery providers, we have had extensive contacts with them and received substantial information concerning their Year 2000 readiness, and have identified no significant problems that are likely to be encountered.

We currently have less comfort regarding foreign suppliers and infrastructure issues, especially in Asia, than we do in the domestic environment. Foreign service suppliers are very important to our business because approximately 55 percent of our products are manufactured abroad. In many cases we are currently unable to assess the extent of Year 2000 problems that may be encountered. We continue to monitor these suppliers based on our business exposure in each country.

Contingency Planning: Initial contingency plans were completed in March 1999. These plans address business critical processes and functions and third-party issues that may place our operations at risk. We expect to review and modify these contingency plans throughout 1999.

Based on the activities of our Year 2000 project office, we currently expect that our most important computer systems will be able to function adequately into the next century. While some disruptions are likely to occur with internal systems and at least a few product vendors, we believe the most probable scenario is that there will not be a systemic failure of important services or infrastructure that will materially disrupt our operations as a whole. Moreover, in view of the strong seasonality of our business, any disruptions that do occur are likely to take place in the off-peak selling period following the 1999 holiday season. However, our expectations in this regard are forward-looking in nature and are necessarily subject to the many uncertainties that relate to the Year 2000 issue, especially as it affects our suppliers and other third parties over whom we have little or no control. If our remediation, supplier evaluation and contingency planning efforts are not successful, there could be a material adverse effect on our business, results of operations or financial condition. We currently believe that the greatest area of risk in this regard relates to foreign supply and infrastructure issues such as the ability to ship products produced in other countries. In addition, our sales volume could be adversely affected if widespread Year 2000 problems in our domestic or foreign markets were to result in a general slowdown of economic activity and consumer demand.

Cost: The total cost of our Year 2000 efforts is expected to be about \$21-22 million, which is being expensed as incurred except for about \$1 million of hardware replacement costs that have been or will be capitalized. About \$3.4 million of the total amount was incurred through the end of fiscal 1998 and approximately an additional \$8.9 million in fiscal 1999. The costs incurred during the first two quarters of fiscal year 2000 amounted to roughly \$5 million. We currently expect a total amount of about \$8.2 million of expenditures will be incurred in fiscal 2000, and about \$1 million in fiscal 2001. The timing and amount of these future expenditures are forward-looking and subject to uncertainties relating to our ongoing assessment of the Year 2000 issue and appropriate remediation efforts, contingency plans and responses to any problems that may arise. Our Year 2000 expenses have been paid out of our annual budgets for information services. Accordingly, other technology development projects have been delayed to the extent that resources have been devoted to the Year 2000 project.

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#### Market risk

The company uses derivative financial instruments to manage its foreign currency exposures. The company does not hold or issue financial instruments for trading purposes. For information pertaining to foreign currency risk, reference is made to Item 7 of the Management's Discussion and Analysis of Consolidated Financial Statements in the company's fiscal year 1999 Annual Report on Form 10-K. There has been no material change in market risk exposures that affect the quantitative and qualitative disclosures presented as of January 29, 1999.

#### Statements regarding forward-looking information

Statements in this release that are not historical are forward looking, including, without limitation, statements about goals for Internet sales, anticipated cost savings, and possible circulation reductions and their anticipated effects on sales or profits. As such, these statements are inherently subject to a number of risks and uncertainties. Future results may be materially different from those expressed or implied by these statements due to various factors that may occur. Such factors include, but are not limited to the following: general economic or business conditions, both domestic and foreign; continued growth rates for e-commerce shopping; the company's ability to attract customers to the Internet; technology developments and their availability and cost; customer response to product offerings and initiatives; costs associated with printing and mailing catalogs; dependence on consumer seasonal buying patterns; and fluctuations in foreign currency exchange rates.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

There are no material legal proceedings presently pending, except for routine litigation incidental to the business, to which Lands' End, Inc., is a party or of which any of its property is the subject.

Items 2 and 3 are not applicable and have been omitted.

## Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders for the quarter ended July 30, 1999, other than those disclosed in the Form 10-Q for the quarter ended April 30, 1999, reporting the results of the company's annual meeting.

Item 5. is not applicable and has been omitted

## Item 6. Exhibits and Reports on Form 8-K

## (a) Exhibits

Table Number	Description	Exhibit Number
10	Amended and Restated Stock Option Plan of the company	1
10	Amended and Restated Non-employee Director Stock Option Plan	2

## (b) Report on Form 8-K

A report on Form 8-K was filed July 20, 1999, reporting a meeting with members of the financial community in New York, New York, on Thursday, May 20, 1999.

## SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, its duly authorized officer and chief financial officer.

LANDS' END, INC.

Date: September 7, 1999

By /s/ STEPHEN A. ORUM  
Stephen A. Orum  
Executive Vice President,  
and Chief Financial Officer

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Exhibit 10.1

LANDS' END, INC. STOCK OPTION PLAN

PART 1: IDENTIFICATION OF THE PLAN

1.1 Title. The Plan described herein shall be known as the "Lands' End, Inc. Stock Option Plan" and is referred to herein as the "Plan."

1.2 Purpose. The purpose of the Plan is to provide officers and key employees of Lands' End, Inc. (the "Company") with additional incentive to increase their efforts on the Company's behalf and to remain in or enter into the employ of the Company by granting such employees from time to time, at the discretion of the Committee:

- (a) incentive stock options (within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code")) to purchase shares of common stock of the Company ("Company Shares"), and
- (b) nonqualified stock options (meaning all options granted under the Plan which are not designated by the Committee at the time of grant as incentive stock options) to purchase Company Shares.

By virtue of the benefits available under the Plan, employees who are responsible for the future growth and continued success of the Company have an opportunity to participate in the appreciation in the value of

Company Shares, which furnishes such employees with an additional incentive to work for and contribute to such appreciation through the growth and success of the Company.

1.3 Adoption and Restatement of the Plan. The Lands' End, Inc. 1990 Stock Option Plan was adopted by the Company's Board of Directors on November 27, 1990 and approved by the Company's shareholders on May 15, 1991. The Lands' End, Inc. 1990 Stock Option Plan was amended and restated by the Company's Board of Directors on October 22, 1991 and December 9, 1991 (at which time it was renamed the Lands' End, Inc. Second Amended and Restated 1990 Stock Option Plan) which amendments were approved by the Company's shareholders on May 20, 1992. The Lands' End, Inc. 1990 Second Amended and Restated Stock Option Plan was further amended and restated by the Company's Board of Directors on December 10, 1993 and April 15, 1994 (at which time it was renamed the Lands' End, Inc. Stock Option Plan), which amendments were approved by the Company's shareholders on May 18, 1994. The Lands' End, Inc. Stock Option Plan was further amended and restated by the Company's Board of Directors on April 7, 1995, which amendment was approved by the Company's shareholders on May 17, 1995, was further amended and restated by the Company's Board of Directors on October 27, 1998 and January 29, 1999 (the "1999 Plan Amendment"), which amendment was approved by the Company's shareholders on May 19, 1999, and was further amended and restated by the Company's Board of Directors on August 24, 1999.

1.4 Company Shares Reserved for the Plan. There is reserved for issuance upon the exercise of options to be granted under the Plan and aggregate of 5,500,000 Company Shares, which may be authorized and unissued shares or treasury shares and which number is subject to adjustment as provided in Section 5.4.

## PART 2: ADMINISTRATION OF THE PLAN

2.1 Committee's Membership and Powers. The Plan will be administered by a committee of the Board of Directors of the Company (the "Committee") consisting of two or more Directors as the Board may designate from time to time, none of whom has been eligible to receive a benefit under this Plan or under any other plan of the Company entitling participants to acquire stock, stock options or stock appreciation rights for a period of at least one year prior to appointment. The members of the Committee must be "disinterested persons" as that term is defined in Rule 16b-3 of the Securities and Exchange Commission and "outside directors" as that term is defined in Section 162(m) of the Code. No person who is appointed as a member of the Committee shall be entitled to receive any benefit under the Plan for a period of at least one year following the termination of such person's membership on the Committee. The Committee shall have the power to construe and interpret this Plan, to make all factual determinations hereunder and to establish the terms of any incentive stock options or nonqualified stock options granted hereunder. The determinations of the Committee shall be made in accordance with their judgment as to the best interests of the Company and its shareholders and in accordance with the purpose of the Plan. A majority of members of the Committee shall constitute a quorum, and all determinations of the Committee shall be made by a majority of its members. Any determination of the Committee under the Plan may be made without notice or meeting of the Committee, by a writing signed by all of the Committee members. The initial members of the Committee are David Heller and John Latter.

2.2 Indemnification. Service on the Committee shall constitute service as a Director of the Company so that members of the Committee shall be entitled to indemnification and reimbursement as Directors of the Company to the full extent provided for at any time by law, the Company's Certificate of Incorporation, the Company's By-Laws and in any insurance policy or other agreement intended for the benefit of the Company's Directors.

## PART 3: PLAN PARTICIPANTS

Participants will consist of such officers and key employees of the Company as the Committee in its sole discretion determines from time to time. Designation of a participant in any year shall not require the Committee to designate such person to receive a benefit in any other year or to receive the same type or amount of benefit as

granted to the participant in any other year or as granted to any other participant in any year. The Committee shall consider such factors as its deems pertinent in selecting participants and in determining the type and amount of their respective benefits.

#### PART 4: TERMS AND CONDITIONS OF OPTIONS

4.1 Grant Date. An option shall be deemed to have been granted under the Plan on the date (the "Grant Date") designated by the Committee at the time it shall approve such option as the Grant Date of such option, provided that the Committee may not designate a Grant Date with respect to any option which is earlier than the date on which the granting of such option is approved by the Committee.

4.2 Option Price. The option price per Company Share shall be fixed by the Committee at or before the time the Committee approves the granting of the option. However, except as provided in the following sentence, no option shall have an option price per Company Share of less than 100 percent of the fair market value of a Company Share on the Grant Date of the option. At its discretion, the Committee may issue options to a participant who, in accordance with section 5.8 hereof, has voluntarily surrendered and canceled a prior option at a price per Company Share equal to or greater than the price per Company Share of the prior option. For this purpose "fair market value" of a Company Share as of any date shall be equal to the last per share sales price reported for a Company Share for such date in The Wall Street Journal or, if no sales of Company Shares are reported for such date in The Wall Street Journal, for the next succeeding date for which sales of Company Shares are so reported in The Wall Street Journal. If sales of Company Shares are not reported for any date in The Wall Street Journal, then the "fair market value" of a Company Share as of any date shall be determined in such manner as shall be prescribed in good faith by the Committee.

4.3 Term and Exercisability of Options. Options may "vest" and become exercisable in one or more installments upon the passage of a specified period of time as the Committee shall in each case determine in its sole discretion when the option is granted; however no option may be exercised later than December 31 of the year in which the tenth anniversary of the Grant Date of such option occurs (or any earlier date which is the last day of the term of the option). The Committee shall have authority, in its sole discretion, to accelerate the vesting and exercisability of all or part of any option granted hereunder and, subject to Section 4.5 hereof, to establish restrictions or limitations with respect to the exercise of options, including, but not limited to, the period during which options may be exercised.

4.4 Special Incentive Stock Option Terms. The terms of each incentive stock option granted under the Plan shall include those terms which are required by Section 422 of the Code and such other terms not inconsistent therewith as the Committee may determine. Each option which is designated by the Committee as an incentive stock option shall be considered to have contained from the outset such terms and provisions as shall be necessary to entitle such intended incentive stock option to the tax treatment afforded by the Code to incentive stock options under Section 422 of the Code. If any

agreement covering such an intended incentive stock option granted under the Plan does not explicitly include any terms required to entitle such intended incentive stock option to the tax treatment afforded by the Code to incentive stock options, then all of such required terms and provisions shall be considered implicit in such agreement and such intended incentive stock option shall be considered to have been granted subject to such required terms and conditions. In accordance with Section 422 of the Code, the aggregate fair market value (determined as of the grant date) of the Company Shares with respect to which incentive stock options are exercisable for the first time by a participant in any given calendar year shall not exceed \$100,000.

4.5 Termination of Employment. Unless otherwise determined by the Committee, if a participant ceases to be employed by the Company for reasons other than his disability (as described in clause (c)

below), retirement on or after his normal retirement date or death, the option (or any remaining unexercised portion thereof) shall terminate effective as of the date of the participant's termination of employment and no portion of the terminated option shall be exercisable after than date. Unless otherwise determined by the Committee, if a participant's termination of employment is a result of his retirement, death or disability, the following provisions shall apply with respect to such option:

- (a) If the participant's termination of employment is on account of his retirement at or after his normal retirement date, any unexercised portion of the option shall be exercisable during the 12 months following the retirement date (unless earlier terminated) and shall terminate on the first anniversary of the date of the termination of his employment (or such earlier time when the option would otherwise expire or terminate on its own terms) whether or not such option or options were exercisable on the retirement date under the provisions of the applicable agreements relating thereto. To the extent that any such unexercised portion of the option is not exercised within three months following the date of termination of employment, it cannot be exercised as an incentive stock option but only as a nonqualified stock option.
- (b) If the participant's termination of employment is on account of his death, any vested but unexercised portion of the option shall be exercisable during the 12 months following the date of death (unless earlier terminated) and shall terminate on the first anniversary of the date of death (or such earlier time when the option would otherwise expire or terminate on its own terms). Vested options may be exercised by the participant's estate or any person who acquired the right to exercise the option by bequest, inheritance or the laws of descent and distribution.
- (c) If the participant's termination of employment is on account of his disability, any vested but unexercised portion of the option shall be exercisable during the six months following the termination of employment (unless earlier terminated) and shall terminate on the 180th day following the termination of his employment (or such earlier time when the option would otherwise expire or terminate on its own terms). In such event, vested options may be exercised by the participant or his guardian. For this purpose a participant shall be considered "disabled" if the Committee determines in good faith that he is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve months.

4.6 Method of Exercising Options. An option may be exercised only by a written notice to the Company accompanied by payment of the full option price which, in the discretion of the Committee, may be made in any one or any combination of the following: cash, certified or official bank check, or delivery of Company Share certificates endorsed in blank or accompanied by executed stock powers evidencing Company Shares whose value shall be deemed to be the "fair market value" (as determined in accordance with Section 4.2 hereof) on the date of exercise of such Company Shares.

4.7 Maximum Grant. In accordance with Section 162(m) of the Code, the maximum number of Company Shares with respect to which options may be granted to any one participant in any twelve month period is 1,000,000 (as proportionately adjusted for all stock splits, stock dividends and other recapitalizations occurring after the Latest Restatement Date).

5.1 Option Agreement. No person shall have any rights under any option granted under this Plan unless and until the Company and the person to whom such options shall have been granted shall have executed and delivered an agreement expressly granting the option to such person and containing provisions setting forth the terms of the option.

5.2 Shareholder Rights. A participant shall not have any dividend, voting or other shareholder rights by reason of a grant of an option prior to the issuance of any Company Shares pursuant to the proper exercise of all or any portion of such option.

### 5.3 Transferability of Options.

- (a) Permitted Transfers. Other than by will or the laws of descent and distribution, each Option granted under this Plan shall be transferable only to a member of a participant's Family Group (the "Permitted Transferees") and only if not transferred for value. A Permitted Transferee may make subsequent transfers to any person who would also be a Permitted Transferee of the participant. If a participant or Permitted Transferee transfers an Option pursuant to this Section 5.3, he or she must give the Company prompt written notice of such transfer and the transfer shall only be effective upon the Company's receipt of such notice. An Option shall be exercisable during the participant's lifetime only by such participant, his or her guardian in the event of disability or, upon transfer, the Permitted Transferee. "Family Group" means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the participant's household (other than a tenant or employee), a trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the participant) control the management of the assets, and any other entity in which these persons (or the participant) own more than fifty percent of the voting interests. The following transactions are not prohibited transfers for value: (i) a transfer under a domestic relations order in settlement of marital property rights; and (ii) a transfer to an entity in which more than fifty percent of the voting interests are owned by family members (or the participant) in exchange for an interest in that entity.
- (b) Death. In the event of the death of a participant, exercise shall be made only:
  - (i) by the executor or administrator of the estate of the deceased participant or the person or persons to whom the deceased participant's rights under the benefit shall pass by will or the laws of descent and distribution; and
  - (ii) to the extent that the deceased participant was entitled thereto at the date of his death.

### 5.4 Adjustments. In the event that the Committee shall

determine that any dividend or other distribution (whether in the form of cash, Company Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, combination, split-up, spin-off, repurchase or exchange of Company Shares or other securities of the Company, issuance of warrants or other rights to purchase Company Shares or other securities of the Company, or other similar corporate transaction or event affects the Company Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (a) the number and type of Company Shares (or other securities or property) which thereafter may be made the subject of options, (b) the number and type of Company Shares (or other securities or property) subject to outstanding options, and (c) the grant, purchase, or exercise price with respect to any options, or, if deemed appropriate, make provision for a cash payments to the holder of an outstanding option.

5.5 Withholding of Taxes. The Company shall be entitled, if the Committee (or any financial officer designated by it) considers it necessary or desirable, to withhold (or secure payment from the participant in lieu of withholding) the amount of any withholding or other payment required of the Company under the tax withholding provisions of the Code, any state's income tax act or any other applicable law with respect to any Company Shares issuable under such participant's exercised options, and the Company may defer issuance unless indemnified to its satisfaction with respect to payment of such withholding or other tax. Subject to such rules as the Committee may adopt, participants may satisfy this obligation, in whole or in part, by an election to have the number of Company Shares received upon exercise of any option reduced by a number of Company Shares having a "fair market value" (as determined in accordance with Section 4.2 hereof) equal to the amount of the required withholding to be so satisfied or to surrender to the Company previously held Company Shares having an equivalent fair market value.

5.6 No Employment Rights Conferred. Nothing in the Plan or in any option granted under the Plan shall confer any right on an employee to continue in the employ of the Company or shall interfere in any way with the right of the Company at any time to terminate his employment with or without cause or to adjust his compensation.

5.7 Disposition of Company Shares.

- (a) Unless otherwise specifically authorized by the Committee, participants may not dispose of, sell or otherwise transfer any Company Shares acquired upon exercise of options granted under the Plan for a period of six months following the Grant Date.
- (b) As a condition of participation in the Plan, each participant agrees that he will give prompt notice to the Committee of any disposition of Company Shares acquired upon the exercise of an incentive stock option if such disposition occurs within either two years after the Grant Date of an incentive stock option or one year after the receipt of such Company Shares by the participant following his exercise of the incentive stock option.

5.8 Cancellation of Options. By express written agreement a participant and the Committee may agree that any previously granted option is thereby cancelled as of the date of the agreement and, at its discretion, the Committee may subsequently grant to such a participant who has voluntarily surrendered and cancelled a prior option one or more new or substitute similar or different options under the Plan.

5.9 Continued Availability of Company Shares Under Unexercised Options. If an option granted under the Plan terminates or expires without being wholly exercised or if Company Shares as to which an

option has been exercised shall for any reason not be issued, a new option may be granted under the Plan covering the number of Company Shares to which such termination, expiration, failure to issue or reacquisition related.

5.10 No Strict Construction. No rule of strict construction shall be applied against the Company, the Committee or any other person in the interpretation of any of the terms of the Plan, any option agreement or any option granted under the Plan or any rule or procedure established by the Committee.

5.11 Choice of Law. Each option granted under the Plan shall be considered to be a contract under the laws of the State of Wisconsin and, for all purposes, the Plan and each option granted under the Plan shall be construed in accordance with and governed by the laws of the State of Wisconsin.

5.12 Successors. This Plan is binding on and will inure to the benefit of any successor to the Company, whether by way of merger, consolidation, purchase or otherwise.

5.13 Severability. If any provision of the Plan or an option agreement shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Plan or such agreement, and the Plan and such agreement shall each be construed and enforced as if the invalid provisions had never been set forth herein.

5.14 Performance Compensation. All options granted under the Plan are intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code. In the event that any provision of the Plan would cause any option granted under the Plan to be treated as other than "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan shall be deemed automatically amended to the extent necessary to cause all options granted under the Plan to be treated as "performance-based compensation" within the meaning of Section 162(m) of the Code.

#### PART 6: AMENDMENT AND TERMINATION

6.1 Amendment. The Board of Directors may amend the Plan from time to time, in its sole discretion, but no amendment shall:

- (a) without a participant's consent impair his rights to any option theretofore granted; or
- (b) Without the authorization and approval of the Company's shareholders (i) increase the maximum number of Company Shares which may be issued in the aggregate under the Plan, except as provided in subsection 5.4 (ii) extend the termination date of the Plan or of any option granted under the Plan, (iii) enlarge the class of employees eligible to receive options under the Plan or (iv) create "material changes" to the Plan for purposes of Section 162(m) of the Internal Revenue Code.

6.2 Termination. The Board of Directors may terminate the Plan at any time with respect to Company Shares for which options have not theretofore been granted. Unless earlier terminated, the Plan will terminate at the close of business on December 31, 2004. Following the termination of the Plan, no further options may be granted under the Plan; however, all options which prior to the Plan termination have not expired, terminated or been exercised or surrendered may be exercised thereafter in accordance with their terms and the terms hereof, and the Committee shall continue to have its full powers under the Plan, except with respect to the granting of options under the Plan.

Exhibit 10.2

LANDS' END, INC.  
NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

I. Identification of the Plan

1.1 Title. The Plan described herein shall be known as the "Non-Employee Director Stock Option Plan" of Lands' End, Inc. (the "Company") and is referred to herein as the "Plan." The Plan is hereby established as of the date of the annual meeting of the Company's stockholders ("Annual Meeting") held on May 14, 1997 (the "Effective Date").

1.2 Purpose. The Board of Directors of the Company believes it is in the best interest of the Company to encourage stock ownership by members of the Board of Directors of the Company who are not also employed by the Company ("Non-Employee Directors") in order to further align the interests of the Non-Employee Directors with those of the shareholders. The Plan will provide additional means for the Company to attract and retain qualified individuals as members of the Board of Directors of the Company and to promote such alignment of interests by granting Non-Employee Directors from time to time nonqualified stock options ("Options") to purchase shares of common stock of the Company ("Company Shares"). By virtue of the benefits available under the Plan, Non-Employee Directors will have an opportunity to participate in any future appreciation in the value of Company Shares, which will furnish such Non-Employee Directors with an additional incentive to work for and contribute to the growth and success of the Company.

1.3 Adoption and Restatement of the Plan. The Lands' End, Inc. Non-Employee Director Stock Option Plan was adopted by the Company's Board of Directors on February 18, 1997 and approved by the Company's shareholders on May 14, 1997. The Lands' End, Inc. Non-Employee Director Stock Option Plan was amended and restated by the Company's Board of Directors on August 24, 1999.

1.4 Company Shares Reserved for the Plan. There is reserved for issuance upon the exercise of Options to be granted under the Plan an aggregate of 400,000 Company Shares, which may be authorized and unissued shares or treasury shares and which number is subject to adjustment for events occurring after the Effective Date as provided in Section 5.4.

II Administration of the Plan.

2.1 Committee's Membership and Powers. The Plan will be administered by a committee of the Board of Directors of the Company (the "Committee") consisting of two or more members of the Board of Directors of the Company ("Directors") as the Board of Directors of the Company (the "Board") may designate from time to time. All questions of interpretation of the Plan or of any Option shall be determined by the

Committee, and such determination shall be final and binding upon all persons having an interest in the Plan or such Option. Notwithstanding any other provision herein to the contrary, the Committee shall have no authority, discretion, or power to select the Non-Employee Directors who will receive Options, to set the exercise price of the Options, to determine the number of Company Shares to be subject to an Option or the time at which an Option shall be granted, to establish the duration of an Option, or to alter any other terms or conditions specified in the

Plan, except in the sense of administering the Plan subject to the provisions of the Plan. The initial members of the Committee are Michael J. Smith and William E. Ferry.

2.2 Indemnification. Service on the Committee shall constitute service as a Director so that members of the Committee shall be entitled to indemnification and reimbursement as Directors to the full extent provided for at any time by law, the Company's Certificate of Incorporation, the Company's By-Laws and in any insurance policy or other agreement intended for the benefit of the Directors.

III. Plan Participants. An Option shall be granted only to a person who, at the time of the grant, is a Non-Employee Director. A Non-Employee Director who receives a grant of an Option is referred to herein as a "participant."

IV. Terms and Conditions of Options. Options shall be nonstatutory stock options; that is, options which are not treated as incentive stock options within the meaning of Section 422(b) of the Internal Revenue Code of 1986, as amended (the "Code"). Options shall be evidenced by option agreements specifying the number of Company Shares covered thereby, in such form as the Board shall from time to time establish (the "Option Agreements"). Option Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions.

4.1 Automatic Grant of Options. Subject to execution by a Non-Employee Director of the appropriate Option Agreement, Options shall be granted automatically and without further action of the Board, as follows:

(a) Initial Option. Each person who is a Non-Employee Director immediately after the Annual Meeting on the Effective Date shall be granted, on the Effective Date, an Option to purchase twenty thousand (20,000) Company Shares (an "Initial Option"). Any Non-Employee Director who receives the Initial Option will be eligible to receive the Annual Option commencing with the Annual Meeting in 2000. The Initial Option shall vest and become exercisable as follows:

(i) Time Vesting. Subject to the terms and conditions of the Initial Option and subject to Section 4.1(a)(ii) below, the Initial Option shall vest and become exercisable as to (A) 50% of the Company Shares covered thereby on the Effective Date; (B) another 25% of the Company Shares covered thereby immediately after the Annual Meeting in 1998, provided that such person is a Director on such date; and (C) another 25% of the Company Shares covered thereby immediately after the Annual Meeting in 1999, provided that such person is a Director on such date.

(ii) Acceleration for Death or Disability. If the participant ceases to be a Non-Employee Director as a result of his or her death or "disability", the Initial Option shall immediately vest and become exercisable as to all of the Company Shares covered thereby as of the date of such termination. For this purpose a participant shall be considered "disabled" if the Committee determines in good faith that he or she is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(b) Annual Option. Commencing immediately after the Annual

Meeting in 1998, each Non-Employee Director shall be granted, immediately after such Annual Meeting and each Annual Meeting thereafter where such person remains a Non-Employee Director, an Option to purchase five thousand (5,000) Company Shares (an "Annual Option"); provided, however, that any Non-Employee Director who receives the Initial Option will be eligible to receive the Annual Option commencing with the Annual Meeting in 2000. Each Annual Option shall vest and become exercisable immediately upon the grant of such Annual Option.

- (c) Interim Option. If a new Non-Employee Director is elected after the effective Date and not on the date of an Annual Meeting (whether to fill a vacancy or newly-created director position), he or she shall be granted, on the date he or she is elected, an Option (an "Interim Option") to purchase a number of Company Shares equal to five thousand (5,000) times a fraction, the numerator of which is the number of complete months from the date the Non-Employee Director is elected until the then anticipated date of the next Annual Meeting and the denominator of which is twelve (12). Each Interim Option shall vest and become exercisable immediately upon the grant of such Interim Option.
- (d) Right to Decline Option. Notwithstanding the foregoing, any person may elect not to receive an Option by so notifying the Company, orally or in writing, no later than the day prior to the date such Option would otherwise be granted. A person so declining an Option shall receive no payment or other consideration in lieu of such declined Option. A person who has declined an Option may revoke such election by delivering written notice of such revocation to the Board no later than the day prior to the date such Option would be granted.

4.2 Terms of Options. Each Option shall expire and not be exercisable after the first to occur of (i) December 31 of the year in which the tenth anniversary of the Grant Date of such Option occurs and (ii) three years after the Non-Employee Director ceases to be a Director of the Company for any reason.

4.3 Option Price. The Option price per Company Share shall be 100 percent of the fair market value of a Company Share on the date the Option is granted (the "Grant Date"). For this purpose "fair market value" of a Company Share as of any date shall be equal to the last per share sales price reported for a Company Share for such date in The Wall Street Journal or, if no sales of Company Shares are reported for such date in The Wall Street Journal, for the next succeeding date for which sales of Company Shares are so reported in The Wall Street Journal. If sales of Company Shares are not reported for any date in The Wall Street Journal, then the "fair market value" of a Company Share as of any date shall be determined in such manner as shall be prescribed in good faith by the Committee.

4.4 Method of Exercising Options. An Option may be exercised only by a written notice to the Company accompanied by payment of the full Option price which may be made in any one or any combination of the following: cash, certified or official bank check, or delivery of Company Share certificates endorsed in blank or accompanied by executed stock powers evidencing Company Shares whose value shall be deemed to be the "fair market value" (as determined in accordance with Section 4.3 hereof) on the date of exercise of such Company Shares.

## V. General Provisions

5.1 Option Agreement. No person shall have any rights under any Option granted under this Plan unless and until the Company and the person to whom such Options shall have been granted shall have executed and delivered an agreement expressly conferring the grant of the Option to such person and containing provisions setting forth the terms of the Option.

5.2 Shareholder Rights. A participant shall not have any

dividend, voting or other shareholder rights by reason of a grant of an Option prior to the issuance of any Company Shares pursuant to the proper exercise of all or any portion of such Option.

### 5.3 Transferability of Options.

- (a) Permitted Transfers. Other than by will or the laws of descent and distribution, each Option granted under this Plan shall be transferable only to a member of a participant's Family Group (the "Permitted Transferees") and only if not transferred for value. A Permitted Transferee may make subsequent transfers to any person who would also be a Permitted Transferee of the participant. If a participant or Permitted Transferee transfers an Option pursuant to this Section 5.3, he or she must give the Company prompt written notice of such transfer and the transfer shall only be effective upon the Company's receipt of such notice. An Option shall be exercisable during the participant's lifetime only by such participant, his or her guardian in the event of disability or, upon transfer, the Permitted Transferee. "Family Group" means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the participant's household (other than a tenant or employee), a trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the participant) control the management of the assets and any other entity in which these persons (or the participant) own more than fifty percent of the voting interests. The following transactions are not prohibited transfers for value: (i) a transfer under a domestic relations order in settlement of marital property rights; and (ii) a transfer to an entity in which more than fifty percent of the voting interests are owned by family members (or the participant) in exchange for an interest in that entity.
- (b) Death. In the event of the death of a participant, exercise of any Option that has not been previously transferred shall be made only by the executor or administrator of the estate of the deceased participant or the person or persons to whom the deceased participant's rights under the benefit shall pass by will or the laws of descent and distribution and only to the extent that the deceased participant was entitled thereto at the date of his or her death.

5.4 Adjustments. In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Company Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, combination, split-up, spin-off, repurchase or exchange of Company Shares or other securities of the Company, issuance of warrants or other rights to purchase Company Shares or other securities of the Company, or other similar corporate transaction or event affects the Company Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (a) the number and type of Company Shares (or other securities or Property) which thereafter may be made the subject of Options, (b) the number and type of Company Shares (or other

securities or Property) subject to outstanding Options, and (c) the grant, purchase, or exercise price with respect to any Options, or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Option.

5.5 Withholding of Taxes. The Company shall be entitled, if the Committee (or any financial officer designated by it) considers it necessary or desirable, to withhold (or secure payment from the participant in lieu of withholding) the amount of any withholding or other payment required of the Company under the tax withholding provisions of the Code, any state's income tax act or any other applicable law with respect to any Company Shares issuable under such participant's exercised Options, and the Company may defer issuance unless indemnified to its satisfaction with respect to payment of such withholding or other tax. Subject to such rules as the Committee may adopt, participants may satisfy this obligation, in whole or in part, by an election to have the number of Company Shares received upon exercise of any Option reduced by a number of Company Shares having a "fair market value" (as determined in accordance with Section 4.3 hereof) equal to the amount of the required withholding to be so satisfied or to surrender to the Company previously held Company Shares having an equivalent fair market value.

5.6 No Directorship Rights Conferred. Nothing in the Plan or in any Option granted under the Plan shall confer any right on a Non-Employee Director to continue as a Director or shall interfere in any way with any right or power to remove him or her from the Board in accordance with applicable law and the Company's Articles of Incorporation and Bylaws.

5.7 Disposition of Company Shares. Unless otherwise specifically authorized by the Committee, participants may not dispose of, sell or otherwise transfer any Company Shares acquired upon exercise of Options granted under the Plan for a period of six months following the Grant Date.

5.8 Continued Availability of Company Shares Under Unexercised Options. If an Option granted under the Plan terminates or expires without being wholly exercised or if Company Shares as to which an Option has been exercised shall for any reason not be issued, a new Option may be granted under the Plan covering the number of Company Shares to which such termination, expiration, failure to issue or reacquisition related.

5.9 Intent to Comply with Rule 16b-3. It is the intent of the Company that the Plan comply in all respects with Rule 16b-3 under the Securities Exchange Act of 1934, as amended, that any ambiguities or inconsistencies in construction of the Plan be interpreted to give effect to such intention and that if any provision of the Plan is found not to be in compliance with Rule 16b-3, such provision shall be deemed null and void to the extent required to permit the Plan to comply with Rule 16b-3.

5.10 No Strict Construction. No rule of strict construction shall be applied against the Company, the Committee or any other person in the interpretation of any of the terms of the Plan, any Option agreement or any Option granted under the Plan or any rule or procedure established by the Committee.

5.11 Choice of Law. Each Option granted under the Plan shall be considered to be a contract under the laws of the State of Delaware and, for all purposes, the Plan and each Option granted under the Plan shall be construed in accordance with and governed by the laws of the State of Delaware.

5.12 Successors. This Plan is binding on and will inure to the benefit of any successor to the Company, whether by way of merger, consolidation, purchase or otherwise.

5.13 Severability. If any provision of the Plan or an Option Agreement shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Plan or such agreement, and the Plan and such agreement shall each

be construed and enforced as if the invalid provisions had never been set forth therein.

VI. Amendment and Termination.

6.1 Amendment. The Board of Directors may amend the Plan from time to time, in its sole discretion, but no amendment shall:

- (a) without a participant's consent impair his or her rights to any Option theretofore granted; or
  
- (b) without the authorization and approval of the Company's shareholders (i) increase the maximum number of Company Shares which may be issued in the aggregate under the Plan, except as provided in Section 5.4 (ii) extend the termination date of the Plan or of any Option granted under the Plan or (iii) enlarge the class of persons eligible to receive Options under the Plan.

6.2 Termination. The Board of Directors may terminate the Plan at any time with respect to Company Shares for which Options have not theretofore been granted. Unless earlier terminated, the Plan will terminate at the close of business on the day following the Annual Meeting in 2006. Following the termination of the Plan, no further Options may be granted under the Plan; however, all Options which prior to the Plan termination have not expired, terminated or been exercised or surrendered may be exercised thereafter in accordance with their terms and the terms hereof, and the Committee shall continue to have its full powers under the Plan.

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENTS OF OPERATIONS AND THE CONSOLIDATED BALANCE SHEETS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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