

LANDS' END, INC.
Form 10-Q
September 06, 2018

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

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended August 3, 2018

-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: 001-09769

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 of Organization) Identification No.)

1 Lands' End Lane 53595
Dodgeville, Wisconsin
(Address of Principal Executive Offices) (Zip Code)
(608) 935-9341
(Registrant's Telephone Number 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 by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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.

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

As of September 4, 2018 the registrant had 32,212,290 shares of common stock, \$0.01 par value, outstanding.

LANDS' END, INC.
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FOR THE PERIOD ENDED AUGUST 3, 2018
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LANDS' END, INC.

Condensed Consolidated Statements of Operations

(Unaudited)

	13 Weeks Ended		26 Weeks Ended	
(in thousands, except per share data)	August 3, 2018	July 28, 2017	August 3, 2018	July 28, 2017
Net revenue	\$307,945	\$302,190	\$607,770	\$570,555
Cost of sales (excluding depreciation and amortization)	171,179	168,025	337,979	313,748
Gross profit	136,766	134,165	269,791	256,807
Selling and administrative	129,041	127,336	253,041	248,682
Depreciation and amortization	6,897	6,175	13,058	12,683
Other operating (income) expense, net	(47)	480	290	1,988
Operating income (loss)	875	174	3,402	(6,546)
Interest expense	7,001	6,167	13,913	12,292
Other (income) expense, net	(412)	(494)	3,452	(1,236)
Loss before income taxes	(5,714)	(5,499)	(13,963)	(17,602)
Income tax benefit	(429)	(1,619)	(6,048)	(5,883)
NET LOSS	\$(5,285)	\$(3,880)	\$(7,915)	\$(11,719)
NET LOSS PER COMMON SHARE				
Basic:	\$(0.16)	\$(0.12)	\$(0.25)	\$(0.37)
Diluted:	\$(0.16)	\$(0.12)	\$(0.25)	\$(0.37)
Basic weighted average common shares outstanding	32,212	32,079	32,168	32,054
Diluted weighted average common shares outstanding	32,212	32,079	32,168	32,054

See accompanying Notes to Condensed Consolidated Financial Statements.

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LANDS' END, INC.

Condensed Consolidated Statements of Comprehensive Operations
(Unaudited)

	13 Weeks Ended		26 Weeks Ended	
(in thousands)	August 3, 2018	July 28, 2017	August 3, 2018	July 28, 2017
NET LOSS	\$(5,285)	\$(3,880)	\$(7,915)	\$(11,719)
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments	(1,540)	622	(3,176)	1,139
COMPREHENSIVE LOSS	\$(6,825)	\$(3,258)	\$(11,091)	\$(10,580)

See accompanying Notes to Condensed Consolidated Financial Statements.

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LANDS' END, INC.

Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except share data)	August 3, 2018	July 28, 2017	February 2, 2018
ASSETS			
Current assets			
Cash and cash equivalents	\$ 194,391	\$ 176,955	\$ 195,581
Restricted cash	1,953	3,300	2,356
Accounts receivable, net	25,925	24,632	49,860
Inventories, net	349,597	370,470	332,297
Prepaid expenses and other current assets	40,967	36,216	26,659
Total current assets	612,833	611,573	606,753
Property and equipment, net	142,261	126,825	136,501
Goodwill	110,000	110,000	110,000
Intangible asset, net	257,000	257,000	257,000
Other assets	8,349	17,007	13,881
TOTAL ASSETS	\$ 1,130,443	\$ 1,122,405	\$ 1,124,135
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 186,207	\$ 181,685	\$ 155,874
Other current liabilities	91,747	85,415	100,257
Total current liabilities	277,954	267,100	256,131
Long-term debt, net	484,350	488,146	486,248
Long-term deferred tax liabilities	58,420	91,015	59,137
Other liabilities	10,494	14,144	15,526
TOTAL LIABILITIES	831,218	860,405	817,042
Commitments and contingencies			
STOCKHOLDERS' EQUITY			
Common stock, par value \$0.01 authorized: 480,000,000 shares; issued and outstanding: 32,212,290, 32,087,532 and 32,101,793, respectively	320	320	320
Additional paid-in capital	349,338	345,139	347,175
Accumulated deficit	(36,665)	(72,172)	(29,810)
Accumulated other comprehensive loss	(13,768)	(11,287)	(10,592)
Total stockholders' equity	299,225	262,000	307,093
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,130,443	\$ 1,122,405	\$ 1,124,135

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(in thousands)	26 Weeks Ended	
	August 3, 2018	July 28, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(7,915)	\$(11,719)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	13,058	12,683
Amortization of debt issuance costs	965	856
Loss on property and equipment	284	62
Stock-based compensation	2,696	1,800
Deferred income taxes	128	(88)
Change in operating assets and liabilities:		
Inventories	(20,223)	(43,493)
Accounts payable	33,678	22,434
Other operating assets	18,545	5,603
Other operating liabilities	(16,384)	(1,333)
Net cash provided by (used in) operating activities	24,832	(13,195)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(22,203)	(20,223)
Net cash used in investing activities	(22,203)	(20,223)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on term loan facility	(2,575)	(2,575)
Payments of employee withholding taxes on share-based compensation	(533)	(629)
Net cash used in financing activities	(3,108)	(3,204)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	(1,114)	469
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(1,593)	(36,153)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD	197,937	216,408
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	\$ 196,344	\$ 180,255
SUPPLEMENTAL CASH FLOW DATA		
Unpaid liability to acquire property and equipment	\$4,990	\$4,438
Income taxes paid, net of refunds	\$1,349	\$3,802
Interest paid	\$12,938	\$11,257

See accompanying Notes to Condensed Consolidated Financial Statements.

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LANDS' END, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BACKGROUND AND BASIS OF PRESENTATION

Description of Business and Separation

Lands' End, Inc. ("Lands' End" or the "Company") is a leading multi-channel retailer of casual clothing, accessories, footwear and home products. We offer products through catalogs, online at www.landsend.com and affiliated specialty and international websites, 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 women, men, kids and the home.

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

- ABL Facilities - Collectively, the Prior ABL Facility and the Current ABL Facility
- Adjusted EBITDA - Net loss net of Income tax benefit, Other income, net, Interest expense, Depreciation and amortization and certain significant items
- ASC - FASB Accounting Standards Codification
- ASU - FASB Accounting Standards Update
- CAM - Common area maintenance for leased properties
- Company Operated stores - Lands' End retail stores
- Current ABL Facility - Asset-based senior secured credit agreements, dated as of November 16, 2017, with Wells Fargo Bank, N.A. and certain other lenders
- Debt Facilities - Collectively, the Current ABL Facility and the Term Loan Facility
- Deferred Awards - Time vesting stock awards
- EPS - Earnings (loss) per share
- ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert
- FASB - Financial Accounting Standards Board
- First Quarter 2018 - The thirteen weeks ended May 4, 2018
- Fiscal 2018 - The fifty-two weeks ending February 1, 2019
- Fiscal 2020 - The fifty-two weeks ending January 29, 2021
- Fourth Quarter 2017 - The fourteen weeks ended February 2, 2018
- 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
- Prior ABL Facility - Asset-based senior secured credit agreements, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders, terminated November 16, 2017

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- Sears Holdings or Sears Holdings Corporation - Sears Holdings Corporation, a Delaware corporation, and its consolidated subsidiaries (other than, for all periods following the Separation, Lands' End)
- SEC - United States Securities and Exchange Commission
- Second Quarter 2018 - The thirteen weeks ended August 3, 2018.
- Second Quarter 2017 - The thirteen weeks ended July 28, 2017
- Separation - On April 4, 2014 Sears Holdings distributed 100% of the outstanding common stock of Lands' End to its shareholders
- SHMC - Sears Holdings Management Corporation, a subsidiary of Sears Holdings Corporation
- SYW - Shop Your Way member loyalty program
- Target Shares - Shares to be delivered to participants based on achievement of target performance metrics
- Tax Act - The Tax Cuts and Jobs Act passed by the United States government on December 22, 2017
- Tax Sharing Agreement - A tax sharing agreement entered into by Sears Holdings Corporation and Lands' End in connection with the Separation
- Term Loan Facility - Term loan credit agreements, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- UTBs - Gross unrecognized tax benefits
- Year-to-Date 2018 - The twenty-six weeks ended August 3, 2018
- Year-to-Date 2017 - The twenty-six weeks ended July 28, 2017

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 29, 2018.

Reclassifications

In the First Quarter 2018, the Company adopted ASU 2016-18, Restricted Cash, which changed the required presentation of Restricted cash on the Condensed Consolidated Statements of Cash Flows to include those amounts generally described as Restricted cash or restricted cash equivalents with Cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown. As a result of the adoption, the Company reclassified the amount of beginning-of-period cash, cash equivalents, and restricted cash presented in the Condensed Consolidated Statement of Cash Flows to include Restricted cash.

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NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. In First Quarter 2018, the Company adopted the guidance using the modified retrospective method resulting in only those contracts that were open as of the date of adoption requiring assessment. The comparative information presented in the Condensed Consolidated Financial Statements was not restated and is reported under the accounting standards in effect for the periods presented. The adoption of this guidance did not have, and is not expected to have, a significant impact on our reported revenue, gross margin or income from operations.

Revenues include sales of merchandise and delivery revenues related to merchandise sold. Substantially all of the Company's revenue is recognized when control of product passes to customers, which for the Direct segment is when the merchandise is expected to be received by the customer and for the Retail segment, is at the time of sale in the store. Revenues are adjusted for estimated returns and volume rebates with a corresponding liability recorded. Effective in the First Quarter 2018, the Company changed its balance sheet presentation for estimated product returns by reporting a product return asset for the right to receive returned products and a returns liability for amounts expected to be refunded to customers as a result of product returns. The product return asset is reported within Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheet. Prior to adoption, product return assets were netted against deferred revenue and reported within Other current liabilities. The impact of the adoption was recorded as a non-cash transaction in other operating assets and other operating liabilities in the condensed consolidated statement of cash flows. The returns liability and payments received from customers for future delivery of products are reported within Other current liabilities in the Condensed Consolidated Balance Sheet. The adoption of this guidance did not have an impact on the recording of these liabilities.

The Company recorded a decrease to opening Accumulated deficit and Other current liabilities in the Condensed Consolidated Balance Sheet of \$1.1 million due to the cumulative impact related to the accounting for gift card breakage.

The impact of adoption on the Condensed Consolidated Balance Sheet as of February 3, 2018 was:

(in thousands)	February 2, 2018(As reported)	Impact of Adoption	February 3, 2018
Assets:			
Prepaid expenses and other current assets	\$26,659	\$ 10,425	\$37,084
Liabilities:			
Other current liabilities	100,257	9,365	109,622
Stockholders' Equity:			
Accumulated deficit	(29,810)	1,060	(28,750)

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The impact of the new revenue recognition guidance on our Condensed Consolidated Balance Sheet as of August 3, 2018 was:

(in thousands)	August 3, 2018		
	Balances Without Adoption	Impact of Adoption	As Reported
Assets:			
Prepaid expenses and other current assets	\$31,757	\$ 9,210	\$40,967
Liabilities:			
Other current liabilities	83,657	8,090	91,747
Stockholders' Equity:			
Accumulated deficit	(37,785)	1,120	(36,665)

See Note 12, Revenue for additional disclosures.

Recognition of Breakage for Certain Prepaid Stored-Value Products

In March 2016, the FASB issued ASU 2016-04, Recognition of Breakage for Certain Prepaid Stored-Value Products. This update clarifies when it is acceptable to recognize the unredeemed portion of prepaid gift cards into income. The Company has evaluated the impacts of this ASU and has identified a change in the timing of recognition of revenue from gift cards. The Company will recognize breakage income over the breakage period for the estimated portion of unredeemed gift cards that is unlikely to be redeemed where the Company does not have an obligation to remit the value of the unredeemed gift card to the relevant jurisdiction as unclaimed or abandoned property. This guidance was adopted by the Company during First Quarter 2018 and resulted in a cumulative impact to be recognized as a reduction in Accumulated deficit and Other current liabilities of \$1.1 million for estimated gift card breakage occurring prior to Fiscal 2018, under the modified retrospective approach described under the preceding Revenue from Contracts with Customers section.

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, Restricted Cash. This ASU requires the inclusion of Restricted cash with Cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Condensed Consolidated Statement of Cash Flows. This guidance was adopted by the Company during First Quarter 2018. As a result of the adoption, the Company changed the presentation in its Condensed Consolidated Statements of Cash Flows for all periods presented.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases, which will replace the existing guidance in ASC 840, Leases. This ASU requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. This guidance will be effective for the Company in the first quarter of its fiscal year ending January 31, 2020. While it is expected that the standard will result in a material increase in the assets and liabilities recorded on the Company's Consolidated Balance Sheet, the Company is still evaluating the overall impact on the Company's Condensed Consolidated Financial Statements.

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NOTE 3. LOSS PER SHARE

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

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

(in thousands, except per share amounts)	13 Weeks Ended		26 Weeks Ended	
	August 3, 2018	July 28, 2017	August 3, 2018	July 28, 2017
Net loss	\$(5,285)	\$(3,880)	\$(7,915)	\$(11,719)
Basic weighted average common shares outstanding	32,212	32,079	32,168	32,054
Dilutive effect of stock awards	—	—	—	—
Diluted weighted average common shares outstanding	32,212	32,079	32,168	32,054
Basic loss per share	\$(0.16)	\$(0.12)	\$(0.25)	\$(0.37)
Diluted loss per share	\$(0.16)	\$(0.12)	\$(0.25)	\$(0.37)

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 440,906, 41,080, 454,433, and 69,239 anti-dilutive shares excluded from the diluted weighted average shares outstanding for Second Quarter 2018, Second Quarter 2017, Year-to-Date 2018, and Year-to-Date 2017, respectively.

NOTE 4. OTHER COMPREHENSIVE (LOSS) INCOME

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

(in thousands)	13 Weeks Ended		26 Weeks Ended	
	August 3, 2018	July 28, 2017	August 3, 2018	July 28, 2017
Beginning balance: Accumulated other comprehensive loss (net of tax of \$3,250, \$6,189, \$2,816 and \$6,691, respectively)	\$(12,228)	\$(11,909)	\$(10,592)	\$(12,426)
Other comprehensive (loss) income:				
Foreign currency translation adjustments (net of tax of \$410, \$(135), \$844, and \$(637), respectively)	(1,540)	622	(3,176)	1,139
Ending balance: Accumulated other comprehensive loss (net of tax of \$3,660, \$6,054, \$3,660, and \$6,054, respectively)	\$(13,768)	\$(11,287)	\$(13,768)	\$(11,287)

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

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NOTE 5. DEBT

The Company's debt consisted of the following:

(in thousands)	August 3, 2018		July 28, 2017		February 2, 2018	
	Amount	Rate	Amount	Rate	Amount	Rate
Term Loan Facility, maturing April 4, 2021	\$493,113	5.34%	\$498,263	4.48%	\$495,688	4.82%
Current ABL Facility, maturing November 16, 2022 ⁽¹⁾	—	— %	—	— %	—	— %
	493,113		498,263		495,688	
Less: Current maturities in Other current liabilities	5,150		5,150		5,150	
Less: Unamortized debt issuance costs	3,613		4,967		4,290	
Long-term debt, net	\$484,350		\$488,146		\$486,248	

⁽¹⁾ July 28, 2017 amounts pertain to Prior ABL Facility.

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

(in thousands)	August 3,	July 28,	February 2,
	2018	2017	2018
Current ABL Facility maximum borrowing ⁽¹⁾	\$175,000	\$175,000	\$175,000
Outstanding Letters of Credit ⁽¹⁾	14,862	10,362	22,328
Borrowing availability under ABL ⁽¹⁾	\$160,138	\$164,638	\$152,672

⁽¹⁾ July 28, 2017 amounts pertain to Prior ABL Facility.

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 Facilities is subject to adjustment based on the average excess availability under the ABL Facilities for the preceding fiscal quarter. LIBOR borrowings will range from 1.25% to 1.75% and 1.50% to 2.00% for the Current ABL Facility and Prior ABL Facility, respectively. Base rate borrowings will range from 0.50% to 1.00% for the ABL Facilities.

Customary agency fees are payable pursuant to the terms of the Debt Facilities. The ABL Facilities fees also include (i) commitment fees in an amount equal to 0.25% and 0.25% to 0.375% of the daily unused portions of the Current ABL Facility and Prior ABL Facility, respectively, 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 Current ABL Facility falls below the greater of 10% of the loan cap amount or \$15.0 million, Lands' End will be required to comply with a minimum fixed charge coverage ratio of 1.0 to 1.0. The Debt Facilities do not otherwise contain financial maintenance covenants. The Company was in compliance with all financial covenants related to the Debt Facilities as of August 3, 2018.

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.

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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 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:

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 awards to be earned. Deferred Awards generally vest over three years.

i. 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.

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.

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.

Performance Awards granted prior to Fiscal 2018 had annual vesting, but due to the performance criteria, were not eligible for straight-line expensing. All Performance Awards granted prior to Fiscal 2018 were forfeited during the period. For Performance Awards granted in Fiscal 2018, the Target Shares earned can range from 0% to 200% and depend on the achievement of Adjusted EBITDA and revenue performance measures for the cumulative three-fiscal year performance period from Fiscal 2018 to Fiscal 2020. 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 is 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.

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:

	13 Weeks		26 Weeks	
	Ended		Ended	
(in thousands)	August 2018	July 28, 2017	August 2018	July 28, 2017
Deferred Awards	\$1,231	\$1,015	\$1,940	\$1,436
Option Awards	187	185	374	276
Performance Awards	312	21	382	88
Total stock-based compensation expense	\$1,730	\$1,221	\$2,696	\$1,800

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The following table provides a summary of the activities for stock awards for Year-to-Date 2018:

(in thousands, except per share amounts)	Deferred Awards		Option Awards		Performance Awards	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares ⁽¹⁾	Weighted Average Grant Date Fair Value
		per Share		per Share		per Share
Unvested as of February 2, 2018	497	\$ 22.07	343	\$ 8.73	15	\$ 21.94
Granted	289	22.00	—	—	195	21.90
Vested	(137)	21.85	(86)	8.73	—	—
Forfeited or expired	(16)	22.13	—	—	(18)	21.93
Unvested as of August 3, 2018	633	21.86	257	8.73	192	21.90

⁽¹⁾ For those awards with respect to which the performance period is not yet complete, the number of unvested shares in the table above is based on the participants earning their Target Shares at 100%; however, the cumulative expense recognized reflects changes in estimated achievement of the performance measures as they occur.

Total unrecognized stock-based compensation expense related to unvested Deferred Awards was approximately \$10.0 million as of August 3, 2018, which is expected to be recognized ratably over a weighted average period of 2.2 years. Deferred Awards granted to various employees during Fiscal 2018 generally vest ratably over a period of three years. Total unrecognized stock-based compensation expense related to unvested Option Awards was approximately \$2.0 million as of August 3, 2018, which is expected to be recognized ratably over a weighted average period of 2.6 years. The Option Awards have a life of ten years and vest ratably over a period of four years. The fair value of each Option Award was estimated on the grant date using the Black-Scholes option pricing model. As of August 3, 2018, 85,784 shares related to Option Awards were exercisable. No options have been exercised as of August 3, 2018.

Total unrecognized stock-based compensation expense related to unvested Performance Awards was approximately \$3.3 million as of August 3, 2018, which is expected to be recognized ratably over a weighted average period of 2.6 years. Performance Awards granted to various employees during Fiscal 2018 vest, if earned, after completion of the applicable three year performance period.

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 \$2.0 million, \$3.3 million and \$2.4 million as of August 3, 2018, July 28, 2017 and February 2, 2018, respectively based on Level 1 inputs. Restricted cash amounts are valued based upon statements received from financial institutions.

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

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

(in thousands)	August 3, 2018		July 28, 2017		February 2, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including short-term portion	\$493,113	\$476,470	\$498,263	\$418,541	\$495,688	\$443,641

Long-term debt, including short-term portion was valued utilizing Level 2 valuation techniques based on the closing inactive market bid price on August 3, 2018, July 28, 2017, and February 2, 2018. There were no nonfinancial assets or nonfinancial liabilities recognized at fair value on a nonrecurring basis as of August 3, 2018, July 28, 2017, and February 2, 2018.

NOTE 8. INCOME TAXES

The Company recorded a tax benefit for the Second Quarter 2018 and Year-to-Date 2018, with effective tax rates of 7.5% and 43.3%, respectively. This compares to effective tax rates of 29.4% and 33.4% for the Second Quarter 2017 and Year-to-Date 2017. The lower effective tax rate was primarily due to the Tax Act. The Year-to-Date 2018 rate also reflects the reversal of UTBs reported in the First Quarter 2018 driven by favorable state tax audit settlements for periods prior to separation from Sears Holdings Corporation, partially offset by impacts of the Tax Act.

The Tax Act was enacted on December 22, 2017. In connection with the Tax Act, the Company re-measured its deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future under the Tax Act. Pursuant to Staff Accounting Bulletin No. 118, a provisional amount for the change in law was recorded in Fourth Quarter 2017. As these estimates are refined and potential planning opportunities present themselves, the Company will revise its estimate. The Company will continue its assessment of the impact of the Tax Act on the business and Consolidated Financial Statements throughout the one-year measurement period as provided by SAB 118.

As of August 3, 2018, the Company had UTBs of \$1.9 million. Of this amount, \$1.5 million would, if recognized, impact its effective tax rate, with the remaining amount being comprised of UTBs related to gross temporary differences or other indirect benefits. Pursuant to the Tax Sharing Agreement, Sears Holdings Corporation is generally responsible for all United States federal, state and local UTBs, through the date of the Separation and, as such, an indemnification asset from Sears Holdings Corporation for the pre-Separation UTBs is recorded in Other assets in the Condensed Consolidated Balance Sheets. The indemnification asset was \$2.6 million, \$11.8 million and \$7.4 million as of August 3, 2018, July 28, 2017, and February 2, 2018, respectively.

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 taken as a whole.

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. 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. Descriptions of these transactions are included in the Company's Fiscal 2017 Form 10-K filed with the SEC on March 29, 2018 and proxy statement filed with the SEC on April 6, 2018.

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

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Lands' End Shops at Sears

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

(in thousands, except for number of stores)	13 Weeks Ended		26 Weeks Ended	
	August 2018	July 2017	August 2018	July 2017
Rent, CAM and occupancy costs	\$4,027	\$5,597	\$8,521	\$11,506
Retail services, store labor	3,723	5,594	7,853	11,142
Financial services and payment processing	452	676	841	1,148
Supply chain costs	106	200	236	391
Total expenses	\$8,308	\$12,067	\$17,451	\$24,187
Number of Lands' End Shops at Sears at period end	147	204	147	204

General Corporate Services

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

(in thousands)	13 Weeks Ended		26 Weeks Ended	
	August 2018	July 2017	August 2018	July 2017
Sourcing	\$1,497	\$2,682	\$3,314	\$5,080
Shop Your Way	215	321	382	697
Shared services	48	48	95	95
Total expenses	\$1,760	\$3,051	\$3,791	\$5,872

The Company's contract under which it receives sourcing services from an affiliate of Sears Holdings runs through June 30, 2020. The Company continues to participate in the Shop Your Way program.

Use of Intellectual Property or Services

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

(in thousands)	13 Weeks Ended		26 Weeks Ended	
	August 2018	July 2017	August 2018	July 2017
Call center services	\$—	\$—	\$—	\$1,160
Lands' End business outfitters revenue	293	271	618	542
Credit card revenue	169	221	322	433
Royalty income	86	86	113	114
Gift card (expense)	(4)	(7)	(8)	(13)
Total income	\$544	\$571	\$1,045	\$2,236

Call Center Services

The Company had entered into a contract with SHMC to provide call center services in support of Sears Holdings' SYW. This income was net of agreed upon costs directly attributable to the Company providing these services. The income was included in Net revenue and costs are included in Selling and administrative expenses in the Condensed Consolidated Statements of Operations. The contract for call center services expired on April 30, 2017.

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Additional Balance Sheet Information

At August 3, 2018, July 28, 2017 and February 2, 2018, the Company included \$1.9 million, \$3.0 million and \$2.0 million in Accounts receivable, net, respectively, and \$2.0 million, \$3.6 million and \$2.9 million in Accounts payable, respectively, in the Condensed Consolidated Balance Sheets to reflect amounts due from and owed to Sears Holdings. At August 3, 2018, July 28, 2017 and February 2, 2018, respectively, a \$2.6 million, \$11.8 million and \$7.4 million receivable was recorded by the Company in Other assets in the Condensed Consolidated Balance Sheets to reflect the indemnification by Sears Holdings Corporation of the pre-Separation UTBs (including penalties and interest) for which Sears Holdings Corporation is responsible under the Tax Sharing Agreement.

NOTE 11. SEGMENT REPORTING

The Company is a leading multi-channel retailer of casual clothing, accessories, footwear, and home products, and has two reportable segments: Direct and Retail. Product revenue is divided by product categories: Apparel and Non-apparel. The Non-apparel revenue includes accessories, footwear, and home goods. Services and other revenue includes embroidery, monogramming, gift wrapping, shipping and other services. Net revenue is aggregated by product category in the following table:

(in thousands)	13 Weeks Ended		26 Weeks Ended	
	August 3, 2018	July 28, 2017	August 3, 2018	July 28, 2017
Net revenue:				
Apparel	\$256,457	\$250,318	\$515,740	\$481,255
Non-apparel	30,584	29,665	56,476	53,736
Service and other	20,904	22,207	35,554	35,564
Total net revenue	\$307,945	\$302,190	\$607,770	\$570,555

The Company identifies reportable segments according to how business activities are managed and evaluated. Each of the Company's reportable segments are strategic business units that offer similar products and services but are either shipped directly from its warehouses (Direct) or sold through retail stores (Retail). Adjusted EBITDA is the primary measure used to make decisions on allocating resources and assessing performance of each operating segment.

Adjusted EBITDA is computed as Net loss appearing on the Condensed Consolidated Statements of Operations net of Income tax benefit, Other income, net, Interest expense, Depreciation and amortization and certain significant items that while periodically affecting the Company's results, may vary significantly from period to period and may have a disproportionate effect in a given period, which may affect comparability of results. Reportable segment assets are those directly used in or clearly allocable to an operating segment's operations. Depreciation, amortization, and property and equipment expenditures are recognized in each respective segment. There were no material transactions between reporting segments for any periods presented.

The Direct segment sells products through the Company's e-commerce websites and direct mail catalogs. Operating costs consist primarily of direct marketing costs (catalog and e-commerce marketing costs); order processing and shipping costs; direct labor and benefits costs and facility costs. Assets primarily include goodwill and trade name intangible assets, inventory, accounts receivable, prepaid expenses (deferred catalog costs), technology infrastructure, and property and equipment.

The Retail segment sells products and services through dedicated Lands' End Shops at Sears across the United States and through Company Operated stores. Operating costs consist primarily of labor and benefits costs; rent, CAM and occupancy costs; distribution costs; and in-store marketing costs. Assets primarily include retail inventory, fixtures and leasehold improvements.

Corporate overhead and other expenses include unallocated shared-service costs, which primarily consist of employee services and financial services, legal and corporate expenses. These expenses include labor and benefits costs, corporate headquarters occupancy costs and other administrative expenses. Assets include corporate headquarters and facilities, corporate cash and cash equivalents and deferred income taxes.

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Financial information by segment is presented in the following tables.

SUMMARY OF SEGMENT DATA

	13 Weeks Ended		26 Weeks Ended	
(in thousands)	August 3, 2018	July 28, 2017	August 3, 2018	July 28, 2017
Net revenue:				
Direct	\$276,602	\$259,938	\$549,975	\$488,228
Retail	31,343	42,252	57,795	82,327
Total net revenue	\$307,945	\$302,190	\$607,770	\$570,555
			13 Weeks Ended	26 Weeks Ended
(in thousands)			August 3, 2018	July 28, 2017
Adjusted EBITDA:				
Direct			\$15,761	\$13,080
Retail			398	1,859
Corporate / other			(8,434)	(8,110)
Total adjusted EBITDA			\$7,725	\$6,829
(Gain) loss on property and equipment			(52)	—
Transfer of corporate functions			5	480
Depreciation and amortization			6,897	6,175
Operating income (loss)			\$875	\$174
Interest expense			7,001	6,167
Other (income) expense, net			(412)	(494)
Income tax benefit			(429)	(1,619)
NET LOSS			\$(5,285)	\$(3,880)

	13 Weeks Ended		26 Weeks Ended	
(in thousands)	August 3, 2018	July 28, 2017	August 3, 2018	July 28, 2017
Depreciation and amortization:				
Direct	\$6,234	\$5,489	\$11,805	\$11,267
Retail	293	353	575	707
Corporate / other	370	333	678	709
Total depreciation and amortization	\$6,897	\$6,175	\$13,058	\$12,683

Depreciation and amortization:

(in thousands)	August 3, 2018	July 28, 2017	February 2, 2018
Total Assets:			
Direct	\$856,293	\$846,313	\$856,986
Retail	53,379	73,953	49,933
Corporate / other	220,771	202,139	217,216
Total assets	\$1,130,443	\$1,122,405	\$1,124,135

(in thousands)	August 3, 2018	July 28, 2017	February 2, 2018
Total Assets:			
Direct	\$856,293	\$846,313	\$856,986
Retail	53,379	73,953	49,933
Corporate / other	220,771	202,139	217,216
Total assets	\$1,130,443	\$1,122,405	\$1,124,135

Total Assets:

(in thousands)	August 3, 2018	July 28, 2017	February 2, 2018
Total Assets:			
Direct	\$856,293	\$846,313	\$856,986
Retail	53,379	73,953	49,933
Corporate / other	220,771	202,139	217,216
Total assets	\$1,130,443	\$1,122,405	\$1,124,135

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(in thousands)	13 Weeks Ended		26 Weeks Ended	
	August 3, 2018	July 28, 2017	August 3, 2018	July 28, 2017
Capital expenditures:				
Direct	\$9,874	\$8,832	\$20,462	\$20,213
Retail	1,581	9	1,741	10
Total capital expenditures	\$11,455	\$8,841	\$22,203	\$20,223

NOTE 12. REVENUE

The Company adopted authoritative guidance related to the recognition of revenue from contracts with customers effective First Quarter 2018 using the modified retrospective method. The comparative information presented in the Condensed Consolidated Financial Statements was not restated and is reported under the accounting standards in effect for the periods presented. See Note 2, Recent Accounting Pronouncements, for a discussion of the significant changes resulting from adoption of the guidance. The adoption of the guidance did not have a significant impact on revenue.

Revenues include sales of merchandise and delivery revenues related to merchandise sold. Substantially all of the Company's revenue is recognized when control of product passes to customers which for the Direct segment is when the merchandise is expected to be received by the customer and for the Retail segment is at the time of sale in the store. The Company recognizes revenue, including shipping and handling fees billed to customers, in the amount expected to be received when control of the Company's products transfers to customers, and is presented net of various forms of promotions, which range from contractually-fixed percentage price reductions to sales returns, discounts, and other incentives that may vary in amount. Variable amounts are estimated based on an analysis of historical experience and adjusted as better estimates become available. There were no changes to estimates in Second Quarter 2018.

The Company's revenues are disaggregated by product categories and geographic location. Revenue by product category is presented in Note 11, Segment Reporting. Revenue by geographic location was:

(in thousands)	13 Weeks Ended		26 Weeks Ended	
	August 3, 2018	July 28, 2017	August 3, 2018	July 28, 2017
Net revenue:				
United States	\$271,011	\$264,830	\$527,178	\$497,155
Europe	25,938	26,808	57,105	52,205
Asia	10,996	10,552	23,487	21,195
Total Net revenue	\$307,945	\$302,190	\$607,770	\$570,555

The Company elected to exclude from revenue, taxes assessed by governmental authorities, including value-added and other sales-related taxes, that are imposed on and concurrent with revenue-producing activities, and as a result there is no change in presentation from prior comparative periods.

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 reported in Other current liabilities in the Condensed Consolidated Balance Sheets and amounts recognized through Net revenues for each period presented. The remainder of deferred revenue as of August 3, 2018 is expected to be recognized in Net revenue in the fiscal quarter ending November 2, 2018, as products are delivered to customers.

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(in thousands)	August 3, 2018	
	13 Weeks	26
	Ended	Weeks Ended
Deferred Revenue Beginning of Period	\$15,890	\$12,838
Deferred Revenue Recognized in Period	(15,890)	(12,838)
Revenue Deferred in Period	8,460	8,460
Deferred Revenue End of Period	\$8,460	\$8,460

The Company's policy with respect to gift cards is to record revenue when the gift cards are redeemed for merchandise. The Company recognizes gift card breakage income in proportion to the pattern of rights exercised by the customer when the Company expects to be entitled to breakage and the Company determines that it does not have an obligation to remit the value of the unredeemed gift card to the relevant jurisdiction as unclaimed or abandoned property. 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 \$16.6 million, \$18.0 million and \$19.3 million as of August 3, 2018, July 28, 2017 and February 2, 2018, 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:

(in thousands)	August 3, 2018	
	13 Weeks	26
	Ended	Weeks Ended
Balance as of Beginning of Period	\$19,290	\$19,272
Gift cards sold	9,281	25,353
Gift cards redeemed	(11,683)	(26,347)
Gift card breakage	(262)	(1,652)
Balance as of August 3, 2018	\$16,626	\$16,626

Refund Liabilities

Refund liabilities, primarily associated with product sales returns and retrospective volume rebates represent variable consideration and are estimated and recorded as a reduction to Net revenue based on historical experience. As of August 3, 2018, July 28, 2017 and February 2, 2018, \$18.6 million, \$9.6 million and \$11.1 million, respectively, of refund liabilities, primarily associated with product returns, were reported in Other current liabilities in the Condensed Consolidated Balance Sheets. Prior to adoption, product return assets and return liabilities were reported within Other current liabilities. As of the adoption date, the product return assets were reclassified and reported as a component of Prepaid expenses and other current assets, and return liabilities continued to be reported in Other current liabilities in the Company's Condensed Consolidated Balance Sheet. See Note 2, Recent Accounting Pronouncements, for additional details on the impact of this change.

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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 risk, 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 2, 2018, 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 Facilities - Collectively the Prior ABL Facility and the Current ABL Facility
- Company Operated stores - Retail stores operated by Lands' End
- Current ABL Facility - Asset-based senior secured credit agreements, dated as of November 16, 2017, with Wells Fargo Bank, N.A. and certain other lenders
- Debt Facilities - Collectively, the ABL Facilities and the Term Loan Facility
- ERP - Enterprise resource planning software solutions
- ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert
- Fiscal 2018 - the fifty-two weeks ending February 1, 2019
- Fiscal November 2018 - the four week fiscal month ending November 30, 2018
- Second Quarter 2018 - the thirteen weeks ended August 3, 2018
- Second Quarter 2017 - the thirteen weeks ended July 28, 2017
- 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
- Prior ABL Facility - Asset-based senior secured credit agreements, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders, terminated November 16, 2017
- Same Store Sales - Net revenue, from stores that have been open for at least 12 full months where selling square footage has not changed by 15% or more within the past year
- Sears Holdings or Sears Holdings Corporation - Sears Holdings Corporation, a Delaware corporation, and its consolidated subsidiaries (other than, for all periods following the Separation, Lands' End)
- 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
- UK Borrower - A United Kingdom subsidiary borrower of Lands' End under the Prior ABL Facility

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- UTBs - Gross unrecognized tax benefits
- Year-to-Date 2018 - The twenty-six weeks ended August 3, 2018
- Year-to-Date 2017 - The twenty-six weeks ended July 28, 2017

Introduction

Management's discussion and analysis of financial condition and results of operations accompanies our Condensed Consolidated Financial Statements and provides additional information about our business, financial condition, liquidity and capital resources, cash flows and results of operations. We have organized the information as follows: Executive overview. This section provides a brief description of our business, accounting basis of presentation and a brief summary of our results of operations.

Discussion and analysis. This section highlights items affecting the comparability of our financial results and provides an analysis of our segment results of operations for Second Quarter 2018, Second Quarter 2017, Year-to-Date 2018 and Year-to-Date 2017.

Liquidity and capital resources. This section provides an overview of our historical and anticipated cash and financing activities. We also review our historical sources and uses of cash in our operating, investing and financing activities.

Contractual Obligations and Off-Balance-Sheet Arrangements. This section provides details of the Company's off-balance-sheet arrangements and contractual obligations for the next five years and thereafter.

Financial Instruments with Off-Balance-Sheet Risk. This section discusses financial instruments of the Company that could have off-balance-sheet risk.

Application of critical accounting policies and estimates. This section summarizes the accounting policies that we consider important to our financial condition and results of operations and which require significant judgment or estimates to be made in their application.

Recent accounting pronouncements. This section summarizes recently issued accounting pronouncements and the impact or expected impact on the Company's financial statements.

Executive Overview

Description of the Company

Lands' End, Inc. is a leading multi-channel retailer of casual clothing, accessories, footwear and home products. We offer products through catalogs, online at www.landsend.com and affiliated specialty and international websites, 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 women, men, kids and the home.

Lands' End was founded in 1963 in Chicago 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."

The Company identifies reportable segments according to how business activities are managed and evaluated. Each of the Company's reportable segments are strategic business units that offer similar products and services but are either shipped directly from our warehouses (Direct) or sold through retail stores (Retail).

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.

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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 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 both prior to and subsequent to the Separation.

Seasonality

We experience seasonal fluctuations in our net revenue and operating results and historically have realized a significant portion of our net sales and earnings for the year during our fourth fiscal quarter. We generated an average of 35% 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 third quarter of the fiscal year as inventory builds to support our 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			
	August 3, 2018		July 28, 2017	
(in thousands)	\$'s	% of Net revenue	\$'s	% of Net revenue
Net revenue	\$307,945	100.0 %	\$302,190	100.0 %
Cost of sales (excluding depreciation and amortization)	171,179	55.6 %	168,025	55.6 %
Gross profit	136,766	44.4 %	134,165	44.4 %
Selling and administrative	129,041	41.9 %	127,336	42.1 %
Depreciation and amortization	6,897	2.2 %	6,175	2.0 %
Other operating (income) expense, net	(47)	— %	480	0.2 %
Operating income (loss)	875	0.3 %	174	0.1 %
Interest expense	7,001	2.3 %	6,167	2.0 %
Other (income) expense, net	(412)	(0.1)%	(494)	(0.2)%
Loss before income taxes	(5,714)	(1.9)%	(5,499)	(1.8)%
Income tax benefit	(429)	(0.1)%	(1,619)	(0.5)%
NET LOSS	\$(5,285)	(1.7)%	\$(3,880)	(1.3)%

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(in thousands)	26 Weeks Ended					
	August 3, 2018		July 28, 2017			
	\$'s	% of Net revenue	\$'s	% of Net revenue		
Net revenue	\$607,770	100.0 %	\$570,555	100.0 %		
Cost of sales (excluding depreciation and amortization)	337,979	55.6 %	313,748	55.0 %		
Gross profit	269,791	44.4 %	256,807	45.0 %		
Selling and administrative	253,041	41.6 %	248,682	43.6 %		
Depreciation and amortization	13,058	2.1 %	12,683	2.2 %		
Other operating (income) expense, net	290	— %	1,988	0.3 %		
Operating income (loss)	3,402	0.6 %	(6,546)	(1.1 %)		
Interest expense	13,913	2.3 %	12,292	2.2 %		
Other (income) expense, net	3,452	0.6 %	(1,236)	(0.2 %)		
Loss before income taxes	(13,963)	(2.3 %)	(17,602)	(3.1 %)		
Income tax benefit	(6,048)	(1.0 %)	(5,883)	(1.0 %)		
NET LOSS	\$(7,915)	(1.3 %)	\$(11,719)	(2.1 %)		

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 Loss and Adjusted EBITDA

We recorded Net losses of \$5.3 million and \$7.9 million in the Second Quarter 2018 and Year-to-Date 2018, respectively compared to \$3.9 million and \$11.7 million in the Second Quarter 2017 and Year-to-Date 2017, respectively. In addition to our Net loss determined in accordance with GAAP, for purposes of evaluating operating performance, we use an Adjusted EBITDA measurement. Adjusted EBITDA is computed as Net loss appearing on the Condensed Consolidated Statements of Operations net of Income tax benefit, Other income, net, 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. 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 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 costs or benefits.

• 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.

• Transfer of corporate functions - severance and contract losses associated with a transition of certain corporate activities from our New York office to our Dodgeville headquarters.

• Gain or loss on property and equipment - management considers the gains or losses on asset valuation to result from investing decisions rather than ongoing operations.

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(in thousands)	13 Weeks Ended					
	August 3, 2018			July 28, 2017		
	\$'s	% of		\$'s	% of	
	Net revenue		Net revenue		Net revenue	
Net loss	\$(5,285)	(1.7)%		\$(3,880)	(1.3)%	
Income tax benefit	(429)	(0.1)%		(1,619)	(0.5)%	
Other (income) expense, net	(412)	(0.1)%		(494)	(0.2)%	
Interest expense	7,001	2.3 %		6,167	2.0 %	
Operating income (loss)	875	0.3 %		174	0.1 %	
Depreciation and amortization	6,897	2.2 %		6,175	2.0 %	
Transfer of corporate functions	5	— %		480	0.2 %	
(Gain) on property and equipment	(52)	— %		—	— %	
Adjusted EBITDA	\$7,725	2.5 %		\$6,829	2.3 %	
(in thousands)	26 Weeks Ended					
	August 3, 2018			July 28, 2017		
	\$'s	% of		\$'s	% of	
	Net revenue		Net revenue		Net revenue	
Net loss	\$(7,915)	(1.3)%		\$(11,719)	(2.1)%	
Income tax benefit	(6,048)	(1.0)%		(5,883)	(1.0)%	
Other (income) expense, net	3,452	0.6 %		(1,236)	(0.2)%	
Interest expense	13,913	2.3 %		12,292	2.2 %	
Operating income (loss)	3,402	0.6 %		(6,546)	(1.1)%	
Depreciation and amortization	13,058	2.1 %		12,683	2.2 %	
Transfer of corporate functions	6	— %		1,926	0.3 %	
Loss on property and equipment	284	— %		62	— %	
Adjusted EBITDA	\$16,750	2.8 %		\$8,125	1.4 %	

In assessing the operational performance of our business, we consider a variety of financial measures. We operate in two reportable segments: Direct (sold through e-commerce websites and direct mail catalogs) and Retail (sold through stores). A key measure in the evaluation of our business is revenue performance by segment. We also consider gross margin and Selling and administrative expenses in evaluating the performance of our business.

To evaluate revenue performance for the Direct segment we use Net revenue. For our Retail segment, we use Same Store Sales as a key measure in evaluating performance. A store is included in Same Store Sales calculations on the first day it has comparable prior year sales. Stores in which the selling square footage has changed by 15% or more as a result of a remodel, expansion, reduction or relocation are excluded from Same Store Sales calculations until the first day they have comparable prior year sales. Online sales and sales generated through our in-store computer kiosks are considered revenue in our Direct segment and are excluded from Same Store Sales.

Discussion and Analysis

Second Quarter 2018 compared with Second Quarter 2017

Net Revenue

Net revenue for Second Quarter 2018 was \$307.9 million, compared with \$302.2 million in the comparable period of the prior year, an increase of \$5.8 million, or 1.9%. The increase was comprised of an increase in our Direct segment of \$16.7 million and a decrease in our Retail segment of \$10.9 million.

Direct segment Net revenue was \$276.6 million for Second Quarter 2018, an increase of \$16.7 million, or 6.4%, from the comparable period of the prior year. The increase in the Direct segment was primarily attributable to the remainder of the launch of our Delta Airlines business as well as the continued growth in our U.S. consumer business. We continued to increase our buyer file and our conversion rate in our U.S. consumer business helping to drive the increase, particularly in key items in our assortment such as swimwear, shorts, cover ups, and dresses.

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Retail segment Net revenue was \$31.3 million for Second Quarter 2018, a decrease of \$10.9 million, or 25.8%, from the comparable period of the prior year. Same Store Sales declined 5.8% as compared to the same period of the prior year. The decrease was primarily attributable to a reduction of 57 of our Lands' End Shops at Sears locations and a 6.7% decrease in Lands' End Shops at Sears Same Store Sales. Company Operated stores experienced a decrease of 0.6% in Same Store Sales. On August 3, 2018, the Company had 147 Lands' End Shops at Sears and 15 Company Operated stores compared with 204 Lands' End Shops at Sears and 14 Company Operated stores on July 28, 2017.

Gross Profit

Gross profit increased \$2.6 million to \$136.8 million and gross margin increased slightly to 44.4% of total Net revenue, in Second Quarter 2018, compared with \$134.2 million, or 44.4% of total Net revenue, in Second Quarter 2017. The Gross profit increase was comprised of an increase in our Direct segment of \$7.5 million and a decrease in our Retail segment of \$4.9 million.

Direct segment Gross profit increased \$7.5 million to \$122.4 million in Second Quarter 2018 from \$115.0 million in Second Quarter 2017. Direct segment gross margin increased approximately 10 basis points to 44.3% of total Net revenue in Second Quarter 2018, compared with 44.2% of total Net revenue in Second Quarter 2017. The gross margin increase was driven by stronger merchandise margins and tighter inventory management of our seasonal assortment offset by the lower margin Delta Airlines business. Retail segment Gross profit decreased \$4.9 million to \$14.3 million in Second Quarter 2018 from \$19.1 million in Second Quarter 2017. Retail segment gross margin increased approximately 40 basis points to 45.7% of Net revenue, in Second Quarter 2018, compared to 45.3% of Net revenue, in Second Quarter 2017 through effective inventory management of our seasonal assortment, which led to a reduction in clearance sales and stronger merchandise margins.

Selling and Administrative Expenses

Selling and administrative expenses increased \$1.7 million to \$129.0 million, a decrease of approximately 20 basis points to 41.9% of total Net revenue, in Second Quarter 2018, compared with \$127.3 million, or 42.1% of Net revenue, in Second Quarter 2017. The increase in Selling and administrative expenses was due to an increase of \$4.8 million in the Direct Segment and \$0.3 million in Corporate expenses, offset by a decrease of \$3.4 million in the Retail segment.

Direct segment Selling and administrative expenses were \$106.7 million, a decrease of approximately 60 basis points to 38.6% of Net revenue, in Second Quarter 2018, compared with \$101.9 million, or 39.2% of Net revenue, in Second Quarter 2017. The basis point decrease was largely attributable to the leveraging of existing marketing expenses to drive higher sales volume, partially offset by increased incentive compensation.

Retail segment Selling and administrative expenses were \$13.9 million, an increase of approximately 340 basis points to 44.4% of Net revenue, in Second Quarter 2018, compared with \$17.3 million, or 41.0% of Net revenue, in Second Quarter 2017. The basis point increase was largely attributable to the reduction in the number of Lands' End Shops at Sears and negative same store sales.

Corporate / other Selling and administrative expenses were \$8.4 million compared with \$8.1 million for Second Quarter 2018 and Second Quarter 2017, respectively. The \$0.3 million, or 3.7%, increase was largely attributable to an increase in incentive compensation expenses.

Depreciation and Amortization

Depreciation and amortization expense was \$6.9 million in Second Quarter 2018, an increase of \$0.7 million or 11.7%, compared with \$6.2 million in Second Quarter 2017, primarily attributable to an increase in depreciation associated with our ongoing multi-year ERP system implementation.

Other Operating (Income) Expense, Net

Other operating expense, net was insignificant in Second Quarter 2018 compared to \$0.5 million in Second Quarter 2017, primarily due to severance charges associated with the transition of certain corporate activities from the New York office to the Company's Dodgeville headquarters in Second Quarter 2017.

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Operating Income (Loss)

Operating income was \$0.9 million in Second Quarter 2018 compared to \$0.2 million in Second Quarter 2017 primarily due to increased revenue driven by the Direct Segment and the leveraging of the existing cost structure.

Interest Expense

Interest expense was \$7.0 million in Second Quarter 2018 compared to \$6.2 million in Second Quarter 2017, reflective of a rising interest rate environment.

Other (Income) Expense, Net

Other income, net was \$0.4 million in Second Quarter 2018 compared to \$0.5 million in Second Quarter 2017.

Income Tax Benefit

The Income tax benefit was \$0.4 million for Second Quarter 2018 compared to \$1.6 million in Second Quarter 2017. The effective tax rate was 7.5% in Second Quarter 2018 compared with 29.4% in Second Quarter 2017. The lower benefit is primarily due to the Tax Act.

Net Loss

As a result of the above factors, Net loss was \$5.3 million and diluted loss per share was \$0.16 in Second Quarter 2018 compared with a Net loss of \$3.9 million and diluted loss per share of \$0.12 in Second Quarter 2017.

Adjusted EBITDA

As a result of the above factors, Adjusted EBITDA increased to \$7.7 million in Second Quarter 2018 from \$6.8 million in Second Quarter 2017.

Year-to-Date 2018 compared with Year-to-Date 2017

Net Revenue

Net revenue for Year-to-Date 2018 was \$607.8 million, compared with \$570.6 million in the comparable period of the prior year, an increase of \$37.2 million or 6.5%. The increase was comprised of an increase in our Direct segment of \$61.7 million and a decrease in our Retail segment of \$24.5 million.

Direct segment Net revenue was \$550.0 million for Year-to-Date 2018, an increase of \$61.7 million, or 12.6%, from the comparable period of the prior year. The increase in the Direct segment was largely attributable to the launch of Delta Airlines business and an increase in our U.S. consumer business. In our U.S. consumer business, we increased our buyer file and conversion rate helping to drive increased revenue across our assortment.

Retail segment Net revenue was \$57.8 million for Year-to-Date 2018, a decrease of \$24.4 million, or 29.7%, from the comparable period of the prior year primarily due to the reduction of Lands' End Shops at Sears. Same Store Sales declined 12.4% compared to the same period of the prior year. The decrease was primarily attributable to a reduction of 57 of our Lands' End Shops at Sears locations and a 13.6% decrease in Lands' End Shops at Sears Same Store Sales. Company Operated stores experienced a decrease of 5.1% in Same Store Sales. On August 3, 2018, the Company operated 147 Lands' End Shops at Sears and 15 global Lands' End stores compared with 204 Lands' End Shops at Sears and 14 Company Operated stores on July 28, 2017.

Gross Profit

Gross profit increased \$13.0 million to \$269.8 million and gross margin decreased approximately 60 basis points to 44.4% of Net revenue in Year-to-Date 2018, compared with \$256.8 million, or 45.0% of Net revenue, in Year-to-Date 2017. The Gross profit increase was comprised of an increase in our Direct segment of \$22.9 million offset by a decrease in our Retail segment of \$9.9 million.

Direct segment Gross profit increased 10.3% to \$245.5 million in Year-to-Date 2018 from \$222.6 million in Year-to-Date 2017. Direct segment gross margin decreased approximately 100 basis points to 44.6% of Net revenue for Year-to-Date 2018, compared with 45.6% of Net revenue for Year-to-Date 2017. The gross margin decrease was

primarily attributable to increased promotional activity in the highly competitive retail environment as well as the launch of the lower margin Delta Airlines business.

Retail segment Gross profit decreased 28.7% to \$24.3 million in Year-to-Date 2018 from \$34.1 million in Year-to-Date 2017. Retail segment gross margin increased approximately 50 basis points to 42.0% of Net revenue, for Year-to-Date 2018, compared to 41.5% of Net revenue for Year-to-Date 2017 primarily attributable to tighter inventory management requiring lower markdowns of our assortment.

Selling and Administrative Expenses

Selling and administrative expenses increased 1.7% to \$253.0 million, a decrease of approximately 200 basis points to 41.6% of Net revenue, in Year-to-Date 2018, compared with \$248.7 million, or 43.6% of Net revenue, in Year-to-Date 2017. The increase in Selling and administrative expenses was primarily due to an increase of \$9.7 million in the Direct segment and \$1.7 million in Corporate expenses, partially offset by a decrease of \$7.0 million in the Retail segment.

Direct segment Selling and administrative expenses were \$207.4 million, a decrease of approximately 280 basis points to 37.7% of Net revenue, in Year-to-Date 2018, compared with \$197.7 million, or 40.5% of Net revenue, for Year-to-Date 2017. The basis point decrease was largely attributable to improved cost leverage, partially offset by increased incentive compensation expense.

Retail segment Selling and administrative expenses were \$28.5 million, an increase of approximately 620 basis points to 49.3% of Net revenue, in Year-to-Date 2018, compared with \$35.5 million, or 43.2% of Net revenue, in Year-to-Date 2017. The basis point increase was largely attributable to the reduction in the number of Lands' End Shops at Sears and negative same store sales.

Corporate / other Selling and administrative expenses were \$17.2 million compared with \$15.5 million in Year-to-Date 2018 and Year-to-Date 2017, respectively. The \$1.7 million, or 11.0%, increase was primarily due to an increase in incentive compensation expenses.

Depreciation and Amortization

Depreciation and amortization expense was \$13.1 million in Year-to-Date 2018, an increase of \$0.4 million, or 3.0%, compared with \$12.7 million in Year-to-Date 2017, primarily attributable to an increase in depreciation associated with our ongoing multi-year ERP system implementation.

Other Operating (Income) Expense, Net

Other operating expense (income), net was expense of \$0.3 million in Year-to-Date 2018 compared to \$2.0 million in the Year-to-Date 2017, due to severance charges in the Year-to-Date 2017 associated with the transition of certain corporate activities from the New York office to the Company's Dodgeville headquarters.

Operating Income (Loss)

Operating income was \$3.4 million in Year-to-Date 2018 compared to Operating loss of \$6.5 million in Year-to-Date 2017. The increase was primarily due to improved growth in our Direct business, partially offset by closures of Lands' End Shops at Sears.

Interest Expense

Interest expense was \$13.9 million in Year-to-Date 2018 compared to \$12.3 million in Year-to-Date 2017, reflective of a rising interest rate environment.

Other (Income) Expense, Net

Other expense, net was \$3.5 million in Year-to-Date 2018 compared to Other income, net of \$1.2 million in Year-to-Date 2017. Other expense in Year-to-Date 2018 was primarily attributable to the reversal of indemnification assets from Sears Holdings Corporation for UTBs and accrued interest due to favorable state tax audit settlements for periods prior to the Separation.

Income Tax Benefit

Income tax benefit was \$6.0 million for Year-to-Date 2018 compared to \$5.9 million in Year-to-Date 2017. The effective tax rate was 43.3% in Year-to-Date 2018 compared with 33.4% in Year-to-Date 2017. The higher benefit resulted from the reversal of UTBs as a consequence of the favorable state tax audit settlements for periods prior to the Separation, partially offset by impacts of the Tax Act.

Net Loss

As a result of the above factors, Net loss was \$7.9 million and diluted loss per share was \$0.25 in Year-to-Date 2018 compared with Net loss of \$11.7 million and diluted loss per share of \$0.37 in Year-to-Date 2017.

Adjusted EBITDA

As a result of the above factors, Adjusted EBITDA increased to \$16.8 million in Year-to-Date 2018 from \$8.1 million in Year-to-Date 2017.

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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 Current 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 Current 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 sales and profitability, and somewhat to a lesser extent our changes in working capital, are driven by the seasonality of our business, with a disproportionate 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 Current ABL Facility, which provides for maximum borrowings of \$175.0 million for the Company, subject to a borrowing base. The Current ABL Facility has a letter of credit sub-limit of \$70.0 million. The Current ABL Facility is available for working capital and other general corporate purposes and was undrawn other than for \$14.9 million in outstanding letters of credit.

Also on November 16, 2017, the Company terminated all loan related documents of the Prior ABL Facility and repaid all outstanding amounts thereunder.

The Prior ABL Facility provided for maximum borrowings of \$175.0 million for Lands' End, subject to a borrowing base, with a \$30.0 million sub facility for the UK Borrower. The Prior ABL Facility had a sub-limit of \$70.0 million for domestic letters of credit and a sub-limit of \$15.0 million for letters of credit for the UK Borrower. The Prior ABL Facility was available for working capital and other general corporate purposes and was undrawn other than for letters of credit.

On April 4, 2014, Lands' End entered into the \$515.0 million Term Loan Facility of which proceeds 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 of approximately \$11.4 million, with the remaining proceeds used for general corporate purposes.

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 Current 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 Current 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 also is 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 Current ABL Facility is secured by a second priority security interest in the same collateral.

The Prior ABL Facility had the same terms to those stated above. In addition, the obligations of the UK Borrower under the Prior ABL Facility were guaranteed by its existing and future direct and indirect subsidiaries organized in the United Kingdom.

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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 Facilities is subject to adjustment based on the average excess availability under the ABL Facilities for the preceding fiscal quarter. In the case of LIBOR borrowings this adjustment will range from 1.25% to 1.75% and 1.50% to 2.00% for the Current ABL Facility and Prior ABL Facility, respectively. Base rate borrowings will range from 0.50% to 1.00% for the ABL Facilities.

Customary agency fees are payable pursuant to the terms of the Debt Facilities. The ABL Facilities fees also include (i) commitment fees in an amount equal to 0.25% and 0.25% to 0.375% of the daily unused portions of the Current ABL Facility and Prior ABL Facility, respectively, 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 Current ABL Facility falls below the greater of 10% of the loan cap amount or \$15.0 million, Lands' End will be required to comply with a minimum fixed charge coverage ratio of 1.0 to 1.0. The Debt Facilities do not otherwise contain financial maintenance covenants. The Company was in compliance with all financial covenants related to the Debt Facilities as of August 3, 2018.

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

Events of Default

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

Cash Flows from Operating Activities

Net cash provided by operating activities increased to \$24.8 million in the Year-to-Date 2018 from a net cash use of \$13.2 million in the Year-to-Date 2017, primarily driven by improved working capital management through:

- Improved inventory management reducing both overall and aged inventory,
- Lower Accounts payable payments in Fiscal 2018 due to timing of inventory receipts and payments,
- Higher receipts from Accounts receivable, net in Fiscal 2018 due to high customer receivables outstanding at the beginning of the year related to the Delta Airlines launch.

Cash Flows from Investing Activities

Net cash used in investing activities was \$22.2 million and \$20.2 million for Year-to-Date 2018 and Year-to-Date 2017, 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 2018, we plan to invest a total of approximately \$35.0 million to \$45.0 million in capital expenditures for strategic investments and infrastructure, primarily associated with our ERP investment, other technology investments and general corporate needs.

Cash Flows from Financing Activities

Net cash used by financing activities was \$3.1 million and \$3.2 million for Year-to-Date 2018 and Year-to-Date 2017, respectively, consisting primarily of our quarterly payments on our Term Loan Facility.

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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 2, 2018.

Financial Instruments with Off-Balance-Sheet Risk

On November 16, 2017, the Company entered into an asset-based lending credit agreement with Wells Fargo Bank, National Association, which provides for maximum borrowings of \$175.0 million for the Company, subject to a borrowing base. The Current ABL Facility has a letter of credit sub-limit of \$70.0 million. The Current ABL Facility is available for working capital and other general corporate purposes. The Current ABL Facility will mature no later than November 16, 2022, subject to customary extension provisions provided for therein. The Current ABL Facility is available for working capital and other general corporate purposes and was undrawn at May 4, 2018, other than for \$14.9 million in outstanding letters of credit.

Also on November 16, 2017, the Company terminated all loan related documents of the Prior ABL Facility and repaid all outstanding amounts thereunder.

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 2, 2018, and Note 2, Recent Accounting Pronouncements. There have been no significant changes in our critical accounting policies or their application since February 2, 2018, except as described below.

Effective First Quarter 2018, we adopted authoritative guidance related to revenue recognition from contracts with customers using the modified retrospective method. The comparative information presented in the Condensed Consolidated Financial Statements was not restated and is reported under the accounting standards in effect for the periods presented. The adoption of this guidance did not have, and is not expected to have, a significant impact on our reported revenue, gross margins or income from operations. However, we have implemented a change in our balance sheet presentation for expected product returns and are now reporting a product return asset for the right to receive returned products and a returns liability for amounts expected to be refunded to customers as a result of product returns, where these were previously netted in Other current liabilities. The product return asset is reported within Prepaid expenses and other current assets. The returns liability and payments received from customers for future delivery of products are reported within Other current liabilities in the Condensed Consolidated Balance Sheets.

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

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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 2, 2018. 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in our financial instruments represents the potential loss arising from adverse changes in currency rates. A significant portion of our business is transacted in U.S. dollars, and is expected to continue to be transacted in U.S. dollars or U.S. dollar-based currencies. As of August 3, 2018, we had \$25.3 million of cash denominated in foreign currencies, principally in British Pound Sterling, Euros and Yen. We do not enter into financial instruments for trading purposes or hedging and have not used any derivative financial instruments. We do not consider our foreign earnings to be permanently reinvested.

We are subject to interest rate risk with the Term Loan Facility and the Current 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 \$4.9 million change in our annual cash interest expenses. Assuming our Current 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.

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ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Based on their evaluation for the period covered by this Quarterly Report on Form 10-Q, Lands' End's Chief Executive Officer and President and Executive Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer have concluded that, as of August 3, 2018, 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

During the Second Quarter 2018, the Company implemented additional capabilities to upgrade our inventory purchase order and matching systems related to a multi-year implementation of a global enterprise resource planning ("ERP") system. The Company expects that the new ERP system will enhance the overall system of internal controls over financial reporting through further automation and integration of business processes, although it is not being implemented in response to any identified deficiency in the Company's internal controls over financial reporting. Other than the ERP implementation, there have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 under the Exchange Act during the second fiscal quarter ended August 3, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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 2, 2018, which was filed with the SEC on March 29, 2018.

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ITEM 6. EXHIBITS

- 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)).
- 10.1 Letter Agreement with respect to RRC/CRC Charges, dated as of July 9, 2018, by and between Sears, Roebuck and Co. and Lands' End, Inc., amending Lands' End Shops at Sears Retail Operations Agreement, dated as of April 4, 2014.*
- 10.2 Letter Agreement with respect to Assistant Store Manager - Apparel Charges, dated as of July 9, 2018, by and between Sears, Roebuck and Co. and Lands' End, Inc., amending Lands' End Shops at Sears Retail Operations Agreement, dated as of April 4, 2014.*
- 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.

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SIGNATURES

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

Lands' End, Inc.
(Registrant)

Dated: September 6, 2018

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