

LANDS' END, INC.
Form 10-Q
December 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 November 2, 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files) YES NO

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

Large accelerated filer 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 December 3, 2018 the registrant had 32,211,641 shares of common stock, \$0.01 par value, outstanding.

LANDS' END, INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED NOVEMBER 2, 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		39 Weeks Ended	
	November	October	November	October
(in thousands, except per share data)	2, 2018	27, 2017	2, 2018	27, 2017
Net revenue	\$341,570	\$325,489	\$949,340	\$896,044
Cost of sales (excluding depreciation and amortization)	190,608	183,515	528,587	497,262
Gross profit	150,962	141,974	420,753	398,782
Selling and administrative	135,274	129,122	388,315	377,804
Depreciation and amortization	7,361	6,347	20,420	19,031
Other operating (income) expense, net	(158)	564	132	2,552
Operating income (loss)	8,485	5,941	11,886	(605)
Interest expense	7,303	6,350	21,216	18,642
Other expense (income), net	1,866	(576)	5,317	(1,812)
(Loss) income before income taxes	(684)	167	(14,647)	(17,435)
Income tax (benefit) expense	(3,978)	5	(10,026)	(5,878)
NET INCOME (LOSS)	\$3,294	\$162	\$(4,621)	\$(11,557)
NET INCOME (LOSS) PER COMMON SHARE				
Basic:	\$0.10	\$0.01	\$(0.14)	\$(0.36)
Diluted:	\$0.10	\$0.01	\$(0.14)	\$(0.36)
Basic weighted average common shares outstanding	32,211	32,095	32,182	32,068
Diluted weighted average common shares outstanding	32,314	32,117	32,182	32,068

See accompanying Notes to Condensed Consolidated Financial Statements.

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LANDS' END, INC.

Condensed Consolidated Statements of Comprehensive Operations
(Unaudited)

(in thousands)	13 Weeks Ended		39 Weeks Ended	
	November 2, 2018	October 27, 2017	November 2, 2018	October 27, 2017
NET INCOME (LOSS)	\$3,294	\$ 162	\$(4,621)	\$(11,557)
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments	(39)	(79)	(3,215)	1,060
COMPREHENSIVE INCOME (LOSS)	\$3,255	\$ 83	\$(7,836)	\$(10,497)

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)	November 2, 2018	October 27, 2017	February 2, 2018
ASSETS			
Current assets			
Cash and cash equivalents	\$ 105,933	\$ 92,913	\$ 195,581
Restricted cash	2,069	1,640	2,356
Accounts receivable, net	41,496	39,044	49,860
Inventories, net	431,950	423,540	332,297
Prepaid expenses and other current assets	49,001	48,934	26,659
Total current assets	630,449	606,071	606,753
Property and equipment, net	145,808	129,955	136,501
Goodwill	110,000	110,000	110,000
Intangible asset, net	257,000	257,000	257,000
Other assets	5,461	17,454	13,881
TOTAL ASSETS	\$ 1,148,718	\$ 1,120,480	\$ 1,124,135
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 179,036	\$ 160,340	\$ 155,874
Other current liabilities	116,367	103,886	100,257
Total current liabilities	295,403	264,226	256,131
Long-term debt, net	483,401	487,197	486,248
Long-term deferred tax liabilities	58,462	91,392	59,137
Other liabilities	7,246	14,568	15,526
TOTAL LIABILITIES	844,512	857,383	817,042
Commitments and contingencies			
STOCKHOLDERS' EQUITY			
Common stock, par value \$0.01 authorized: 480,000,000 shares; issued and outstanding: 32,211,641, 32,095,021 and 32,101,793, respectively	320	320	320
Additional paid-in capital	351,064	346,153	347,175
Accumulated deficit	(33,371)	(72,010)	(29,810)
Accumulated other comprehensive loss	(13,807)	(11,366)	(10,592)
Total stockholders' equity	304,206	263,097	307,093
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,148,718	\$ 1,120,480	\$ 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)	39 Weeks Ended	
	November 2018	October 27, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(4,621)	\$(11,557)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	20,420	19,031
Loss on property and equipment	121	151
Amortization of debt issuance costs	1,394	1,284
Stock-based compensation	4,432	2,855
Deferred income taxes	180	355
Change in operating assets and liabilities:		
Inventories	(103,177)	(96,522)
Accounts payable	26,742	944
Other operating assets	(2,864)	(21,890)
Other operating liabilities	5,125	17,542
Net cash used in operating activities	(52,248)	(87,807)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of property and equipment	127	—
Purchases of property and equipment	(33,160)	(29,143)
Net cash used in investing activities	(33,033)	(29,143)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on term loan facility	(3,865)	(3,863)
Payments of employee withholding taxes on share-based compensation	(543)	(674)
Net cash used in financing activities	(4,408)	(4,537)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	(246)	(368)
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(89,935)	(121,855)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD	197,937	216,408
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	\$ 108,002	\$ 94,553
SUPPLEMENTAL CASH FLOW DATA		
Unpaid liability to acquire property and equipment	\$4,707	\$ 4,796
Income taxes paid, net of refunds	\$1,420	\$ 3,220
Interest paid	\$19,792	\$ 17,106

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

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 income (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 2017 - The fifty-three weeks ended February 2, 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
- 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
- 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
- Third Quarter 2018 - The thirteen weeks ended November 2, 2018
- Third Quarter 2017 - The thirteen weeks ended October 27, 2017
- UTBs - Gross unrecognized tax benefits
- Year-to-Date 2018 - The thirty-nine weeks ended November 2, 2018
- Year-to-Date 2017 - The thirty-nine weeks ended October 27, 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.

Revenue includes sales of merchandise and delivery revenue related to merchandise sold. Substantially all of the Company's revenue is recognized when control of product passes to customers, which for the 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. Revenue is 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 the returns liability 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.

Recognition of Breakage for Certain Prepaid Stored-Value Products

The Company sells gift certificates, gift cards and e-certificates (collectively, "gift cards") to customers through both the Direct and Retail segments. The gift cards do not have expiration dates. Revenue from gift cards is recognized when (i) the gift card is redeemed by the customer for merchandise, or (ii) as gift card breakage, an estimate of gift cards which will not be redeemed where the Company does not have a legal obligation to remit the value of the unredeemed gift cards to the relevant jurisdictions.

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. Previously the Company recognized gift card breakage after three years of no activity, or when the likelihood of redemption was considered remote. 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.

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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)

The impact of the new revenue recognition guidance on our Condensed Consolidated Balance Sheet as of November 2, 2018 was:

(in thousands)	November 2, 2018 Balances Without Adoption	Impact of Adoption	As Reported
Assets:			
Prepaid expenses and other current assets	\$38,246	\$ 10,755	\$49,001
Liabilities:			
Other current liabilities	106,736	9,631	116,367
Stockholders' Equity:			
Accumulated deficit	(34,494)	1,123	(33,371)

See Note 12, Revenue for additional disclosures.

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. The Company is still evaluating the overall impact on the Company's Condensed Consolidated Financial Statements, however, 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.

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NOTE 3. EARNINGS/(LOSS) PER SHARE

The numerator for both basic and diluted EPS is net income (loss). The denominator for basic EPS is based upon the number of weighted average shares of Lands' End common stock outstanding during the reporting periods. The denominator for diluted EPS is based upon the number of weighted average shares of Lands' End common stock and common stock equivalents outstanding during the reporting periods using the treasury stock method in accordance with US GAAP. 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		39 Weeks Ended	
	November 2018	October 2017	November 2018	October 2017
Net income (loss)	\$3,294	\$ 162	\$(4,621)	\$(11,557)
Basic weighted average common shares outstanding	32,211	32,095	32,182	32,068
Dilutive effect of stock awards	103	22	—	—
Diluted weighted average common shares outstanding	32,314	32,117	32,182	32,068
Basic Earnings (Loss) per share	\$0.10	\$ 0.01	\$(0.14)	\$(0.36)
Diluted Earnings (Loss) per share	\$0.10	\$ 0.01	\$(0.14)	\$(0.36)

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 484,743, 827,057, 408,092, and 692,175 anti-dilutive shares excluded from the diluted weighted average shares outstanding for Third Quarter 2018, Third Quarter 2017, Year-to-Date 2018, and Year-to-Date 2017, respectively.

NOTE 4. OTHER COMPREHENSIVE INCOME (LOSS)

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

(in thousands)	13 Weeks Ended		39 Weeks Ended	
	November 2018	October 2017	November 2018	October 2017
Beginning balance: Accumulated other comprehensive loss (net of tax of \$3,660, \$6,054, \$2,816 and \$6,691, respectively)	\$(13,768)	\$(11,287)	\$(10,592)	\$(12,426)
Other comprehensive income (loss):				
Foreign currency translation adjustments (net of tax (benefit) expense of \$10, \$66, \$854, and \$(571), respectively)	(39)	(79)	(3,215)	1,060
Ending balance: Accumulated other comprehensive loss (net of tax of \$3,670, \$6,120, \$3,670, and \$6,120, respectively)	\$(13,807)	\$(11,366)	\$(13,807)	\$(11,366)

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

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NOTE 5. DEBT

The Company's debt consisted of the following:

(in thousands)	November 2, 2018		October 27, 2017		February 2, 2018	
	Amount	Rate	Amount	Rate	Amount	Rate
Term Loan Facility, maturing April 4, 2021	\$491,825	5.49%	\$496,975	4.49%	\$495,688	4.82%
Current ABL Facility, maturing November 16, 2022 ⁽¹⁾	—	— %	—	— %	—	— %
	491,825		496,975		495,688	
Less: Current maturities in Other current liabilities	5,150		5,150		5,150	
Less: Unamortized debt issuance costs	3,274		4,628		4,290	
Long-term debt, net	\$483,401		\$487,197		\$486,248	

⁽¹⁾ October 27, 2017 amounts pertain to Prior ABL Facility.

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

(in thousands)	November 2, 2018	October 27, 2017	February 2, 2018
Current ABL Facility maximum borrowing ⁽¹⁾	\$ 175,000	\$ 175,000	\$ 175,000
Outstanding Letters of Credit ⁽¹⁾	22,621	17,788	22,328
Borrowing availability under ABL ⁽¹⁾	\$ 152,379	\$ 157,212	\$ 152,672

⁽¹⁾ October 27, 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 November 2, 2018.

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

NOTE 6. STOCK-BASED COMPENSATION

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

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

- i. Time vesting stock awards ("Deferred Awards") are in the form of restricted stock units and only require each recipient to complete a service period for the awards to be earned. Deferred Awards generally vest over three years. The fair value of Deferred Awards is based on the closing price of the Company's common stock on the grant date and is reduced for estimated forfeitures of those awards not expected to vest due to employee turnover.
- ii. Stock option awards ("Option Awards") provide the recipient with the option to purchase a set number of shares at a stated exercise price over the term of the contract, which is ten years for all Option Awards currently outstanding. Options are granted with a strike price equal to the stock price on the date of grant and vest ratably over a four year period.
- iii. 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 First Quarter 2018. 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:

(in thousands)	13 Weeks Ended		39 Weeks Ended	
	November 2018	October 2017	November 2018	October 2017
Deferred Awards	\$ 1,237	\$ 879	\$ 3,177	\$ 2,315
Option Awards	187	176	561	452
Performance Awards	312	—	694	88
Total stock-based compensation expense	\$ 1,736	\$ 1,055	\$ 4,432	\$ 2,855

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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	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	292	21.97	—	—	195	21.90
Vested	(139)	22.68	(86)	8.73	—	—
Forfeited or expired	(21)	22.41	—	—	(18)	21.93
Unvested as of November 2, 2018	629	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 granted and 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 \$8.8 million as of November 2, 2018, which is expected to be recognized ratably over a weighted average period of 2.1 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 \$1.8 million as of November 2, 2018, which is expected to be recognized ratably over a weighted average period of 2.4 years. The Option Awards have a life of ten years and vest ratably over the first four years. The fair value of each Option Award was estimated on the grant date using the Black-Scholes option pricing model. As of November 2, 2018, 85,784 shares related to Option Awards were exercisable. No options have been exercised as of November 2, 2018.

Total unrecognized stock-based compensation expense related to unvested Performance Awards was approximately \$3.0 million as of November 2, 2018, which is expected to be recognized ratably over a weighted average period of 2.4 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 \$2.1 million, \$1.6 million and \$2.4 million as of November 2, 2018, October 27, 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)	November 2, 2018		October 27, 2017		February 2, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including short-term portion	\$491,825	\$475,226	\$496,975	\$414,353	\$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 November 2, 2018, October 27, 2017, and February 2, 2018. There were no nonfinancial assets or nonfinancial liabilities recognized at fair value on a nonrecurring basis as of November 2, 2018, October 27, 2017, and February 2, 2018.

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NOTE 8. INCOME TAXES

Provision for Income Taxes

The Company recorded a tax benefit for the Third Quarter 2018 and Year-to-Date 2018, with effective tax rates of 581.6% and 68.5%, respectively. This compares to effective tax rates of 3.0% and 33.7% for the Third Quarter 2017 and Year-to-Date 2017. The higher effective tax benefit for the Third Quarter 2018 was primarily due to revised estimates of the impact due to the Tax Act as more fully described below. The Year-to-Date 2018 rate reflects the revised estimates and the benefits of favorable state tax audit settlements for periods prior to the Separation which were recorded in the first quarter.

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. The Company has revised estimates related to the Tax Act and has recorded a benefit of \$3.7 million in the Third Quarter 2018. The Company is still investigating potential planning opportunities as they present themselves. As such, 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.

Impacts from Sears

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. As of November 2, 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. Accordingly, an indemnification asset from Sears Holdings Corporation for the pre-Separation UTBs is recorded in Other assets in the Condensed Consolidated Balance Sheets.

On October 15, 2018, Sears Holdings Corporation and certain of its subsidiaries filed voluntary petitions in the United States Bankruptcy Court for the Southern District of New York seeking relief under Chapter 11 of Title 11 of the United States Code (collectively the "Sears Filing").

As a result of the Sears Filing, the Company believes that the recovery of the UTBs provided by the Tax Sharing Agreement is uncertain. The Company recorded a non-cash charge of \$2.6 million in the Third Quarter 2018 as the result of establishing a reserve against the indemnification asset. The indemnification asset was \$0, \$12.0 million and \$7.4 million as of November 2, 2018, October 27, 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.

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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 or from third parties, are as follows:

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		39 Weeks Ended	
	November 2018	October 2017	November 2018	October 2017
Rent, CAM and occupancy costs	\$3,483	\$ 5,376	\$12,004	\$ 16,882
Retail services, store labor	3,231	5,268	11,084	16,410
Financial services and payment processing	350	479	1,191	1,627
Supply chain costs	126	167	362	558
Total expenses	\$7,190	\$ 11,290	\$24,641	\$ 35,477
Number of Lands' End Shops at Sears at period end	125	188	125	188

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		39 Weeks Ended	
	November 2018	October 2017	November 2018	October 2017
Sourcing	\$2,830	\$ 3,445	\$6,144	\$ 8,525
Shop Your Way	251	83	633	780
Shared services	48	48	143	143
Total expenses	\$3,129	\$ 3,576	\$6,920	\$ 9,448

The Company's contract under which it receives sourcing services from an affiliate of Sears Holdings runs through June 30, 2020. The Company participates in Sears Holdings' Shop Your Way program in the Lands' End Shops at Sears.

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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		39 Weeks Ended	
	November 2018	October 2017	November 2018	October 2017
Call center services	\$—	\$ —	\$—	\$ 1,160
Lands' End business outfitters revenue	216	222	834	764
Credit card revenue	184	205	506	638
Royalty income	43	55	156	169
Gift card (expense)	(4)	(7)	(12)	(20)
Total income	\$439	\$ 475	\$1,484	\$ 2,711

Call Center Services

The Company had entered into a contract with SHMC to provide call center services in support of Sears Holdings' Shop Your Way member loyalty program. 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.

Additional Balance Sheet Information

At November 2, 2018, October 27, 2017 and February 2, 2018, the Company included \$1.0 million, \$3.1 million and \$2.0 million in Accounts receivable, net, respectively, and \$3.1 million and \$2.9 million in Accounts payable on October 27, 2017 and February 2, 2018, respectively, in the Condensed Consolidated Balance Sheets to reflect amounts due from and owed to Sears Holdings.

Following the Sears Filing, the Company began netting payables due to Sears against receivables due from Sears if and as allowed under its contracts. As a result, receivables and payables have been netted, and are presented as a net receivable balance in Accounts receivable, net.

In the Third Quarter 2018, the Company recorded a non-cash charge of \$2.6 million in Other expense, net, in the Condensed Statement of Operations due to establishing a reserve against the indemnification asset related to 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. Due to the Sears Filing, there is substantial doubt regarding the collectability of this contingent asset. At October 27, 2017 and February 2, 2018, respectively, a \$12.0 million and \$7.4 million indemnification receivable was recorded in Other assets in the Condensed Consolidated Balance Sheets.

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:

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(in thousands)	13 Weeks Ended		39 Weeks Ended	
	November	October	November	October
	2, 2018	27, 2017	2, 2018	27, 2017
Net revenue:				
Apparel	\$279,620	\$263,309	\$794,788	\$743,794
Non-apparel	40,238	37,303	97,286	91,148
Service and other	21,712	24,877	57,266	61,102
Total net revenue	\$341,570	\$325,489	\$949,340	\$896,044

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 income (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.

Financial information by segment is presented in the following tables:

SUMMARY OF SEGMENT DATA

(in thousands)	13 Weeks Ended		39 Weeks Ended	
	November	October	November	October
	2, 2018	27, 2017	2, 2018	27, 2017
Net revenue:				
Direct	\$313,778	\$290,326	\$863,753	\$778,554
Retail	27,792	35,163	85,587	117,490
Total net revenue	\$341,570	\$325,489	\$949,340	\$896,044

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(in thousands)	13 Weeks Ended		39 Weeks Ended	
	November 2, 2018	October 27, 2017	November 2, 2018	October 27, 2017
Adjusted EBITDA:				
Direct	\$30,284	\$29,100	\$68,379	\$54,018
Retail	(3,595)	(6,003)	(7,763)	(7,405)
Corporate / other	(11,001)	(10,245)	(28,179)	(25,635)
Total adjusted EBITDA	\$15,688	\$12,852	\$32,437	\$20,978
(Gain) loss on property and equipment	(162)	89	121	151
Transfer of corporate functions	4	475	10	2,401
Depreciation and amortization	7,361	6,347	20,420	19,031
Operating income (loss)	\$8,485	\$5,941	\$11,886	\$(605)
Interest expense	7,303	6,350	21,216	18,642
Other expense (income), net	1,866	(576)	5,317	(1,812)
Income tax (benefit) expense	(3,978)	5	(10,026)	(5,878)
NET INCOME (LOSS)	\$3,294	\$162	\$(4,621)	\$(11,557)

(in thousands)	13 Weeks Ended		39 Weeks Ended	
	November 2, 2018	October 27, 2017	November 2, 2018	October 27, 2017
Depreciation and amortization:				
Direct	\$6,887	\$5,747	\$18,692	\$17,015
Retail	177	285	752	992
Corporate / other	297	315	976	1,024
Total depreciation and amortization	\$7,361	\$6,347	\$20,420	\$19,031

(in thousands)	November 2, 2018	October 27, 2017	February 2, 2018
Total Assets:			
Direct	\$961,289	\$934,508	\$856,986
Retail	55,511	67,965	49,933
Corporate / other	131,918	118,007	217,216
Total assets	\$1,148,718	\$1,120,480	\$1,124,135

(in thousands)	13 Weeks Ended		39 Weeks Ended	
	November 2, 2018	October 27, 2017	November 2, 2018	October 27, 2017
Capital expenditures:				
Direct	\$9,129	\$8,791	\$29,591	\$29,004
Retail	1,828	—	3,569	10
Corporate / other	\$—	\$129	\$—	\$129
Total capital expenditures	\$10,957	\$8,920	\$33,160	\$29,143

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

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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. Revenue includes sales of merchandise and delivery revenue related to merchandise sold. Substantially all of the Company's revenue is recognized when control of product passes to customers, which for the 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 Third Quarter 2018.

The Company's revenue is 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		39 Weeks Ended	
	November 2018	October 2017	November 2018	October 2017
Net revenue:				
North America	\$ 300,900	\$ 283,771	\$ 828,078	\$ 780,926
Europe	30,783	31,848	87,888	84,053
Asia	9,887	9,870	33,374	31,065
Total Net revenue	\$ 341,570	\$ 325,489	\$ 949,340	\$ 896,044

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 revenue for each period presented. The remainder of deferred revenue as of November 2, 2018 is expected to be recognized in Net revenue in the fiscal quarter ending February 1, 2019, as products are delivered to customers.

(in thousands)	November 2, 2018	
	13 Weeks Ended	39 Weeks Ended
Deferred Revenue Beginning of Period	\$ 8,461	\$ 12,838
Deferred Revenue Recognized in Period	(8,461)	(12,838)
Revenue Deferred in Period	21,960	21,960
Deferred Revenue End of Period	\$ 21,960	\$ 21,960

Revenue from gift cards is recognized when (i) the gift card is redeemed by the customer for merchandise, or (ii) as gift card breakage, an estimate of gift cards which will not be redeemed where the Company does not have a legal obligation to remit the value of the unredeemed gift cards to the relevant jurisdictions. Gift card breakage is recorded within Net revenue in the Condensed Consolidated Statements of Operations. Prior to their redemption, gift cards are recorded as a liability, included within Other current liabilities in the Condensed Consolidated Balance Sheets. The total contract liability related to gift cards issued was \$16.0 million, \$17.7 million and \$19.3 million as of November 2, 2018, October 27, 2017 and February 2, 2018, respectively. The liability is estimated based on expected

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breakage that considers historical patterns of redemption. The following table provides the reconciliation of the contract liability related to gift cards:

	November 2, 2018	
(in thousands)	13	39
	Weeks	Weeks
	Ended	Ended
Balance as of Beginning of Period	\$16,626	\$19,272
Gift cards sold	14,790	40,143
Gift cards redeemed	(15,258)	(41,605)
Gift card breakage	(183)	(1,835)
Balance as of November 2, 2018	\$15,975	\$15,975

Refund Liabilities

Refund liabilities, primarily associated with product sales returns and retrospective volume rebates represent variable consideration and are estimated and recorded as a reduction to Net revenue based on historical experience. As of November 2, 2018, October 27, 2017 and February 2, 2018, \$23.7 million, \$12.0 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 net 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 risks, uncertainties, and other factors that could cause actual results to differ materially from those made, projected or implied in the forward-looking statements. See "Cautionary Statements Concerning Forward-Looking Statements" below and "Item 1A. Risk Factors" in our Annual Report filed on Form 10-K for the year ended February 2, 2018 and "Part II, Item 1A Risk Factors" of this Quarterly Report on Form 10-Q, for a discussion of the uncertainties, risks and assumptions associated with these statements.

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

- ABL 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
- First Quarter 2018 - The thirteen weeks ended May 4, 2018
- Fiscal 2018 - The fifty-two weeks ending February 1, 2019
- 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
- Third Quarter 2018 - The thirteen weeks ended November 2, 2018
- Third Quarter 2017 - The thirteen weeks ended October 27, 2017
- UK Borrower - A United Kingdom subsidiary borrower of Lands' End under the Prior ABL Facility
- UTBs - Gross unrecognized tax benefits

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- Year-to-Date 2018 - The thirty-nine weeks ended November 2, 2018
- Year-to-Date 2017 - The thirty-nine weeks ended October 27, 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 Third Quarter 2018, Third 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, international websites, third party online marketplaces, and through retail locations. We are a classic American lifestyle brand with a passion for quality, legendary service and real value, and seek to deliver timeless style for 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.

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

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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:

(in thousands)	13 Weeks Ended			
	November 2, 2018		October 27, 2017	
	\$'s	% of Net revenue	\$'s	% of Net revenue
Net revenue	\$341,570	100.0 %	\$325,489	100.0 %
Cost of sales (excluding depreciation and amortization)	190,608	55.8 %	183,515	56.4 %
Gross profit	150,962	44.2 %	141,974	43.6 %
Selling and administrative	135,274	39.6 %	129,122	39.7 %
Depreciation and amortization	7,361	2.2 %	6,347	1.9 %
Other operating (income) expense, net	(158)	— %	564	0.2 %
Operating income	8,485	2.5 %	5,941	1.8 %
Interest expense	7,303	2.1 %	6,350	2.0 %
Other expense (income), net	1,866	0.5 %	(576)	(0.2)%
Income (loss) before income taxes	(684)	(0.2)%	167	0.1 %
Income tax (benefit) expense	(3,978)	(1.2)%	5	— %
NET INCOME	\$3,294	1.0 %	\$162	— %
(in thousands)	39 Weeks Ended			
	November 2, 2018		October 27, 2017	
	\$'s	% of Net revenue	\$'s	% of Net revenue
Net revenue	\$949,340	100.0 %	\$896,044	100.0 %
Cost of sales (excluding depreciation and amortization)	528,587	55.7 %	497,262	55.5 %
Gross profit	420,753	44.3 %	398,782	44.5 %
Selling and administrative	388,315	40.9 %	377,804	42.2 %
Depreciation and amortization	20,420	2.2 %	19,031	2.1 %
Other operating expense, net	132	— %	2,552	0.3 %
Operating income	11,886	1.3 %	(605)	(0.1)%
Interest expense	21,216	2.2 %	18,642	2.1 %
Other expense (income), net	5,317	0.6 %	(1,812)	(0.2)%
Loss before income taxes	(14,647)	(1.5)%	(17,435)	(1.9)%
Income tax benefit	(10,026)	(1.1)%	(5,878)	(0.7)%
NET LOSS	\$(4,621)	(0.5)%	\$(11,557)	(1.3)%

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

Net Income (Loss) and Adjusted EBITDA

We recorded Net income of \$3.3 million and Net loss of \$4.6 million in the Third Quarter 2018 and Year-to-Date 2018, respectively compared to Net income of \$0.2 million and Net loss of \$11.6 million in the Third Quarter 2017 and Year-to-Date 2017, respectively. In addition to our Net income (loss) determined in accordance with GAAP, for purposes of evaluating operating performance, we use an Adjusted EBITDA measurement. Adjusted EBITDA is computed as Net income (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.

	13 Weeks Ended					
	November 2, 2018			October 27, 2017		
(in thousands)	\$'s	% of Net revenue	%	\$'s	% of Net revenue	%
Net income	\$3,294	1.0	%	\$162	—	%
Income tax (benefit) expense	(3,978)	(1.2)	%	5	—	%
Other expense (income), net	1,866	0.5	%	(576)	(0.2)	%
Interest expense	7,303	2.1	%	6,350	2.0	%
Operating income	8,485	2.5	%	5,941	1.8	%
Depreciation and amortization	7,361	2.2	%	6,347	1.9	%
Transfer of corporate functions	4	—	%	475	0.1	%
(Gain) loss on property and equipment	(162)	—	%	89	—	%
Adjusted EBITDA	\$15,688	4.6	%	\$12,852	3.9	%

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(in thousands)	39 Weeks Ended					
	November 2, 2018			October 27, 2017		
	\$'s	% of		\$'s	% of	
	Net revenue		Net revenue			
Net loss	\$(4,621)	(0.5))%	\$(11,557)	(1.3))%
Income tax benefit	(10,026)	(1.1))%	(5,878)	(0.7))%
Other expense (income), net	5,317	0.6	%	(1,812)	(0.2))%
Interest expense	21,216	2.2	%	18,642	2.1	%
Operating income (loss)	11,886	1.3	%	(605)	(0.1))%
Depreciation and amortization	20,420	2.2	%	19,031	2.1	%
Transfer of corporate functions	10	—	%	2,401	0.3	%
Loss on property and equipment	121	—	%	151	—	%
Adjusted EBITDA	\$32,437	3.4	%	\$20,978	2.3	%

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 web portal are considered revenue in our Direct segment and are excluded from Same Store Sales.

Discussion and Analysis

Third Quarter 2018 compared with Third Quarter 2017

Net Revenue

Net revenue for Third Quarter 2018 was \$341.6 million, compared with \$325.5 million in the comparable period of the prior year, an increase of \$16.1 million, or 4.9%. The increase was comprised of an increase in our Direct segment of \$23.5 million and a decrease in our Retail segment of \$7.4 million.

Direct segment Net revenue was \$313.8 million for Third Quarter 2018, an increase of \$23.5 million, or 8.1%, from the comparable period of the prior year. The increase in the Direct segment was primarily attributable to the continued growth in our U.S. eCommerce business. We continued to increase our buyer file and our conversion rate in our U.S. eCommerce business helping to drive the increase, particularly in key items in our assortment such as outerwear, knit tops, denim, flannel, and home.

Retail segment Net revenue was \$27.8 million for Third Quarter 2018, a decrease of \$7.4 million, or 21.0%, from the comparable period of the prior year, primarily driven by a significant reduction of our Lands' End Shops at Sears locations. Consolidated Same Store Sales increased 11.8% as compared to the same period of the prior year. Our US Company Operated stores experienced an increase of 15.1% in Same Store Sales. Our Lands' End Shops at Sears experienced an increase of 11.7% in Same Store Sales primarily due to liquidating stores. On November 2, 2018, the Company had 125 Lands' End Shops at Sears and 18 Company Operated stores compared with 188 Lands' End Shops at Sears and 14 Company Operated stores on October 27, 2017.

Table of Contents**Gross Profit**

Gross profit increased \$9.0 million to \$151.0 million and gross margin increased to 44.2% of total Net revenue, in Third Quarter 2018, compared with \$142.0 million, and gross margin of 43.6% of total Net revenue, in Third Quarter 2017. The Gross profit increase was comprised of an increase in our Direct segment of \$9.9 million and decrease in our Retail segment of \$0.9 million.

Direct segment Gross profit increased \$9.9 million to \$139.9 million in Third Quarter 2018 from \$130.0 million in Third Quarter 2017. Direct segment gross margin decreased approximately 20 basis points to 44.6% of total Net revenue in Third Quarter 2018, compared with 44.8% of total Net revenue in Third Quarter 2017. The gross margin decrease was due to increased shipping costs, partially offset by stronger merchandise margins and effective inventory management of our seasonal assortment.

Retail segment Gross profit decreased \$0.9 million to \$11.1 million in Third Quarter 2018 from \$12.0 million in Third Quarter 2017. Retail segment gross margin increased approximately 570 basis points to 39.9% of Net revenue, in Third Quarter 2018, compared to 34.2% of Net revenue, in Third Quarter 2017 through full priced selling mix, promotional productivity and improved quality of our seasonal assortment, which led to higher sell through and reduced markdowns.

Selling and Administrative Expenses

Selling and administrative expenses increased \$6.2 million to \$135.3 million, a decrease of approximately 10 basis points to 39.6% of total Net revenue, in Third Quarter 2018, compared with \$129.1 million, or 39.7% of Net revenue, in Third Quarter 2017. The increase in Selling and administrative expenses was due to an increase of \$8.8 million in the Direct Segment and \$0.7 million in Corporate expenses, offset by a decrease of \$3.3 million in the Retail segment. Direct segment Selling and administrative expenses were \$109.6 million, an increase of approximately 20 basis points to 34.9% of Net revenue, in Third Quarter 2018, compared with \$100.8 million, or 34.7% of Net revenue, in Third Quarter 2017. The basis point increase was largely attributable to the increased marketing investment in addition to personnel costs and incentive accruals related to the continued growth of the US Direct business.

Retail segment Selling and administrative expenses were \$14.7 million, an increase of approximately 160 basis points to 52.9% of Net revenue, in Third Quarter 2018, compared with \$18.0 million, or 51.3% of Net revenue, in Third Quarter 2017. The basis point increase was largely attributable to the reduction in the number of Lands' End Shops at Sears partially offset by improved leverage with new Company Operated stores.

Corporate/other Selling and administrative expenses were \$11.0 million compared with \$10.3 million for Third Quarter 2018 and Third Quarter 2017, respectively. The \$0.7 million, or 6.8%, increase was largely attributable to an increase in personnel costs and incentive accruals.

Depreciation and Amortization

Depreciation and amortization expense was \$7.4 million in Third Quarter 2018, an increase of \$1.0 million or 16.0%, compared with \$6.4 million in Third 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 income, net was insignificant in Third Quarter 2018 compared to other operating expense of \$0.6 million in Third 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.

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Operating Income

Operating income was \$8.5 million in Third Quarter 2018 compared to \$5.9 million in Third 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 \$7.3 million in Third Quarter 2018 compared to \$6.4 million in Third Quarter 2017, reflective of a rising interest rate environment.

Other Expense (Income), Net

Other expense, net was \$1.9 million in Third Quarter 2018 compared to other income, net of \$0.6 million in Third Quarter 2017, driven by the establishment of a reserve against an indemnification asset.

Income Tax Benefit

The Income tax benefit was \$4.0 million for Third Quarter 2018 compared to an insignificant amount in Third Quarter 2017. The effective tax rate was 581.6% in Third Quarter 2018 compared with 3.0% in Third Quarter 2017. The higher benefit is primarily due to revised estimates of the impact due to the Tax Act.

Net Income (Loss)

As a result of the above factors, Net income was \$3.3 million and diluted income per share was \$0.10 in Third Quarter 2018 compared with a Net income of \$0.2 million and diluted earnings per share of \$0.01 in Third Quarter 2017.

Adjusted EBITDA

As a result of the above factors, Adjusted EBITDA increased 22.1% to \$15.7 million in Third Quarter 2018 from \$12.9 million in Third Quarter 2017.

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

Net Revenue

Net revenue for Year-to-Date 2018 was \$949.3 million, compared with \$896.0 million in the comparable period of the prior year, an increase of \$53.3 million or 5.9%. The increase was comprised of an increase in our Direct segment of \$85.2 million and a decrease in our Retail segment of \$31.9 million.

Direct segment Net revenue was \$863.8 million for Year-to-Date 2018, an increase of \$85.2 million, or 10.9%, 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. eCommerce business. In our U.S. eCommerce business, we increased our buyer file and conversion rate helping to drive increased revenue across our assortment.

Retail segment Net revenue was \$85.6 million for Year-to-Date 2018, a decrease of \$31.9 million, or 27.2%, from the comparable period of the prior year primarily due to the reduction of our Lands' End Shops at Sears. Consolidated Same Store Sales declined 5.9% compared to the same period of the prior year. The decrease was primarily attributable to a reduction of our Lands' End Shops at Sears locations and a 7.1% decrease in Lands' End Shops at Sears Same Store Sales. US Company Operated stores experienced an increase of 1.6% in Same Store Sales. On November 2, 2018, the Company operated 125 Lands' End Shops at Sears and 18 Company Operated stores compared with 188 Lands' End Shops at Sears and 14 Company Operated stores on October 27, 2017.

Gross Profit

Gross profit increased \$22.0 million to \$420.8 million and gross margin decreased approximately 20 basis points to 44.3% of Net revenue in Year-to-Date 2018, compared with \$398.8 million, or 44.5% of Net revenue, in Year-to-Date 2017. The Gross profit increase was comprised of an increase in our Direct segment of \$32.7 million offset by decrease in our Retail segment of \$10.6 million.

Direct segment Gross profit increased 9.3% to \$385.3 million in Year-to-Date 2018 from \$352.6 million in Year-to-Date 2017. Direct segment gross margin decreased approximately 70 basis points to 44.6% of Net revenue for Year-

to-Date 2018, compared with 45.3% 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 23.0% to \$35.4 million in Year-to-Date 2018 from \$46.0 million in Year-to-Date 2017. Retail segment gross margin increased approximately 220 basis points to 41.4% of Net revenue for Year-to-Date 2018, compared to 39.2% of Net revenue for Year-to-Date 2017 primarily attributable to effective inventory management requiring lower markdowns of our assortment.

Selling and Administrative Expenses

Selling and administrative expenses increased 2.8% to \$388.3 million, a decrease of approximately 130 basis points to 40.9% of Net revenue, in Year-to-Date 2018, compared with \$377.8 million, or 42.2% of Net revenue, in Year-to-Date 2017. The increase in Selling and administrative expenses was primarily due to an increase of \$18.3 million in the Direct segment and \$2.4 million in Corporate expenses, partially offset by a decrease of \$10.2 million in the Retail segment.

Direct segment Selling and administrative expenses were \$316.9 million, a decrease of approximately 170 basis points to 36.7% of Net revenue, in Year-to-Date 2018, compared with \$298.6 million, or 38.4% of Net revenue, for Year-to-Date 2017. The basis point decrease was largely attributable to improved cost leverage, partially offset by increased personnel costs and incentive accruals.

Retail segment Selling and administrative expenses were \$43.2 million, an increase of approximately 500 basis points to 50.5% of Net revenue, in Year-to-Date 2018, compared with \$53.4 million, or 45.5% 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 Lands' End Shops at Sears same store sales.

Corporate/other Selling and administrative expenses were \$28.2 million compared with \$25.8 million in Year-to-Date 2018 and Year-to-Date 2017, respectively. The \$2.4 million, or 9.3%, increase was primarily due to an increase in personnel costs and incentive accruals.

Depreciation and Amortization

Depreciation and amortization expense was \$20.4 million in Year-to-Date 2018, an increase of \$1.4 million, or 7.3%, compared with \$19.0 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 (income) expense, net was expense of \$0.1 million in Year-to-Date 2018 compared to expense of \$2.6 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 \$11.9 million in Year-to-Date 2018 compared to Operating loss of \$0.6 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 \$21.2 million in Year-to-Date 2018 compared to \$18.6 million in Year-to-Date 2017, reflective of a rising interest rate environment.

Other (Income) Expense, Net

Other expense, net was \$5.3 million in Year-to-Date 2018 compared to Other income, net of \$1.8 million in Year-to-Date 2017. Other expense in Year-to-Date 2018 was primarily attributable to the reversal of an indemnification asset and accrued interest due to favorable state tax audit, and a reserve taken against the indemnification asset.

Income Tax Benefit

Income tax benefit was \$10.0 million for Year-to-Date 2018 compared to \$5.9 million in Year-to-Date 2017. The effective tax rate was 68.5% in Year-to-Date 2018 compared with 33.7% in Year-to-Date 2017. The higher benefit resulted from impacts of the Tax Act and the reversal of UTBs as a consequence of the favorable state tax audit settlements for periods prior to the Separation.

Net Loss

As a result of the above factors, Net loss was \$4.6 million and diluted loss per share was \$0.14 in Year-to-Date 2018 compared with Net loss of \$11.6 million and diluted loss per share of \$0.36 in Year-to-Date 2017.

Adjusted EBITDA

As a result of the above factors, Adjusted EBITDA increased 54.6% to \$32.4 million in Year-to-Date 2018 from \$21.0 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, as of November 2, 2018, was undrawn other than for \$22.6 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.

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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.

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 November 2, 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 used in operating activities decreased to \$52.2 million in the Year-to-Date 2018 from a net cash use of \$87.8 million in the Year-to-Date 2017, primarily driven by improved working capital management through:

• Lower Accounts payable payments in Fiscal 2018 due to timing of inventory receipts and payments,

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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 \$33.0 million and \$29.1 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 \$40.0 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 in financing activities was \$4.4 million and \$4.5 million for Year-to-Date 2018 and Year-to-Date 2017, respectively, consisting primarily of our quarterly payments on our Term Loan Facility.

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 November 2, 2018, other than for \$22.6 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.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This document contains forward-looking statements. Forward-looking statements reflect our current views with respect to, among other things, future events and performance. These statements may discuss, among other things, our net sales, gross margin, operating expenses, operating income, net income, cash flow, financial condition, impairments, expenditures, growth, strategies, plans, achievements, dividends, capital structure, organizational structure, future store openings, market opportunities and general market and industry conditions. We generally identify forward-looking statements by words such as "anticipate," "estimate," "expect," "intend," "project," "plan," "predict," "believe," "seek," "continue," "outlook," "may," "might," "will," "should," "can have," "likely" or the negative version of these words or comparable words. Forward-looking statements are based on beliefs and assumptions made by management using currently available information. These statements are only predictions and are not guarantees of future performance, actions or events. Forward-looking statements are subject to risks and uncertainties. If one or more of these risks or uncertainties materialize, or if management's underlying beliefs and assumptions prove to be incorrect, actual results may differ materially from those contemplated by a forward-looking statement. These risks and uncertainties include those risks, uncertainties and factors discussed in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended February 2, 2018, as modified by "Part II, Item 1A Risk Factors" of this Quarterly Report on Form 10-Q. Forward-looking statements speak only as of the date on which they are made. We expressly disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by applicable securities laws and regulations.

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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 November 2, 2018, we had \$8.9 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 November 2, 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

There have been no changes in the Company's internal controls over financial reporting identified in connection with the evaluation required by Rules 13a-15 under the Exchange Act during the Third Fiscal Quarter Ended November 2, 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.

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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 (the "Form 10-K"), except as outlined below.

Risk factors appearing in the 10-K which reference our relationship with Sears Holdings Corporation are hereby supplemented to reflect that on October 15, 2018, Sears Holdings Corporation and certain of its subsidiaries filed voluntary petitions in the United States Bankruptcy Court for the Southern District of New York seeking relief under Chapter 11 of Title 11 of the United States Code.

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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)).
- 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: December 6, 2018

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