

LANDS' END, INC.
Form 10-Q
December 05, 2017

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 October 27, 2017

-OR-

Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to .
Commission File Number: 001-09769

Lands' End, Inc.
(Exact name of registrant as specified in its charter)

Delaware 36-2512786
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation of Organization) Identification No.)

1 Lands' End Lane 53595
Dodgeville, Wisconsin
(Address of Principal Executive Offices) (Zip Code)
(608) 935-9341
(Registrant's Telephone Number Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) YES NO

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

Non-accelerated filer "Smaller reporting company"

Emerging growth company

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

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

As of December 5, 2017, the registrant had 32,097,483 shares of common stock, \$0.01 par value, outstanding.

LANDS' END, INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED OCTOBER 27, 2017
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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	
(in thousands, except per share data)	October 27, 2017	October 28, 2016	October 27, 2017	October 28, 2016
Net revenue	\$325,489	\$311,476	\$896,044	\$876,919
Cost of sales (excluding depreciation and amortization)	183,515	177,825	497,262	477,446
Gross profit	141,974	133,651	398,782	399,473
Selling and administrative	129,122	132,365	377,804	390,291
Depreciation and amortization	6,347	4,795	19,031	13,419
Other operating expense (income), net	564	(86)	2,552	(40)
Operating income (loss)	5,941	(3,423)	(605)	(4,197)
Interest expense	6,350	6,149	18,642	18,493
Other income, net	(576)	(432)	(1,812)	(1,413)
Income (loss) before income taxes	167	(9,140)	(17,435)	(21,277)
Income tax expense (benefit)	5	(1,918)	(5,878)	(6,316)
NET INCOME (LOSS)	\$162	\$(7,222)	\$(11,557)	\$(14,961)
NET INCOME (LOSS) PER COMMON SHARE (Note 2)				
Basic:	\$0.01	\$(0.23)	\$(0.36)	\$(0.47)
Diluted:	\$0.01	\$(0.23)	\$(0.36)	\$(0.47)
Basic weighted average common shares outstanding	32,095	32,029	32,068	32,018
Diluted weighted average common shares outstanding	32,117	32,029	32,068	32,018

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	
	October 27, 2017	October 28, 2016	October 27, 2017	October 28, 2016
NET INCOME (LOSS)	\$ 162	\$(7,222)	\$(11,557)	\$(14,961)
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments	(79)	(2,183)	1,060	(2,952)
COMPREHENSIVE INCOME (LOSS)	\$ 83	\$(9,405)	\$(10,497)	\$(17,913)

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)	October 27, 2017	October 28, 2016	January 27, 2017
ASSETS			
Current assets			
Cash and cash equivalents	\$92,913	\$131,532	\$213,108
Restricted cash	1,640	3,300	3,300
Accounts receivable, net	39,044	40,101	39,284
Inventories, net	423,540	425,290	325,314
Prepaid expenses and other current assets	48,934	40,942	26,394
Total current assets	606,071	641,165	607,400
Property and equipment, net	129,955	115,871	122,836
Goodwill	110,000	110,000	110,000
Intangible asset, net	257,000	430,000	257,000
Other assets	17,454	16,142	17,155
TOTAL ASSETS	\$1,120,480	\$1,313,178	\$1,114,391
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$160,340	\$180,608	\$162,408
Other current liabilities	103,886	101,093	86,446
Total current liabilities	264,226	281,701	248,854
Long-term debt, net	487,197	490,992	490,043
Long-term deferred tax liabilities	91,392	158,048	90,467
Other liabilities	14,568	16,766	13,615
TOTAL LIABILITIES	857,383	947,507	842,979
Commitments and contingencies			
STOCKHOLDERS' EQUITY			
Common stock, par value \$0.01 authorized: 480,000,000 shares; issued and outstanding: 32,095,021, 32,029,359 and 32,029,359, respectively	320	320	320
Additional paid-in capital	346,153	343,319	343,971
Retained (deficit) earnings	(72,010)	34,368	(60,453)
Accumulated other comprehensive loss	(11,366)	(12,336)	(12,426)
Total stockholders' equity	263,097	365,671	271,412
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,120,480	\$1,313,178	\$1,114,391

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(in thousands)	39 Weeks Ended	
	October 27, 2017	October 28, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(11,557)	\$(14,961)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	19,031	13,419
Product recall	—	(212)
Amortization of debt issuance costs	1,284	1,284
Loss on disposal of property and equipment	151	172
Stock-based compensation	2,855	1,578
Deferred income taxes	355	839
Change in operating assets and liabilities:		
Inventories	(96,522)	(99,997)
Accounts payable	944	40,186
Other operating assets	(21,890)	(25,100)
Other operating liabilities	17,542	15,933
Net cash used in operating activities	(87,807)	(66,859)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	—	44
Change in restricted cash	1,660	—
Purchases of property and equipment	(29,143)	(26,083)
Net cash used in investing activities	(27,483)	(26,039)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on term loan facility	(3,863)	(3,863)
Payments of employee withholding taxes on share-based compensation	(674)	(396)
Net cash used in financing activities	(4,537)	(4,259)
Effects of exchange rate changes on cash	(368)	321
NET DECREASE IN CASH AND CASH EQUIVALENTS	(120,195)	(96,836)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	213,108	228,368
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$92,913	\$ 131,532
SUPPLEMENTAL CASH FLOW DATA		
Unpaid liability to acquire property and equipment	\$4,796	\$ 3,101
Income taxes paid, net of refunds	\$3,220	\$ 3,220
Interest paid	\$17,106	\$ 16,892

See accompanying Notes to Condensed Consolidated Financial Statements.

LANDS' END, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BACKGROUND AND BASIS OF PRESENTATION

Description of Business and Separation

Lands' End, Inc. ("Lands' End" or the "Company") is a leading multi-channel retailer of casual clothing, accessories and footwear, as well as home products. Lands' End offers products through catalogs, online at www.landsend.com and affiliated specialty and international websites, and through retail locations, primarily at Lands' End Shops at Sears and Lands' End stores.

Terms that are commonly used in the Company's notes to condensed consolidated financial statements are defined as follows:

- ABL Facility - Asset-based senior secured credit agreement, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- ASC - Financial Accounting Standards Board Accounting Standards Codification, which serves as the source for authoritative GAAP, except that rules and interpretive releases by the SEC are also sources of authoritative GAAP for Securities and Exchange Commission registrants
- ASU - FASB Accounting Standards Update
- CAM - Common area maintenance for leased properties
- Debt Facilities - Collectively, the ABL Facility and the Term Loan Facility and excluding the New ABL Facility
- EPS - Earnings (loss) per share
- ERP - Enterprise resource planning software solutions
- ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert
- FASB - Financial Accounting Standards Board
- First Quarter 2017 - The thirteen weeks ended April 28, 2017
- Fiscal 2017 - The fifty-three weeks ending February 2, 2018
- Fiscal 2016 - The fifty-two weeks ended January 27, 2017
- Fiscal 2014 - The fifty-two weeks ended January 30, 2015
- Fiscal November 2017 - the four week fiscal month ending November 24, 2017
- GAAP - Accounting principles generally accepted in the United States
- LIBOR - London inter-bank offered rate
- New ABL Facility - Asset-based senior secured credit agreement, dated as of November 16, 2017, with Wells Fargo Bank, National Association
- Sears Holdings or Sears Holdings Corporation - Sears Holdings Corporation, a Delaware Corporation, and its consolidated subsidiaries
- SEC - United States Securities and Exchange Commission
- Second Quarter 2016 - The thirteen weeks ended July 29, 2016
- Separation - On April 4, 2014 Sears Holdings distributed 100% of the outstanding common stock of Lands' End to its shareholders

- SHMC - Sears Holdings Management Corporation, a subsidiary of Sears Holdings Corporation
- SYW or Shop Your Way - Shop Your Way member loyalty program
- 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 agreement, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- Third Quarter 2017 - The thirteen weeks ended October 27, 2017
- Third Quarter 2016 - The thirteen weeks ended October 28, 2016
- UTBs - Gross unrecognized tax benefits related to uncertain tax positions
- Year to Date 2017 - the thirty-nine weeks ended October 27, 2017
- Year to Date 2016 - the thirty-nine weeks ended October 28, 2016

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 31, 2017.

Reclassifications

In First Quarter 2017, the Company adopted ASU 2016-09, Compensation - Stock Compensation, which changed the required presentation of payments of employee withholding taxes on share-based compensation on the Condensed consolidated statements of cash flows from an operating activity to a financing activity. As a result of the adoption, the Company reclassified payments of employee withholding taxes on share-based compensation from Other operating liabilities for the Year to Date 2016 to Payments of employee withholding taxes on share-based compensation. Other requirements of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

NOTE 2. 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 the ASC. Potentially dilutive securities for the diluted EPS calculations consist of nonvested equity shares of common stock and in-the-money outstanding stock options, if any, to purchase the Company's common stock.

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

(in thousands, except per share amounts)	13 Weeks Ended		39 Weeks Ended	
	October 27, 2017	October 28, 2016	October 27, 2017	October 28, 2016
Net income (loss)	\$162	\$ (7,222)	\$ (11,557)	\$ (14,961)
Basic weighted average shares outstanding	32,095	32,029	32,068	32,018
Dilutive effect of stock awards	22	—	—	—
Diluted weighted average shares outstanding	32,117	32,029	32,068	32,018
Basic earnings (loss) per share	\$0.01	\$ (0.23)	\$ (0.36)	\$ (0.47)
Diluted earnings (loss) per share	\$0.01	\$ (0.23)	\$ (0.36)	\$ (0.47)

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 827,057, 376,347, 692,175 and 314,664 shares excluded from the diluted weighted average shares outstanding for Third Quarter 2017, Third Quarter 2016, Year to Date 2017 and Year to Date 2016, respectively.

NOTE 3. OTHER COMPREHENSIVE (LOSS) INCOME

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

(in thousands)	13 Weeks Ended		39 Weeks Ended	
	October 27, 2017	October 28, 2016	October 27, 2017	October 28, 2016
Beginning balance: Accumulated other comprehensive loss (net of tax of \$6,054, \$5,467, \$6,691 and \$5,053, respectively)	\$(11,287)	\$(10,153)	\$(12,426)	\$(9,384)
Other comprehensive (loss) income:				
Foreign currency translation adjustments (net of tax (benefit) expense of \$66, \$1,176, \$(571) and \$1,590, respectively)	(79)	(2,183)	1,060	(2,952)
Ending balance: Accumulated other comprehensive loss (net of tax of \$6,120, \$6,643, \$6,120 and \$6,643, respectively)	\$(11,366)	\$(12,336)	\$(11,366)	\$(12,336)

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

NOTE 4. DEBT

The Company's debt consisted of the following:

	October 27, 2017		October 28, 2016		January 27, 2017	
	Amount	Rate	Amount	Rate	Amount	Rate
Term Loan Facility, maturing April 4, 2021	\$496,975	4.49%	\$502,125	4.25%	\$500,838	4.25%
ABL Facility, maturing April 4, 2019 ¹	—	%	—	%	—	%
	496,975		502,125		500,838	
Less: Current maturities in Other current liabilities	5,150		5,150		5,150	
Less: Unamortized debt issuance costs - Term Loan Facility	4,628		5,983		5,645	
Long-term debt, net	\$487,197		\$490,992		\$490,043	

¹ Debt arrangement terminated on November 16, 2017.

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

	October 27, 2017	October 28, 2016	January 27, 2017
ABL maximum borrowing	\$175,000	\$175,000	\$175,000
Outstanding Letters of Credit	17,788	13,845	19,705
Borrowing availability under ABL	\$157,212	\$161,155	\$155,295

Interest; Fees

The interest rates per annum applicable to the loans under the Debt Facilities are based on a fluctuating rate of interest measured by reference to, at the borrowers' election, either (i) an adjusted LIBOR rate plus a borrowing margin, or (ii) an alternative base rate plus a borrowing margin. The borrowing margin is fixed for the Term Loan Facility at 3.25% in the case of LIBOR loans and 2.25% in the case of base rate loans. For the Term Loan Facility, LIBOR is subject to a 1% interest rate floor. The borrowing margin for the ABL Facility is subject to adjustment based on the average excess availability under the ABL Facility for the preceding fiscal quarter, and may range from 1.50% to 2.00% in the case of LIBOR borrowings and may range from 0.50% to 1.00% in the case of base rate borrowings. Customary agency fees are payable pursuant to the terms of the Debt Facilities. The ABL Facility fees also include (i) commitment fees, based on a percentage ranging from approximately 0.25% to 0.375% of the daily unused portions of the ABL Facility, and (ii) customary letter of credit fees.

Representations and Warranties; Covenants

Subject to specified exceptions, the Debt Facilities contain various representations and warranties and restrictive covenants that, among other things, restrict the ability of Lands' End and its subsidiaries to incur indebtedness (including guarantees), grant liens, make investments, make dividends or distributions with respect to capital stock, make prepayments on other indebtedness, engage in mergers or change the nature of their business. In addition, if excess availability under the ABL Facility falls below the greater of 10% of the loan cap amount or \$15.0 million, Lands' End will be required to comply with a minimum fixed charge coverage ratio of 1.0 to 1.0. The Debt Facilities do not otherwise contain financial maintenance covenants. The Company was in compliance with all financial covenants related to the Debt Facilities as of October 27, 2017.

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.

New ABL Facility

Subsequent to the balance sheet date, 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 New ABL Facility has a letter of credit sub-limit of \$70.0 million. The New ABL Facility is available for working capital and other general corporate purposes. The New ABL Facility will mature no later than November 16, 2022, subject to customary extension provisions provided for therein. Also on November 16, 2017, in connection with the effectiveness of the New ABL Facility, the company terminated its existing ABL Facility, dated as of April 4, 2014, among the Company, Lands' End Europe Limited, the financial institutions party thereto as lenders and Bank of America, N.A., as administrative agent and collateral agent, terminated all loan related documents and repaid all outstanding amounts thereunder.

Guarantees; Security for the New ABL Facility

All obligations under the New ABL Facility 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 New ABL Facility is secured by (1) a first priority security interest in certain working capital of the Company and guarantors consisting primarily of accounts receivable and inventory and (2) a second priority security interest in certain property and assets of the Company and guarantors, including certain fixed assets and stock of subsidiaries.

Interest; Fees for New ABL Facility

The interest rates per annum applicable to the loans under the New ABL Facility are based on a fluctuating rate of interest measured by reference to, at the Company's election, either (1) an adjusted LIBOR plus a borrowing margin, or (2) an alternative base rate plus a borrowing margin. The borrowing margin for the New ABL Facility is subject to adjustment based on the average daily availability under the ABL Facility for the preceding fiscal quarter, and may range from 1.25% to 1.75% in the case of LIBOR borrowings and may range from 0.50% to 1.00% in the case of base rate borrowings.

Customary agency fees are payable in respect of the New ABL Facility and include (1) commitment fees in an amount equal to 0.25% of the daily unused portions of the ABL Facility, and (2) customary letter of credit fees.

NOTE 5. 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") which are in the form of restricted stock units which only require each recipient to complete a service period; Deferred Awards generally vest over three years or in full after a three year period. 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") which 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 10 years for all Option Awards currently outstanding.

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.

iii. Performance Awards have annual vesting, but due to the performance criteria, are not eligible for straight-line expensing. Therefore, Performance Awards are amortized using a graded expense process. Similar to the Deferred Awards, Performance Awards fair value is based on the closing price of the Company's common stock on the grant date and the compensation expense is reduced for estimated forfeitures of those awards not expected to vest due to employee turnover.

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	
	October 27, 2017	October 28, 2016	October 27, 2017	October 28, 2016
Deferred Awards	\$879	\$ (301)	\$2,315	\$ 1,067
Option Awards	176	—	452	—
Performance Awards	—	127	88	511
Total stock-based compensation expense	\$1,055	\$ (174)	\$2,855	\$ 1,578

In the Third Quarter 2016 there was a reversal of prior period expense due to the resignation of the former Chief Executive Officer.

The following table provides a summary of the activities for stock awards for Year to Date 2017:

(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
Outstanding as of January 27, 2017	252	\$ 24.42	—	\$ —	—	\$ 26.38
Granted	403	21.79	343	8.73	—	—
Vested	(59)	23.00	—	—	(41)	28.33
Exercised	—	—	—	—	—	—
Forfeited or expired	(80)	24.77	—	—	(28)	23.47
Outstanding as of October 27, 2017	516	22.39	343	8.73	—	—

Total unrecognized stock-based compensation expense related to unvested Deferred Awards was approximately \$9.0 million as of October 27, 2017, which is expected to be recognized ratably over a weighted average period of 2.4 years. Deferred Awards granted to various employees during Year to Date 2017 generally vest ratably for a period between fifteen months to four years.

There was no unrecognized stock-based compensation expense related to unvested Performance Awards as of October 27, 2017.

Total unrecognized stock-based compensation expense related to unvested Option Awards was approximately \$2.5 million as of October 27, 2017, which is expected to be recognized ratably over a weighted average period of 3.4 years. The Option Awards vest ratably over 4.0 years and the contract to buy Option Awards extends for another 6.0 years. The fair value of each Option Award was estimated on the grant date using the Black-Scholes option pricing model. No Option Awards were exercisable as of October 27, 2017.

The fair value of Option Awards is determined on the grant date utilizing a Black-Scholes option pricing model. The following assumptions were utilized in deriving the fair value for Option Awards granted during Year to Date 2017:

Assumption	Low	High
Risk-free interest rate	1.82%	-1.90%
Expected dividend yield	—%	—%
Volatility	45.59%	-46.12%
Expected life (in years)	6.25	-6.25
Weighted average exercise price per share	\$18.10	-\$22.00

The simplified method was used to calculate the Expected life (in years) to be utilized in the Black-Scholes option pricing model applied to Option Awards granted in Fiscal 2017. The simplified method was used as the company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term of the Option Awards due to the limited period of time since the Company began publicly issuing shares.

NOTE 6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Company determines fair value of financial assets and liabilities based on the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs—unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occurs with sufficient frequency and volume to provide ongoing pricing information.

Level 2 inputs—inputs other than quoted market prices included in Level 1 that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active

and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates.

Level 3 inputs—unobservable inputs for the asset or liability.

Restricted cash is reflected on the Condensed Consolidated Balance Sheets at fair value. The fair value of restricted cash was \$1.6 million, \$3.3 million and \$3.3 million as of October 27, 2017, October 28, 2016 and January 27, 2017, respectively based on Level 1 inputs. Restricted cash amounts are valued based upon statements received from financial institutions.

Cash and cash equivalents, accounts receivable, accounts payable and other current liabilities are reflected on the Condensed Consolidated Balance Sheets at cost, which approximates fair value due to the short-term nature 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)	October 27, 2017		October 28, 2016		January 27, 2017	
	Carrying	Fair	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value	Amount	Value
Long-term debt, including short-term portion	\$496,975	\$414,353	\$502,125	\$386,636	\$500,838	\$379,385

Long-term debt, including short-term portion was valued utilizing Level 2 valuation techniques based on the closing inactive market bid price on October 27, 2017, October 28, 2016, and January 27, 2017. There were no nonfinancial assets or nonfinancial liabilities recognized at fair value on a nonrecurring basis as of October 27, 2017, October 28, 2016, and January 27, 2017.

NOTE 7. GOODWILL AND INTANGIBLE ASSET

The Company's intangible assets, consisting of a trade name and goodwill, were valued as a result of business combinations accounted for under the purchase accounting method. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. The net carrying amounts of goodwill and trade name are included within the Company's Direct segment.

ASC 350, Intangibles - Goodwill and Other, requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that the carrying amount may not be recoverable. As a result of the 2016 annual impairment test the Company recorded a non-cash pretax trade name intangible asset impairment charge of \$173.0 million in Fiscal 2016. There were no impairment charges recorded for the intangible asset in Year to Date 2017.

If actual results are not consistent with our estimates and assumptions used in estimating revenue growth, future cash flows and asset fair values, we could incur further impairment charges for the intangible asset or goodwill, which could have an adverse effect on our results of operations. The annual test for impairment will be conducted as of the end of Fiscal November 2017.

The intangible asset was \$257.0 million, \$430.0 million and \$257.0 million as of October 27, 2017, October 28, 2016 and January 27, 2017, respectively.

There were no impairments for goodwill during any periods presented or since goodwill was first recognized.

NOTE 8. INCOME TAXES

Lands' End and Sears Holdings Corporation entered into a Tax Sharing Agreement in connection with the Separation which governs Sears Holdings Corporation's and Lands' End's respective rights, responsibilities and obligations after the Separation with respect to liabilities for United States federal, state, local and foreign taxes attributable to the Lands' End business. In addition to the allocation of tax liabilities, the Tax Sharing Agreement addresses the preparation and filing of tax returns for such taxes and dispute resolution with taxing authorities regarding such taxes. Generally, Sears Holdings Corporation is liable for all pre-Separation United States federal, state and local income taxes. Lands' End generally is liable for all other income taxes attributable to its business, including all foreign taxes.

As of October 27, 2017, the Company had UTBs of \$6.9 million. Of this amount, \$4.5 million would, if recognized, impact its effective tax rate, with the remaining amount being comprised of UTBs related to gross temporary differences or other indirect benefits. Pursuant to the Tax Sharing Agreement, Sears Holdings Corporation is generally responsible for all United States federal, state and local UTBs, including interest and penalties, through the date of the Separation and, as such, an indemnification asset from Sears Holdings Corporation for the pre-Separation UTBs is recorded in Other assets in the Condensed Consolidated Balance Sheets. The indemnification asset was \$12.0 million, \$14.4 million and \$11.4 million as of October 27, 2017, October 28, 2016, and January 27, 2017, respectively. The Company classifies interest expense and penalties related to UTBs and interest income on tax overpayments as components of income tax expense. As of October 27, 2017, the total amount of interest expense and penalties recognized on our balance sheet was \$5.5 million (\$3.6 million net of federal benefit). The total amount of such net interest expense recognized in the Condensed Consolidated Statements of Operations was insignificant for all periods presented. The Company files income tax returns in the United States and various foreign jurisdictions. Sears Holdings and the Company are under examination by various state tax jurisdictions for the years 2003 to 2014.

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.

Beginning in 2005, the Company initiated claims in Iowa County Circuit Court against the City of Dodgeville (the "City") to recover overpaid taxes resulting from the City's excessive property tax assessment of the Company's headquarters campus for each tax year from 2005 through 2016. As of June 6, 2017 the City has refunded, as the result of various court decisions and a settlement agreement, over \$7.5 million in excessive taxes and interest to the Company. All excessive property tax assessment claims arising with respect to the tax years 2005 through 2016 are now closed.

The Company received refunds of \$1.0 million of the above amount in First Quarter 2017, \$1.2 million in Second Quarter 2016 and \$1.1 million in Third Quarter 2016 which were recorded primarily within Selling and administrative costs in the Condensed Consolidated Statements of Operations.

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 First Quarter 2017, ESL purchased approximately \$4.0 million of the Company's outstanding debt at a discount of approximately \$1.0 million. Due to the related party relationship, this discount was considered a cancellation of debt under Section 108 of the Internal Revenue Code, triggering additional income tax payments for the Company. As of May 4, 2017, ESL had divested itself of all of the Company's outstanding debt to an unrelated third 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 us. Descriptions of these transactions are included in the Company's 2016 Annual Report on Form 10-K and proxy statement filed with the SEC on March 31, 2017.

In its annual report on Form 10-K for its fiscal year ended January 28, 2017, Sears Holdings disclosed that its historical operating results indicate substantial doubt exists related to its ability to continue as a going concern. Sears Holdings also disclosed it believes that actions it has taken in the last 12 months and expected benefits from actions to be taken in 2017 are probable to mitigate the substantial doubt raised by its historical operating results and therefore will satisfy its liquidity needs for the 12 months following the issuance of its financial statements.

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

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Lands' End Shops at Sears

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

(in thousands, except for number of stores)	13 Weeks Ended		39 Weeks Ended	
	October 2017	October 2016	October 2017	October 2016
Rent, CAM and occupancy costs	\$5,376	\$ 6,165	\$16,882	\$ 18,707
Retail services, store labor	5,268	6,004	16,410	18,034
Financial services and payment processing	479	573	1,627	1,963
Supply chain costs	167	183	558	735
Total expenses	\$11,290	\$ 12,925	\$35,477	\$ 39,439
Number of Lands' End Shops at Sears at period end	188	219	188	219

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	
	October 2017	October 2016	October 2017	October 2016
Sourcing	\$3,445	\$ 4,941	\$8,525	\$ 7,979
Shop Your Way	83	596	780	1,670
Shared services	48	48	143	143
Total expenses	\$3,576	\$ 5,585	\$9,448	\$ 9,792

The Company has extended the contract under which it receives sourcing services through June 30, 2020 and the contract governing its participation in the Shop Your Way program through April 4, 2018.

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	
	October 27, 2017	October 28, 2016	October 27, 2017	October 28, 2016
Call Center Services	\$—	\$ 1,976	\$1,160	\$ 5,777
Lands' End Business Outfitters revenue	222	333	764	1,307
Credit card revenue	205	265	638	776
Royalty income	55	56	169	182
Gift card (expense)	(7)	(7)	(20)	(20)
Total income	\$475	\$ 2,623	\$2,711	\$ 8,022

Call Center Services

The Company had entered into a contract with SHMC to provide call center services in support of Sears Holdings' SYW. This income is net of agreed upon costs directly attributable to the Company providing these services. The income is 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 October 27, 2017, October 28, 2016 and January 27, 2017, the Company included \$3.1 million, \$4.6 million and \$3.7 million in Accounts receivable, net, respectively, and \$3.1 million, \$3.8 million and \$3.1 million in Accounts payable, respectively, in the Condensed Consolidated Balance Sheets to reflect amounts due from and owed to Sears Holdings.

At October 27, 2017, October 28, 2016 and January 27, 2017, respectively, a \$12.0 million, \$14.4 million and \$11.4 million receivable was recorded by the Company in Other assets in the Condensed Consolidated Balance Sheets to reflect the indemnification by Sears Holdings Corporation of the pre-Separation UTBs (including penalties and interest) for which Sears Holdings Corporation is responsible under the Tax Sharing Agreement.

NOTE 11. SEGMENT REPORTING

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

(in thousands)	13 Weeks Ended		39 Weeks Ended	
	October 27, 2017	October 28, 2016	October 27, 2017	October 28, 2016
Net revenue:				
Apparel	\$272,175	\$252,082	\$759,460	\$725,062
Non-apparel	38,559	37,854	93,067	95,021
Service and other	14,755	21,540	43,517	56,836
Total net revenue	\$325,489	\$311,476	\$896,044	\$876,919

The Company identifies reportable segments according to how business activities are managed and evaluated. Each of the Company's operating segments are reportable segments and are strategic business units that offer similar products and services but are sold either directly from its warehouses (Direct) or through its 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 Income before taxes appearing on the Condensed Consolidated Statements of Operations net of interest expense, depreciation and amortization and other 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 the Company's stand-alone Lands' End 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

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 27, 2017	October 28, 2016	October 27, 2017	October 28, 2016
Net revenue:				
Direct	\$290,326	\$272,080	\$778,554	\$750,660
Retail	35,104	39,340	117,317	126,077
Corporate / other	59	56	173	182
Total net revenue	\$325,489	\$311,476	\$896,044	\$876,919

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(in thousands)	13 Weeks Ended		39 Weeks Ended	
	October 27, 2017	October 28, 2016	October 27, 2017	October 28, 2016
Adjusted EBITDA:				
Direct	\$29,100	\$13,904	\$54,018	\$41,516
Retail	(6,003)	(3,583)	(7,405)	(7,063)
Corporate / other	(10,245)	(9,035)	(25,635)	(25,271)
Total adjusted EBITDA	\$12,852	\$1,286	\$20,978	\$9,182
Product recall	—	(212)	—	(212)
Loss on disposal of property and equipment	89	126	151	172
Transfer of corporate functions	475	—	2,401	—
Depreciation and amortization	6,347	4,795	19,031	13,419
Operating income (loss)	\$5,941	\$(3,423)	\$(605)	\$(4,197)
Interest expense	6,350	6,149	18,642	18,493
Other income, net	(576)	(432)	(1,812)	(1,413)
Income tax expense (benefit)	5	(1,918)	(5,878)	(6,316)
NET INCOME (LOSS)	\$162	\$(7,222)	\$(11,557)	\$(14,961)

(in thousands)	13 Weeks Ended		39 Weeks Ended	
	October 27, 2017	October 28, 2016	October 27, 2017	October 28, 2016
Depreciation and amortization:				
Direct	\$5,747	\$4,027	\$17,015	\$11,097
Retail	285	408	992	1,233
Corporate / other	315	360	1,024	1,089
Total depreciation and amortization	\$6,347	\$4,795	\$19,031	\$13,419

(in thousands) October 27, 2017 October 28, 2016 October 27, 2017

Total Assets:			
Direct	\$934,508	\$1,073,975	\$805,201
Retail	67,965	78,373	69,792
Corporate / other	118,007	160,830	239,398
Total assets	\$1,120,480	\$1,313,178	\$1,114,391

(in thousands)	13 Weeks Ended		39 Weeks Ended	
	October 27, 2017	October 28, 2016	October 27, 2017	October 28, 2016
Capital expenditures:				
Direct	\$8,791	\$8,041	\$29,004	\$25,804
Retail	—	25	10	279
Corporate / other	129	—	129	—
Total capital expenditures	\$8,920	\$8,066	\$29,143	\$26,083

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

As part of a multi-year plan to implement a global ERP system, assets were placed in service in connection with financial suite assets. No new ERP assets were placed in service during Third Quarter 2017 and \$30.7 million were placed in service in Year to Date 2017. The Company began depreciating the assets over useful lives of 3 to 10 years.

NOTE 13. RECENT ACCOUNTING PRONOUNCEMENTS

Intangibles - Goodwill and Other

The Company elected to early adopt ASU 2017-04, Intangibles - Goodwill and Other, which simplifies the test for goodwill impairment by removing the second step of the goodwill impairment test. Under the new guidance, the Company will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit, during its annual test for impairment to be conducted as of the end of Fiscal November 2017. The new guidance does not amend the optional qualitative assessment of goodwill impairment.

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. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. This guidance was deferred by ASU 2015-14, Revenue from Contracts with Customers, issued by the FASB in August 2015, and will be effective for Lands' End in the first quarter of its fiscal year ending February 1, 2019. Subsequently, the FASB has also issued accounting standards updates which clarify the guidance.

The Company has developed a road map for implementation and is currently assessing the impact of adopting ASU 2014-09 on our revenue recognition practices. While most revenue recognition policies are not expected to change, the Company has identified anticipated changes to our Condensed Consolidated Statement of Operations related to the timing of revenue recognition for gift card breakage and to the Condensed Consolidated Balance Sheets to the presentation of the reserve for returns, in addition to increased disclosures required. The Company is continuing to study the impacts of this standard and its amendments and expects to finalize its evaluation in the fourth quarter of Fiscal 2017.

Recognition of Breakage for Certain Prepaid Stored-Value Products

In March 2016, the FASB issued ASU 2016-04, Recognition of Breakage for Certain Prepaid Stored-Value Products. This update clarifies when it is acceptable to recognize the unredeemed portion of prepaid gift cards into income. This guidance will be effective for Lands' End in the first quarter of its fiscal year ending February 1, 2019. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's Condensed Consolidated Financial Statements.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. This update clarifies issues to reduce the current and potential future diversity in practice of the classification of certain cash receipts and cash payments within the statement of cash flows. This guidance will be effective for Lands' End in the first quarter of its fiscal year ending February 1, 2019. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's Condensed Consolidated Financial Statements.

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 statement of cash flows. This guidance will be effective for the Company in the first quarter of its fiscal year ending February 1, 2019. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's Condensed Consolidated Financial Statements.

Leases

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

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

You should read the following discussion in conjunction with the Condensed Consolidated Financial Statements and accompanying notes included elsewhere in this Quarterly Report on Form 10-Q. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. The matters discussed in these forward-looking statements are subject to risk, uncertainties, and other factors that could cause actual results to differ materially from those made, projected or implied in the forward-looking statements. See "Cautionary Statements Concerning Forward-Looking Statements" below and "Item 1A. Risk Factors" in our Annual Report filed on Form 10-K for the year ended January 27, 2017, for a discussion of the uncertainties, risks and assumptions associated with these statements.

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

- ABL Facility - Asset-based senior secured credit agreement, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- Debt Facilities - Collectively, the ABL Facility and the Term Loan Facility and excluding the New ABL Facility
- ERP - Enterprise resource planning software solutions
- ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert
- Fiscal 2017 - the fifty-three weeks ending February 2, 2018
- Fiscal 2016 - the fifty-two weeks ended January 27, 2017
- Fiscal 2014 - The fifty-two weeks ended January 30, 2015
- Fiscal November 2017 - the four week fiscal month ending November 24, 2017
- GAAP - Accounting principles generally accepted in the United States
- New ABL Facility - Asset-based senior secured credit agreement, dated as of November 16, 2017, with Wells Fargo Bank, National Association
- Same Store Sales - Net sales, 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 fiscal year
- Sears Holdings or Sears Holdings Corporation - Sears Holdings Corporation, a Delaware Corporation, and its consolidated subsidiaries
- SEC - United States Securities and Exchange Commission
- Separation - On April 4, 2014 Sears Holdings distributed 100% of the outstanding common stock of Lands' End to its shareholders
- Term Loan Facility - Term loan credit agreement, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- Third Quarter 2017 - the thirteen weeks ended October 27, 2017
- Third Quarter 2016 - the thirteen weeks ended October 28, 2016
- UK Borrower - A United Kingdom subsidiary borrower of Lands' End under the ABL Facility
- Year to Date 2017 - the thirty-nine weeks ended October 27, 2017
- Year to Date 2016 - the thirty-nine weeks ended October 28, 2016

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 2017 and Third Quarter 2016.

• **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 and footwear, as well as home products. We offer products through catalogs, online at www.landsend.com and affiliated specialty and international websites, and through retail locations, primarily at Lands' End Shops at Sears and Lands' End stores. We are a classic American lifestyle brand with a passion for quality, legendary service and real value, and we seek to deliver timeless style for men, women, 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 operating segments are strategic business units that offer similar products and services but are sold either directly from our warehouses (Direct) or through our retail stores (Retail).

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.

Following the Separation, we began operating as a separate, publicly traded company, independent from Sears Holdings. According to statements on Schedule 13D filed with the SEC by ESL, ESL beneficially owns significant portions of both the Company's and Sears Holdings Corporation's outstanding shares of common stock. Therefore Sears Holdings Corporation, the Company's former parent company, is considered a related party both prior to and subsequent to the Separation.

Seasonality

We experience seasonal fluctuations in our Net revenue and operating results and historically have realized a significant portion of our net sales and earnings for the year during our fourth fiscal quarter. We generated an average of 33% 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 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					
	October 27, 2017			October 28, 2016		
	\$'s	% of Net revenue	%	\$'s	% of Net revenue	%
Net revenue	\$325,489	100.0	%	\$311,476	100.0	%
Cost of sales (excluding depreciation and amortization)	183,515	56.4	%	177,825	57.1	%
Gross profit	141,974	43.6	%	133,651	42.9	%
Selling and administrative	129,122	39.7	%	132,365	42.5	%
Depreciation and amortization	6,347	1.9	%	4,795	1.5	%
Other operating expense (income), net	564	0.2	%	(86)	—	%
Operating income (loss)	5,941	1.8	%	(3,423)	(1.1)	%
Interest expense	6,350	2.0	%	6,149	2.0	%
Other income, net	(576)	(0.2)	%	(432)	(0.1)	%
Income (loss) before income taxes	167	0.1	%	(9,140)	(2.9)	%
Income tax expense (benefit)	5	—	%	(1,918)	(0.6)	%
NET INCOME (LOSS)	\$162	—	%	\$(7,222)	(2.3)	%

(in thousands)	39 Weeks Ended					
	October 27, 2017			October 28, 2016		
	\$'s	% of Net revenue	%	\$'s	% of Net revenue	%
Net revenue	\$896,044	100.0	%	\$876,919	100.0	%
Cost of sales (excluding depreciation and amortization)	497,262	55.5	%	477,446	54.4	%
Gross profit	398,782	44.5	%	399,473	45.6	%
Selling and administrative	377,804	42.2	%	390,291	44.5	%
Depreciation and amortization	19,031	2.1	%	13,419	1.5	%
Other operating expense (income), net	2,552	0.3	%	(40)	—	%
Operating loss	(605)	(0.1)	%	(4,197)	(0.5)	%
Interest expense	18,642	2.1	%	18,493	2.1	%
Other income, net	(1,812)	(0.2)	%	(1,413)	(0.2)	%
Loss before income taxes	(17,435)	(1.9)	%	(21,277)	(2.4)	%
Income tax benefit	(5,878)	(0.7)	%	(6,316)	(0.7)	%
NET LOSS	\$(11,557)	(1.3)	%	\$(14,961)	(1.7)	%

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 \$0.2 million in Third Quarter 2017 compared to a Net loss of \$7.2 million in Third Quarter 2016. 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 expense (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, as well as executive compensation metrics, for comparable periods. 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.

We exclude a benefit related to the reversal of a portion of the product recall accrual recognized in Fiscal 2014 as this was an unusual event that affects the comparability of our financial results.

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

Gain or loss on the sale of property and equipment - management considers the gains or losses on disposal of assets to result from investing decisions rather than ongoing operations.

(in thousands)	13 Weeks Ended					
	October 27, 2017			October 28, 2016		
	\$'s	% of		\$'s	% of	
		Net revenue			Net revenue	
Net income (loss)	\$162	—	%	\$(7,222)	(2.3)	%
Income tax expense (benefit)	5	—	%	(1,918)	(0.6)	%
Other income, net	(576)	(0.2)	%	(432)	(0.1)	%
Interest expense	6,350	2.0	%	6,149	2.0	%
Operating income (loss)	5,941	1.8	%	(3,423)	(1.1)	%
Depreciation and amortization	6,347	1.9	%	4,795	1.5	%
Product recall	—	—	%	(212)	(0.1)	%
Transfer of corporate functions	475	0.1	%	—	—	%
Loss on disposal of property and equipment	89	—	%	126	—	%
Adjusted EBITDA	\$12,852	3.9	%	\$1,286	0.4	%

(in thousands)	39 Weeks Ended			
	October 27, 2017		October 28, 2016	
	\$'s	% of Net revenue	\$'s	% of Net revenue
Net loss	\$(11,557)	(1.3)%	\$(14,961)	(1.7)%
Income tax benefit	(5,878)	(0.7)%	(6,316)	(0.7)%
Other income, net	(1,812)	(0.2)%	(1,413)	(0.2)%
Interest expense	18,642	2.1 %	18,493	2.1 %
Operating loss	(605)	(0.1)%	(4,197)	(0.5)%
Depreciation and amortization	19,031	2.1 %	13,419	1.5 %
Product recall	—	— %	(212)	— %
Transfer of corporate functions	2,401	0.3 %	—	— %
Loss on disposal of property and equipment	151	— %	172	— %
Adjusted EBITDA	\$20,978	2.3 %	\$9,182	1.0 %

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

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

Discussion and Analysis

Third Quarter 2017 compared with Third Quarter 2016

Net Revenue

Net revenue for Third Quarter 2017 was \$325.5 million, compared with \$311.5 million in the comparable period of the prior year, an increase of \$14.0 million, or 4.5%. The increase was comprised of an increase in our Direct segment of \$18.2 million and a decrease in our Retail segment of \$4.2 million.

Net revenue in our Direct segment was \$290.3 million for Third Quarter 2017, an increase of \$18.2 million, or 6.7%, from the comparable period of the prior year. The increase in the Direct segment was primarily attributable to an increase in our U.S. consumer business. We increased circulation and customer contacts in our U.S. consumer business which resulted in an increase, particularly in the outerwear and bottoms categories.

Net revenue in our Retail segment was \$35.1 million for Third Quarter 2017, a decrease of \$4.2 million, or 10.8%, from the comparable period of the prior year. The decrease was attributable to a decrease in the number of Lands' End Shops at Sears and a decrease in Same Store Sales of 1.3%. On October 27, 2017, the Company operated 188 Lands' End Shops at Sears and 14 global Lands' End stores compared with 219 Lands' End Shops at Sears and 14 global Lands' End stores on October 28, 2016.

Gross Profit

Total Gross profit increased \$8.3 million to \$142.0 million and gross margin increased approximately 70 basis points to 43.6% of total Net revenue in Third Quarter 2017, compared with \$133.7 million, or 42.9% of total Net revenue, in Third Quarter 2016. The Gross profit increase was comprised of an increase in our Direct segment of \$13.2 million and a decrease in our Retail segment of \$4.9 million.

Gross profit in the Direct segment was \$129.9 million compared with \$116.7 million for Third Quarter 2017 and Third Quarter 2016, respectively. Gross margin in the Direct segment increased approximately 190 basis points to 44.8% in Third Quarter 2017 versus 42.9% in the comparable prior year period. The increase in gross margin during third quarter was primarily attributable to a \$4.4 million write down of under performing Canvas by Lands' End inventory that occurred in Third Quarter 2016 and did not reoccur in Third Quarter 2017.

Retail segment Gross profit decreased \$4.9 million to \$12.0 million in Third Quarter 2017 from \$16.9 million in Third Quarter 2016. Retail segment gross margin decreased approximately 880 basis points to 34.1% for Third Quarter 2017 compared to 42.9% for Third Quarter 2016 driven by certain shrink and liquidation activities that occurred in Third Quarter 2017.

Selling and Administrative Expenses

Selling and administrative expenses were \$129.1 million, or 39.7% of total Net revenue, compared with \$132.4 million, or 42.5% of total Net revenue, in Third Quarter 2017 and Third Quarter 2016, respectively. The approximately 280 basis point decrease in Selling and administrative expenses as a percentage of sales was primarily due to a decrease of \$2.0 million in the Direct Segment and a decrease of \$2.5 million in the Retail segment, partially offset by an increase of \$1.2 million in the Corporate segment.

The Direct segment Selling and administrative expenses were \$100.8 million compared with \$102.8 million for Third Quarter 2017 and Third Quarter 2016, respectively. The approximately 310 basis point decrease was largely attributable to a reduction in marketing expenses, partially offset by increased incentive compensation expense.

The Retail segment Selling and administrative expenses were \$18.0 million compared with \$20.5 million for Third Quarter 2017 and Third Quarter 2016, respectively. The approximately 80 basis point decrease was largely attributable to a decrease in personnel and occupancy costs associated with store closures.

The Corporate segment Selling and administrative expenses were \$10.3 million compared with \$9.1 million for Third Quarter 2017 and Third Quarter 2016, respectively. The \$1.2 million, or 13.2%, increase was largely attributable to an increase in incentive compensation expenses, partially offset by lower professional fees.

Depreciation and Amortization

Depreciation and amortization expense was \$6.3 million in Third Quarter 2017, an increase of \$1.6 million or 32.4%, compared with \$4.8 million in Third Quarter 2016, primarily attributable to an increase in depreciation associated with our ongoing multi-year ERP system implementation.

Other Operating Expense (Income), Net

Other operating expense, net was \$0.6 million in Third Quarter 2017 compared to \$0.1 million of income in Third Quarter 2016 as the result of a severance charge 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 \$5.9 million in Third Quarter 2017 compared to an operating loss of \$3.4 million in Third Quarter 2016 primarily due to increased revenue and lower marketing costs.

Interest Expense

Interest expense was \$6.4 million in Third Quarter 2017 compared to \$6.1 million in Third Quarter 2016.

Income Tax Expense (Benefit)

Income tax expense was insignificant for Third Quarter 2017 compared to the \$1.9 million benefit in Third Quarter 2016. The effective tax rate was 3.0% in Third Quarter 2017 compared with 21.0% in Third Quarter 2016.

Net Income (Loss)

As a result of the above factors, Net income was \$0.2 million and diluted earnings per share was \$0.01 in Third Quarter 2017 compared with a Net loss of \$7.2 million and diluted loss per share of \$0.23 in Third Quarter 2016.

Adjusted EBITDA

As a result of the above factors, Adjusted EBITDA increased to \$12.9 million in Third Quarter 2017 from \$1.3 million in Third Quarter 2016.

Year to Date 2017 compared with Year to Date 2016

Net Revenue

Net revenue for Year to Date 2017 was \$896.0 million, compared with \$876.9 million in the comparable period of the prior year, an increase of \$19.1 million or 2.2%. The increase was comprised of an increase in our Direct segment of \$27.9 million and a decrease in our Retail segment of \$8.8 million.

Net revenue in our Direct segment was \$778.6 million for Year to Date 2017, an increase of \$27.9 million, or 3.7%, from the comparable period of the prior year. The increase in the Direct segment was largely attributable to an increase in our U.S. consumer business. In our U.S. consumer business, we increased circulation and customer contacts which resulted in an increase, particularly in Women's swimwear.

Net revenue in our Retail segment was \$117.3 million for Year to Date 2017, a decrease of \$8.8 million, or 6.9%, from the comparable period of the prior year. The decrease was driven by a decrease in the number of Lands' End Shops at Sears, partially offset by an increase in Same Store Sales of 1.7%. On October 27, 2017, the Company operated 188 Lands' End Shops at Sears and 14 global Lands' End stores compared with 219 Lands' End Shops at Sears and 14 global Lands' End stores on October 28, 2016.

Gross Profit

Total Gross profit decreased \$0.7 million to \$398.8 million and gross margin decreased approximately 110 basis points to 44.5% of total Net revenue in Year to Date 2017, compared with \$399.5 million, or 45.6% of total Net revenue, in Year to Date 2016. The Gross profit decrease was comprised of an increase in our Direct segment of \$6.6 million and a decrease in our Retail segment of \$7.3 million.

Gross profit in the Direct segment was \$352.6 million compared with \$346.0 million for Year to Date 2017 and Year to Date 2016, respectively. Gross margin in the Direct segment decreased approximately 80 basis points to 45.3% in Year to Date 2017 versus 46.1% in the comparable prior year period. The decrease in gross margin during Year to Date 2017 was primarily attributable to increased promotional activity in the highly competitive retail environment as well as increased shipping expenses, partially offset by a \$4.4 million write down of under performing Canvas by Lands' End inventory that occurred in Third Quarter 2016 and did not reoccur in Third Quarter 2017.

Retail segment Gross profit decreased \$7.3 million to \$46.0 million in Year to Date 2017 from \$53.3 million in Year to Date 2016. Retail segment gross margin decreased approximately 300 basis points to 39.2% for Year to Date 2017 compared to 42.2% for Year to Date 2016 primarily attributable to store closures and increased promotional activity in the highly competitive retail environment

Selling and Administrative Expenses

Selling and administrative expenses were \$377.8 million, or 42.2% of total Net revenue, compared with \$390.3 million, or 44.5% of total Net revenue, in Year to Date 2017 and Year to Date 2016, respectively. The approximately 230 basis points decrease in Selling and administrative expenses was primarily due to a decrease of \$5.9 million in the Direct segment and a decrease of \$6.9 million in the Retail segment, partially offset by an increase of \$0.3 million in the Corporate segment.

The Direct segment Selling and administrative expenses were \$298.6 million compared with \$304.5 million for Year to Date 2017 and Year to Date 2016, respectively. The \$5.9 million, or 1.9%, decrease was largely attributable to a reduction in marketing expenses, partially offset by increased incentive compensation expense.

The Retail segment Selling and administrative expenses were \$53.4 million compared with \$60.3 million for Year to Date 2017 and Year to Date 2016, respectively. The \$6.9 million, or 11.4%, decrease was primarily attributable to a decrease in marketing expenses as well as occupancy and other operating expenses associated with closed stores.

Corporate / other Selling and administrative expenses increased to \$25.8 million in Year to Date 2017 compared to \$25.5 million in Year to Date 2016 primarily due to an increase in incentive compensation expenses.

Depreciation and Amortization

Depreciation and amortization expense was \$19.0 million in Year to Date 2017, an increase of \$5.6 million, or 41.8%, compared with \$13.4 million in Year to Date 2016, primarily attributable to an increase in depreciation associated with our ongoing multi-year ERP system implementation.

Other Operating Expense (Income), Net

Other operating expense (income), net was income of \$2.6 million in Year to Date 2017 as the result of severance charges associated with the transition of certain corporate activities from the New York office to the Company's Dodgeville headquarters.

Operating Loss

Operating loss decreased to \$0.6 million in Year to Date 2017 from a \$4.2 million loss in Year to Date 2016 primarily due to lower Selling and administrative expenses discussed above.

Interest Expense

Interest expense was \$18.6 million in Year to Date 2017 compared to \$18.5 million in Year to Date 2016.

Income Tax Benefit

Income tax benefit was \$5.9 million for Year to Date 2017 compared to \$6.3 million in Year to Date 2016. The effective tax rate was 33.7% in Year to Date 2017 compared with 29.7% in Year to Date 2016.

Net Loss

As a result of the above factors, Net loss was \$11.6 million and diluted loss per share was \$0.36 in Year to Date 2017 compared with Net loss of \$15.0 million and diluted loss per share of \$0.47 in Year to Date 2016.

Adjusted EBITDA

As a result of the above factors, Adjusted EBITDA increased to \$21.0 million in Year to Date 2017 from \$9.2 million in Year to Date 2016.

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 New 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 New 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 April 4, 2014, Lands' End entered into the ABL Facility, which 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 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 ABL Facility was available for working capital and other general corporate purposes, and was undrawn at October 27, 2017 and October 28, 2016, other than for letters of credit. The Company had borrowing availability under the ABL Facility of \$157.2 million as of October 27, 2017, net of outstanding letters of credit of \$17.8 million.

Also 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.

On November 16, 2017, the Company entered into an asset-based lending credit agreement with Wells Fargo Bank, National Association, which provides on the closing date for maximum borrowings of \$175.0 million for the Company, subject to a borrowing base. The New ABL Facility has a letter of credit sub-limit of \$70.0 million. The New ABL Facility is available for working capital and other general corporate purposes and was undrawn as of the closing date.

Also on November 16, 2017, in connection with the effectiveness of the New ABL Facility, the company terminated the ABL Facility.

Maturity; Amortization and Prepayments

The ABL Facility was to mature on April 4, 2019. The New ABL Facility will mature no later than November 16, 2022, subject to customary extension provisions provided for therein. The Term Loan Facility will mature on April 4, 2021 and will amortize 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 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.

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 domestic subsidiaries. In addition, the obligations of the UK Borrower under the ABL Facility were guaranteed by its existing and future direct and indirect subsidiaries organized in the United Kingdom. The ABL Facility was 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 ABL Facility was secured by a second priority security interest in the same collateral.

Guarantees; Security for the New ABL Facility

All obligations under the New ABL Facility 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 New ABL Facility is secured by (1) a first priority security interest in certain working capital of the Company and guarantors consisting primarily of accounts receivable and inventory and (2) a second priority security interest in certain property and assets of the Company and guarantors, including certain fixed assets and stock of subsidiaries.

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) LIBOR plus a borrowing margin, or (ii) an alternative base rate plus a borrowing margin. The borrowing margin is fixed for the Term Loan Facility at 3.25% in the case of LIBOR loans and 2.25% in the case of base rate loans. For the Term Loan Facility, LIBOR is subject to a 1% interest rate floor. The borrowing margin for the ABL Facility was subject to adjustment based on the average excess availability under the ABL Facility for the preceding fiscal quarter, and ranged from 1.50% to 2.00% in the case of LIBOR borrowings and ranged from 0.50% to 1.00% in the case of base rate borrowings.

Customary agency fees are payable pursuant to the terms of the Debt Facilities. The ABL Facility fees also included (i) commitment fees, based on a percentage ranging from approximately 0.25% to 0.375% of the daily unused portions of the facility, and (ii) customary letter of credit fees.

Interest; Fees for New ABL Facility

Under the New ABL Facility entered into on November 16, 2017, the interest rates per annum applicable to the loans under the New ABL Facility are based on a fluctuating rate of interest measured by reference to, at the Company's election, either (1) an adjusted LIBOR plus a borrowing margin, or (2) an alternative base rate plus a borrowing margin. The borrowing margin for the New ABL Facility is subject to adjustment based on the average daily availability under the ABL Facility for the preceding fiscal quarter, and will range from 1.25% to 1.75% in the case of LIBOR borrowings and will range from 0.50% to 1.00% in the case of base rate borrowings.

Customary agency fees are payable in respect of the New ABL Facility and include (1) commitment fees in an amount equal to 0.25% of the daily unused portions of the ABL Facility, and (2) customary letter of credit fees.

Representations and Warranties; Covenants

Subject to specified exceptions, the Debt Facilities and the New ABL Facility contain various representations and warranties and restrictive covenants that, among other things, restrict the ability of the Company and its subsidiaries to incur indebtedness (including guarantees), grant liens, make investments, make dividends or distributions with respect to capital stock, make prepayments on other indebtedness, engage in mergers or change the nature of their business. In addition, if excess availability under the ABL Facility or the New ABL Facility falls below the greater of 10% of the loan cap amount or \$15 million, the Company will be required to comply with a minimum fixed charge coverage ratio of 1.0 to 1.0. The Debt Facilities and the New ABL Facility do not otherwise contain financial maintenance covenants.

The Company was in compliance with all financial covenants related to the Debt Facilities as of October 27, 2017.

Events of Default

The Debt Facilities and the New ABL Facility 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

Operating activities used net cash of \$87.8 million and provided net cash of \$66.9 million for Year to Date 2017 and Year to Date 2016, respectively, primarily due to the combination of:

- Increased use of cash to pay down accounts payable due to higher payables entering the current year, and
- Increased inventory build due to more timely receipts in the current year.

Cash Flows from Investing Activities

Net cash used in investing activities was \$27.5 million and \$26.0 million for Year to Date 2017 and Year to Date 2016, 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 2017, we plan to invest a total of approximately \$35.0 million to \$45.0 million in capital expenditures for strategic investments and infrastructure, primarily associated with our ERP investment, other technology investments and general corporate needs.

Cash Flows from Financing Activities

Net cash used by financing activities was \$4.5 million and \$4.3 million for Year to Date 2017 and Year to Date 2016, respectively, consisting primarily of our quarterly payments under the Term Loan.

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 January 27, 2017.

Financial Instruments with Off-Balance-Sheet Risk

On April 4, 2014, Lands' End entered into the ABL Facility, which 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 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 ABL Facility was available for working capital and other general corporate purposes, and was undrawn at October 27, 2017 and October 28, 2016, other than for letters of credit. The Company had borrowing availability under the ABL Facility of \$157.2 million as of October 27, 2017, net of outstanding letters of credit of \$17.8 million.

New ABL Facility

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

Also on November 16, 2017, in connection with the effectiveness of the New ABL Facility, the company terminated the ABL Facility.

Guarantees; Security for the New ABL Facility

All obligations under the New ABL Facility 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 New ABL Facility is secured by (1) a first priority security interest in certain working capital of the Company and guarantors consisting primarily of accounts receivable and inventory and (2) a second priority security interest in certain property and assets of the Company and guarantors, including certain fixed assets and stock of subsidiaries.

Interest; Fees for New ABL Facility

Under the New ABL Facility entered into on November 16, 2017, the interest rates per annum applicable to the loans under the New ABL Facility are based on a fluctuating rate of interest measured by reference to, at the Company's election, either (1) an adjusted LIBOR plus a borrowing margin, or (2) an alternative base rate plus a borrowing margin. The borrowing margin for the New ABL Facility is subject to adjustment based on the average daily availability under the New ABL Facility for the preceding fiscal quarter, and will range from 1.25% to 1.75% in the case of LIBOR borrowings and will range from 0.50% to 1.00% in the case of base rate borrowings.

Customary agency fees are payable in respect of the New ABL Facility and include (1) commitment fees in an amount equal to 0.25% of the daily unused portions of the New ABL Facility, and (2) customary letter of credit fees.

Application of Critical Accounting Policies and Estimates

We believe that the assumptions and estimates associated with 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.

There have been no material changes to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended January 27, 2017.

As previously discussed, the Company reviews its indefinite-lived intangible asset, the Lands' End trade name, for impairment by comparing the carrying amount of the asset to the fair value on an annual basis, or more frequently if events occur or changes in circumstances indicate that the carrying value is not recoverable. At the date of its most recent annual impairment assessment, the Company determined that the income approach, specifically the relief from royalty method, was most appropriate for analyzing its indefinite-lived asset. This method is based on the assumption that, in lieu of ownership, a firm would be willing to pay a royalty in order to exploit the related benefits of this asset class. The relief from royalty method involves two steps: (1) estimation of reasonable royalty rates for the assets and (2) the application of these royalty rates to a revenue stream and discounting the resulting cash flows to determine a value. The Company multiplied the selected royalty rate by the forecasted net sales stream to calculate the cost savings (relief from royalty payment) associated with the asset. The cash flows were then discounted to present value by the selected discount rate and compared to the carrying value of the asset.

As a result of the Fiscal 2016 annual impairment assessment, the Company recorded a non-cash pretax intangible asset impairment charge of \$173.0 million during Fiscal 2016 to reduce the carrying value of the trade name to the fair value. During Year to Date 2017, there were no events or changes in circumstances that indicated that the carrying value of the Lands' End trade name is not recoverable. As such, an impairment assessment was not performed and there was no impairment charge related to the trade name in Year to Date 2017. If actual results are not consistent with our estimates and assumptions used in estimating revenue growth, future cash flows and asset fair values, we could incur further impairment charges for the intangible asset or goodwill, which could have an adverse effect on our results of operations. The annual test for impairment will be conducted as of the end of Fiscal November 2017.

Recent Accounting Pronouncements

See Part I, Item 1, Note 13, Recent Accounting Pronouncements, of the Condensed Consolidated Financial Statements (Unaudited) included in this Quarterly Report on Form 10-Q for information regarding recent accounting pronouncements.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements made in this Quarterly Report on Form 10-Q contain forward-looking statements, including statements about our strategies and our opportunities for growth. Forward-looking statements are subject to risks and uncertainties that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements include without limitation information concerning our future financial performance, business strategy, plans, goals and objectives.

Statements preceded or followed by, or that otherwise include, the words “believes,” “expects,” “anticipates,” “intends,” “project,” “estimates,” “plans,” “forecast,” “is likely to” and similar expressions or future or conditional verbs such as “will,” “would,” “should” and “could” are generally forward-looking in nature and not historical facts. Such statements are based upon the current beliefs and expectations of our management and are subject to significant risks and uncertainties.

Actual results may differ materially from those set forth in the forward-looking statements.

The following important factors and uncertainties, among others, could cause actual results to differ materially from those described in these forward-looking statements: our ability to offer merchandise and services that customers want to purchase; changes in customer preference from our branded merchandise; customers' use of our digital platform, including customer acceptance of our efforts to enhance our e-commerce websites; customer response to our marketing efforts across all types of media; our maintenance of a robust customer list; our dependence on information technology and a failure of information technology systems, including with respect to our e-commerce operations, or an inability to upgrade or adapt our systems; the success of our ERP implementation; fluctuations and increases in

costs of raw

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materials; impairment of our relationships with our vendors; our failure to maintain the security of customer, employee or company information; our failure to compete effectively in the apparel industry; the performance of our “store within a store” business; if Sears Holdings Corporation sells or disposes of its retail stores, including pursuant to the recapture rights granted to Seritage Growth Properties, and other parties or if its retail business does not attract customers or does not adequately provide services to the Lands’ End Shops at Sears; legal, regulatory, economic and political risks associated with international trade and those markets in which we conduct business and source our merchandise; our failure to protect or preserve the image of our brands and our intellectual property rights; increases in postage, paper and printing costs; failure by third parties who provide us with services in connection with certain aspects of our business to perform their obligations; our failure to timely and effectively obtain shipments of products from our vendors and deliver merchandise to our customers; reliance on promotions and markdowns to encourage customer purchases; our failure to efficiently manage inventory levels; unseasonal or severe weather conditions; the seasonal nature of our business; the adverse effect on our reputation if our independent vendors do not use ethical business practices or comply with applicable laws and regulations; assessments for additional state taxes; incurrence of charges due to impairment of goodwill, other intangible assets and long-lived assets; the impact on our business of adverse worldwide economic and market conditions, including economic factors that negatively impact consumer spending on discretionary items; the impact of increased costs due to a decrease in our purchasing power following our separation from Sears Holdings (“Separation”) and other losses of benefits associated with being a subsidiary of Sears Holdings; the failure of Sears Holdings or its subsidiaries to perform under various transaction agreements or our failure to have necessary systems and services in place when certain of the transaction agreements expire; our agreements related to the Separation and certain agreements related to our continuing relationship with Sears Holdings were negotiated while we were a subsidiary of Sears Holdings and we may have received better terms from an unaffiliated third party; potential indemnification liabilities to Sears Holdings pursuant to the separation and distribution agreement; the ability of our principal shareholders to exert substantial influence over us; adverse effects of the Separation on our business; potential liabilities under fraudulent conveyance and transfer laws and legal capital requirements; and other risks, uncertainties and factors discussed in the “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended January 27, 2017. We intend the forward-looking statements to speak only as of the time made and do not undertake to update or revise them as more information becomes available, except as required by law.

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 October 27, 2017, we had \$18.3 million of cash denominated in foreign currencies, principally in British Pound Sterling, Euros and Yen. We do not enter into financial instruments for trading purposes or hedging and have not used any derivative financial instruments. We do not consider our foreign earnings to be permanently reinvested.

We are subject to interest rate risk with the Term Loan Facility and the New 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 \$5.1 million change in our annual cash interest expenses. Assuming our ABL Facility was fully drawn to a principal amount equal to \$175.0 million, each one percentage point change in interest rates would result in a \$1.8 million change in our annual cash interest expense.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Based on their evaluation for the period covered by this Quarterly Report on Form 10-Q, Lands’ End’s Chief Executive Officer and President and Executive Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer have concluded that, as of October 27, 2017, the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) are effective.

Changes in Internal Control over Financial Reporting

During Fiscal 2017, the Company implemented phases of a multi-year implementation of a global enterprise resource planning (“ERP”) system. The new ERP system was designed to better support our business needs in response to the changing operating environment. The implementation of a worldwide ERP system will likely affect the processes that

constitute our internal control over financial reporting and will require testing for effectiveness as the implementation progresses. The Company expects that the new ERP system will enhance the overall system of internal controls over

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financial reporting through further automation and integration of business processes, although it is not being implemented in response to any identified deficiency in the Company's internal controls over financial reporting. Other than the ERP implementation, there have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 under the Exchange Act during the third quarter ended October 27, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

See Part I, Item 1 "Financial Statements - Notes to Condensed Consolidated Financial Statements," Note 9, Commitments and Contingencies, for additional information regarding legal proceedings (incorporated herein by reference).

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 January 27, 2017, which was filed with the SEC on March 31, 2017.

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.
SIGNATURES

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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 5, 2017

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