

LANDS' END, INC.  
Form 10-Q  
December 01, 2016

---

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

---

FORM 10-Q

---

(Mark One)

☒ Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended October 28, 2016

-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 Incorporation of Organization)	(I.R.S. Employer Identification No.)

1 Lands' End Lane	53595
Dodgeville, Wisconsin	
(Address of Principal Executive Offices)	(Zip Code)

Issuer's Telephone Number, Including Area Code: (608) 935-9341

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, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller Reporting Company ☐

Indicate by check mark whether the Registrant is a shell company. YES ☐ NO ☒

As of December 1, 2016, the registrant had 32,029,359 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 28, 2016  
TABLE OF CONTENTS

	Page
 PART I FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	<u>1</u>
Condensed Consolidated Statements of Operations	<u>1</u>
Condensed Consolidated Statements of Comprehensive Operations	<u>2</u>
Condensed Consolidated Balance Sheets	<u>3</u>
Condensed Consolidated Statements of Cash Flows	<u>4</u>
Notes to Condensed Consolidated Financial Statements	<u>5</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>19</u>
Item 3. Quantitative and Qualitative Disclosures about Market Risk	<u>31</u>
Item 4. Controls and Procedures	<u>31</u>
 PART II OTHER INFORMATION	
Item 1. Legal Proceedings	<u>32</u>
Item 1A. Risk Factors	<u>32</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>32</u>
Item 6. Exhibits	<u>33</u>
Signatures	<u>34</u>

---

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## LANDS' END, INC.

## Condensed Consolidated Statements of Operations

(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
	October	October	October	October
(in thousands except per share data)	28, 2016	30, 2015	28, 2016	30, 2015
Net revenue	\$311,476	\$334,434	\$876,919	\$946,235
Cost of sales (excluding depreciation and amortization)	177,825	172,019	477,446	492,756
Gross profit	133,651	162,415	399,473	453,479
Selling and administrative	132,365	135,867	390,291	394,261
Depreciation and amortization	4,795	4,260	13,419	12,874
Other operating (income), net	(86	) (1,009	) (40	) (3,366
Operating (loss) income	(3,423	) 23,297	(4,197	) 49,710
Interest expense	6,149	6,204	18,493	18,615
Other (income) expense, net	(432	) 796	(1,413	) (210
(Loss) income before income taxes	(9,140	) 16,297	(21,277	) 31,305
Income tax (benefit) expense	(1,918	) 5,572	(6,316	) 11,395
NET (LOSS) INCOME	\$(7,222	) \$10,725	\$(14,961	) \$19,910
NET (LOSS) INCOME PER COMMON SHARE (Note 2)				
Basic:	\$(0.23	) \$0.34	\$(0.47	) \$0.62
Diluted:	\$(0.23	) \$0.33	\$(0.47	) \$0.62
Basic weighted average common shares outstanding	32,029	31,991	32,018	31,975
Diluted weighted average common shares outstanding	32,029	32,059	32,018	32,042

See accompanying Notes to Condensed Consolidated Financial Statements.

LANDS' END, INC.

Condensed Consolidated Statements of Comprehensive Operations

(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
NET (LOSS) INCOME	\$(7,222)	\$10,725	\$(14,961)	\$19,910
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments	(2,183 )	260	(2,952 )	925
COMPREHENSIVE (LOSS) INCOME	\$(9,405)	\$10,985	\$(17,913)	\$20,835

See accompanying Notes to Condensed Consolidated Financial Statements.

## LANDS' END, INC.

## Condensed Consolidated Balance Sheets

(in thousands, except share data)

	October 28, 2016 (unaudited)	October 30, 2015 (unaudited)	January 29, 2016
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$131,532	\$104,986	\$228,368
Restricted cash	3,300	3,300	3,300
Accounts receivable, net	40,101	37,875	32,061
Inventories, net	425,290	436,712	329,203
Prepaid expenses and other current assets	40,942	40,833	23,618
Total current assets	641,165	623,706	616,550
Property and equipment, net	115,871	105,661	109,831
Goodwill	110,000	110,000	110,000
Intangible asset, net	430,000	528,300	430,000
Other assets	16,142	14,352	15,145
<b>TOTAL ASSETS</b>	<b>\$1,313,178</b>	<b>\$1,382,019</b>	<b>\$1,281,526</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable	\$180,608	\$151,429	\$146,097
Other current liabilities	101,093	107,596	83,992
Total current liabilities	281,701	259,025	230,089
Long-term debt, net	490,992	494,788	493,838
Long-term deferred tax liabilities	158,048	184,926	157,252
Other liabilities	16,766	16,390	15,838
<b>TOTAL LIABILITIES</b>	<b>947,507</b>	<b>955,129</b>	<b>897,017</b>
Commitments and contingencies			
<b>STOCKHOLDERS' EQUITY</b>			
Common stock, par value \$0.01- authorized: 480,000,000 shares; issued and outstanding: 32,029,359, 31,991,343 and 31,991,668, respectively	320	320	320
Additional paid-in capital	343,319	344,156	344,244
Retained earnings	34,368	88,787	49,329
Accumulated other comprehensive loss	(12,336)	(6,373)	(9,384)
Total stockholders' equity	365,671	426,890	384,509
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$1,313,178</b>	<b>\$1,382,019</b>	<b>\$1,281,526</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

## LANDS' END, INC.

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

	39 Weeks Ended	
	October 28, 2016	October 30, 2015
(in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$(14,961)	\$ 19,910
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	13,419	12,874
Product recall	(212)	(3,371)
Amortization of debt issuance costs	1,284	1,313
Loss on disposal of property and equipment	172	5
Stock-based compensation	1,578	2,307
Deferred income taxes	839	3,381
Change in operating assets and liabilities:		
Inventories	(99,997)	(134,690)
Accounts payable	40,186	20,078
Other operating assets	(25,100)	(18,124)
Other operating liabilities	15,537	1,523
Net cash used in operating activities	(67,255)	(94,794)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property and equipment	44	—
Purchases of property and equipment	(26,083)	(18,117)
Net cash used in investing activities	(26,039)	(18,117)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on term loan facility	(3,863)	(3,863)
Net cash used in financing activities	(3,863)	(3,863)
Effects of exchange rate changes on cash	321	306
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(96,836)</b>	<b>(116,468)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>228,368</b>	<b>221,454</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 131,532</b>	<b>\$ 104,986</b>
<b>SUPPLEMENTAL CASH FLOW DATA</b>		
Unpaid liability to acquire property and equipment	\$ 3,101	\$ 2,695
Income taxes paid, net of refund	\$ 3,220	\$ 19,714
Interest paid	\$ 16,892	\$ 17,037

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 clothing, accessories and footwear, as well as home products. Lands' End offers products through catalogs, online at [www.landsend.com](http://www.landsend.com), [www.canvasbylandsend.com](http://www.canvasbylandsend.com) and affiliated specialty and international websites, and through retail locations, primarily at Lands' End Shops at Sears, stand-alone Lands' End Inlet stores and international shop-in-shops that sell merchandise in various retail department 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 agreements, 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
- EPS - (Loss) earnings per share
- ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert
- FASB - Financial Accounting Standards Board
- First Quarter 2016 - The thirteen weeks ended April 29, 2016
- Fiscal 2016 - The fifty-two weeks ending January 27, 2017
- Fiscal 2015 - The fifty-two weeks ended January 29, 2016
- Fiscal November 2016 - the four week fiscal month ending November 25, 2016
- GAAP - Accounting principles generally accepted in the United States
- LIBOR - London inter-bank offered rate
- Sears Holdings or Sears Holdings Corporation - Sears Holdings Corporation, a Delaware Corporation, and its consolidated subsidiaries (other than, for all periods following the Separation, Lands' End)
- SEC - United States Securities and Exchange Commission
- Second Quarter 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
- 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 agreements, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- Third Quarter 2016 - The thirteen weeks ended October 28, 2016
- Third Quarter 2015 - The thirteen weeks ended October 30, 2015
- UTBs - Gross unrecognized tax benefits related to uncertain tax positions
- Year to Date 2016 - the thirty-nine weeks ended October 28, 2016
- Year to Date 2015 - the thirty-nine weeks ended October 30, 2015

#### 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 April 1, 2016.

#### Reclassifications

In April 2015, FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the required presentation of debt issuance costs from an asset on the balance sheet to a deduction from related debt liability, and which was adopted by the Company in the First Quarter 2016. The reclassifications resulting from the adoption of this ASU relate to Prepaid expenses and other current assets and Other assets as of January 29, 2016 and October 30, 2015 that were reclassified to Long-term debt. This reclassification reduced our current and total assets and our total liabilities, as previously reported in the Condensed Consolidated Balance Sheet for January 29, 2016 and October 30, 2015. This reclassification had no effect on the Condensed Consolidated Statements of Operations, Comprehensive Operations, Stockholders' Equity or Cash Flows as previously reported. See Note 4, Debt, for further discussion.

#### NOTE 2. (LOSS) EARNINGS PER SHARE

The numerator for both basic and diluted EPS is net (loss) income. 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.



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

	13 Weeks Ended		39 Weeks Ended	
(in thousands, except per share amounts)	October 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
Net (loss) income	\$(7,222)	\$ 10,725	\$(14,961)	\$ 19,910
Basic weighted average shares outstanding	32,029	31,991	32,018	31,975
Dilutive effect of stock awards	—	68	—	67
Diluted weighted average shares outstanding	32,029	32,059	32,018	32,042
Basic (loss) earnings per share	\$(0.23 )	\$ 0.34	\$(0.47 )	\$ 0.62
Diluted (loss) earnings per share	\$(0.23 )	\$ 0.33	\$(0.47 )	\$ 0.62

Anti-dilutive stock awards are comprised of awards which are anti-dilutive in the application of the treasury stock method and are excluded from the diluted weighted average shares outstanding. Total anti-dilutive stock awards were 17,719 and 30,673 shares for the Third Quarter 2016 and Year to Date 2016, respectively, due to the net loss reported. Total anti-dilutive stock awards were 129 and 126,602 shares for the Third Quarter 2015 and Year to Date 2015, respectively.

#### NOTE 3. OTHER COMPREHENSIVE (LOSS)

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.

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
Beginning balance: Accumulated other comprehensive loss (net of tax of \$5,467, \$3,572, \$5,053 and \$3,931, respectively)	\$(10,153)	\$ (6,633 )	\$(9,384 )	\$ (7,298 )
Other comprehensive (loss) income:				
Foreign currency translation adjustments (net of tax (benefit) expense of \$1,176, \$(141), \$1,590 and \$(500), respectively)	(2,183 )	260	(2,952 )	925
Ending balance: Accumulated other comprehensive loss (net of tax of \$6,643, \$3,431, \$6,643 and \$3,431, respectively)	\$(12,336)	\$ (6,373 )	\$(12,336)	\$ (6,373 )

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 28, 2016		October 30, 2015		January 29, 2016	
	Amount	Rate	Amount	Rate	Amount	Rate
Term Loan Facility, maturing April 4, 2021	\$502,125	4.25 %	\$507,275	4.25 %	\$505,988	4.25 %
ABL Facility, maturing April 4, 2019	—	— %	—	— %	—	— %
	502,125		507,275		505,988	
Less: Current maturities in Other current liabilities, net	5,150		5,150		5,150	
Less: Unamortized debt issuance costs	5,983		7,337		7,000	
Long-term debt, net	\$490,992		\$494,788		\$493,838	

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

	October 28, 2016	October 30, 2015	January 29, 2016
ABL maximum borrowing	\$175,000	\$175,000	\$175,000
Outstanding Letters of Credit	13,845	18,523	24,311
Borrowing availability under ABL	\$161,155	\$156,477	\$150,689

During First Quarter 2016, the Company adopted ASU 2015-03, Simplifying the Presentation of Debt Issuance, which requires an entity to present debt issuance costs as a deduction from the related debt liability. To conform to the current year presentation the Company reclassified \$1.4 million of Prepaid expenses and other current assets and \$6.0 million of Other assets to Long-term debt as of October 30, 2015. Similarly, as of January 29, 2016, the company reclassified \$1.4 million of Prepaid expenses and other current assets and \$5.6 million of Other assets to Long-term debt.

#### 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 will range from 1.50% to 2.00% 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 both 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 28, 2016.

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

**NOTE 5. STOCK-BASED COMPENSATION**

Accounting standards require, among other things, that (i) the fair value of all stock awards be expensed over their respective vesting periods; (ii) the amount of cumulative compensation cost recognized at any date must at least be equal to the portion of the grant-date value of the award that is vested at that date and (iii) compensation expense includes a forfeiture estimate for those shares not expected to vest. Also in accordance with these provisions, for awards that only have a service requirement with multiple vest dates, the Company is required to recognize compensation cost on a straight-line basis over the requisite service period for the entire award.

The Company has granted time vesting stock awards ("Deferred Awards") and performance-based stock awards ("Performance Awards") to employees at management levels and above. Deferred Awards were granted in the form of restricted stock units that only require each recipient to complete a service period. Deferred Awards generally vest over three years or in full after a three year period. Performance Awards were granted in the form of restricted stock units which have, in addition to a service requirement, performance criteria that must be achieved for the awards to be earned. 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. The fair value of all awards is based on the closing price of the Company's common stock on the grant date. Compensation expense is reduced for estimated forfeitures of those awards not expected to vest due to employee turnover.

The following table summarizes the Company's stock-based compensation expense, which is included in Selling and administrative expense in the Condensed Consolidated Statements of Operations:

	13 Weeks Ended		39 Weeks Ended	
	October 28, 2016		October 30, 2015	
(in thousands)	2016	2015	2016	2015
Performance Awards	\$ 127	\$ 315	\$ 511	\$ 1,096
Deferred Awards	(301)	471	1,067	1,211
Total stock-based compensation (benefit) expense	\$(174)	\$ 786	\$ 1,578	\$ 2,307

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

**Awards Granted Year to Date 2016**

The company granted Deferred Awards to various employees during the Year to Date 2016, which generally vest ratably over a three year period. There were no Performance Awards granted in the Year to Date 2016.

**Changes in the Company's Unvested Stock Awards Year to Date 2016****Deferred Awards**

	Weighted	
	Number	Average
(in thousands, except per share amounts)	of	Grant
	Shares	Date Fair
		Value
Unvested Deferred Awards, as of January 29, 2016	175	\$ 30.87
Granted	225	24.39
Vested	(27)	33.53
Forfeited	(132)	30.25
Unvested Deferred Awards, as of October 28, 2016	241	24.91

Total unrecognized stock-based compensation expense related to unvested Deferred Awards approximated \$4.5 million as of October 28, 2016, which will be recognized over a weighted average period of approximately 2.2 years.

## Performance Awards

(in thousands, except per share amounts)	Number of Shares	Weighted Average Grant Date Fair Value
Unvested Performance Awards, as of January 29, 2016	109	\$ 26.81
Granted	—	—
Vested	(30 )	27.84
Forfeited	(10 )	26.73
Unvested Performance Awards, as of October 28, 2016	69	26.38

Total unrecognized stock-based compensation expense related to unvested Performance Awards approximated \$0.5 million as of October 28, 2016, which will be recognized over a weighted average period of approximately 0.6 years.

## 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 as of October 28, 2016, October 30, 2015 and January 29, 2016 was \$3.3 million 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 28, 2016		October 30, 2015		January 29, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including short-term portion	\$502,125	\$386,636	\$507,275	\$473,668	\$505,988	\$418,073

Long-term debt was valued utilizing level 2 valuation techniques based on the closing inactive market bid price on October 28, 2016, October 30, 2015, and January 29, 2016. There were no nonfinancial assets or nonfinancial liabilities recognized at fair value on a nonrecurring basis as of October 28, 2016, October 30, 2015, and January 29, 2016.

## NOTE 7. GOODWILL AND INTANGIBLE ASSET

The Company's intangible asset, 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. There was no impairment charge recorded for the intangible asset in Year to Date 2016. As a result of the 2015 annual impairment testing the Company recorded a non-cash pretax intangible asset impairment charge of \$98.3 million during Fiscal 2015. There was no impairment charge for the intangible asset recorded in any other prior years. There were no impairments of goodwill during any periods presented or since goodwill was first recognized. 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 2016.

The following summarizes goodwill and the intangible asset:

(in thousands)	October 28, 2016	October 30, 2015	January 29, 2016
Indefinite-lived intangible asset:			
Gross Trade Name	\$ 528,300	\$ 528,300	\$ 528,300
Cumulative impairment	(98,300 )	—	(98,300 )
Net Trade Name	430,000	528,300	430,000
Total intangible asset, net	\$ 430,000	\$ 528,300	\$ 430,000
Goodwill	\$ 110,000	\$ 110,000	\$ 110,000

#### 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. Prior to the Separation, all tax obligations were settled through Sears Holdings through Net parent company investment. At the date of Separation, certain tax attributes that were recorded in Net parent company investment were reclassified. During the Third Quarter 2016, as a result of filing its Fiscal Year 2015 income tax return, the Company recorded an increase in the deferred tax liabilities and a decrease in Additional paid in capital of \$2.1 million related to the calculation of a deferred tax liability related to the LIFO inventory calculation that existed as of the date of the Separation.

As of October 28, 2016, the Company had UTBs of \$8.3 million. Of this amount, \$5.4 million would, if recognized, impact its effective tax rate, with the remaining amount being comprised of UTBs related to gross temporary differences or other indirect benefits. Pursuant to the Tax Sharing Agreement, Sears Holdings Corporation is generally responsible for all United States federal, state and local UTBs through the date of the Separation and, as such, an indemnification asset from Sears Holdings Corporation for the pre-Separation UTBs is recorded in Other assets in the Condensed Consolidated Balance Sheets. The indemnification asset was \$14.4 million, \$13.5 million and \$13.7 million as of October 28, 2016, October 30, 2015, and January 29, 2016, 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 28, 2016, the total amount of interest expense and penalties recognized on our balance sheet was \$6.4 million (\$4.2 million net of federal benefit). The total amount of 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. The Company is under examination by various income tax jurisdictions for the years 2009 to 2015.

During the Third Quarter 2015, Sears Holdings settled tax audits in certain state tax jurisdictions related to pre-Separation periods. As a result, the Company re-evaluated the reserves for the pre-Separation period and recorded a



\$1.2 million reduction in income tax expense, before consideration of federal income tax benefit. Under the Tax Sharing Agreement, Sears Holdings indemnifies the Company for such liabilities and, as a result, the Company reduced the indemnification receivable by \$1.2 million; such reduction was reflected as a decrease in Other assets in the Condensed Consolidated Balance Sheets and as Other expense (income), net in the Condensed Consolidated and Combined Statements of Operations.

## 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 the first of several 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. In July 2016, the Company filed an amended and supplemental complaint to recover over paid property taxes for the 2016 tax year. As of November 30, 2016, the City has refunded, as the result of various court decisions, approximately \$6.5 million in excessive taxes and interest to the Company in the following amounts: (1) approximately \$1.6 million arising from the 2005 and 2006 tax years that was recognized in the fiscal year ended January 29, 2010; (2) approximately \$1.6 million arising from the 2007, 2009 and 2010 tax years, recognized in the fiscal year ended January 31, 2014; (3) approximately \$0.9 million arising from the 2008 tax year, recognized in the fiscal year ended January 30, 2015; (4) approximately \$1.3 million arising from the 2011 and 2012 tax years, recognized in Second Quarter 2016; and (5) approximately \$1.1 million arising from the 2007, 2009 and 2010 tax years, recognized in Third Quarter 2016; primarily within Selling and administrative costs in the Condensed Consolidated Statements of Operations.

The claims arising from the 2005 through 2010 and 2012 tax years are closed. The Company's claims arising from tax years 2011 and 2013 through 2016 remain unresolved and are still pending before the courts. The Company believes that the potential additional aggregate recovery from the City arising from the 2011 and 2013 through 2016 tax years will range from \$0.7 million to \$2.0 million, none of which has been recorded in the Condensed Consolidated Financial Statements.

## NOTE 10. RELATED PARTY TRANSACTIONS

According to statements on form Schedule 13D filed with the SEC by ESL, ESL beneficially owned significant portions of both the Company's and Sears Holdings Corporation's outstanding shares of common stock. Therefore, Sears Holdings Corporation, the Company's former parent company, is considered a related party.

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.

See further descriptions of the transactions in the Company's 2015 Annual Report on Form 10-K and proxy statement filed with the SEC on April 1, 2016. The components of the transactions between the Company and Sears Holdings, which exclude pass-through payments to third parties, are as follows:



# Lands' End Shops at Sears

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

	13 Weeks Ended		39 Weeks Ended	
	October 28, 2016		October 30, 2015	
(in thousands, except for number of stores)	2016	2015	2016	2015
Rent, CAM and occupancy costs	\$6,165	\$ 6,167	\$18,707	\$ 19,049
Retail services, store labor	6,004	6,774	18,034	20,051
Financial services and payment processing	573	627	1,963	1,876
Supply chain costs	183	219	735	768
Total expenses	\$12,925	\$ 13,787	\$39,439	\$ 41,744
Number of Lands' End Shops at Sears at period end	219	227	219	227

# General Corporate Services

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

	13 Weeks Ended		39 Weeks Ended	
	October 28, 2016		October 30, 2015	
(in thousands)	2016	2015	2016	2015
Sourcing	\$4,941	\$ 3,632	\$7,979	\$ 7,670
Shop Your Way	596	751	1,670	2,007
Shared services	48	111	143	393
Total expenses	\$5,585	\$ 4,494	\$9,792	\$ 10,070

# Sourcing

The Company contracts with a subsidiary of Sears Holdings to provide agreed upon buying agency services, on a non-exclusive basis, in foreign territories from where the Company purchases merchandise. These services, primarily based upon quantities purchased, include quality-control functions, regulatory compliance, product claims management and new vendor selection and setup assistance. During Second Quarter 2016 the Company entered into a new buying agency services agreement with a subsidiary of Sears Holding and terminated the agreement that was entered into at the time of the Separation. The new agreement provides for a higher commission rate and a higher annual commission minimum, as well as enhanced sourcing services, including for product development, costing analyses, vendor communications, vendor strategy and quality assurance. Certain of these amounts are capitalized into inventory and are expensed through cost of goods sold over the course of inventory turns and included in Cost of sales in the Condensed Consolidated Statements of Comprehensive Operations.

## 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 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
Call center services	\$492	\$ 674	\$1,459	\$ 1,343
Lands' End business outfitters revenue	333	323	1,307	1,043
Credit card revenue	265	300	776	868
Royalty income	56	60	182	183
Gift card (expense)	(7)	(5)	(20)	(16)
Total income	\$1,139	\$ 1,352	\$3,704	\$ 3,421

## Call Center Services

The Company has entered into a contract with Sears Holdings Management Corporation, a subsidiary of Sears Holdings Corporation, 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. Total call center service income included in Net revenue was \$2.0 million, \$2.2 million, \$5.8 million and \$5.3 million for the Third Quarter 2016, Third Quarter 2015, Year to Date 2016 and Year to Date 2015, respectively.

## Additional Balance Sheet Information

At October 28, 2016, October 30, 2015 and January 29, 2016 the Company included \$4.6 million, \$5.1 million and \$3.9 million in Accounts receivable, net, respectively, and \$3.8 million, \$9.4 million and \$2.7 million in Accounts payable, respectively, in the Condensed Consolidated Balance Sheets to reflect amounts due from and owed to Sears Holdings.

At October 28, 2016, October 30, 2015 and January 29, 2016 a \$14.4 million, \$13.5 million and \$13.7 million receivable, respectively, 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 reportable segments: Direct and Retail. Both segments sell similar products and provide services. 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 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
Net revenue:				
Apparel	\$252,082	\$272,228	\$725,062	\$783,841
Non-apparel	37,854	40,708	95,021	106,536
Service and other	21,540	21,498	56,836	55,858
Total net revenue	\$311,476	\$334,434	\$876,919	\$946,235

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, the Company's stand-alone Lands' End Inlet stores and international shop-in-shops. 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 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
Net revenue:				
Direct	\$272,080	\$287,778	\$750,660	805,886
Retail	39,340	46,597	126,077	140,166
Corporate / other	56	59	182	183
Total net revenue	\$311,476	\$334,434	\$876,919	\$946,235
	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015
Adjusted EBITDA:				
Direct	\$13,904	\$36,951	\$41,516	\$85,316
Retail	(3,583 )	(1,714 )	(7,063 )	(907 )
Corporate / other	(9,035 )	(8,689 )	(25,271 )	(25,191 )
Total adjusted EBITDA	\$1,286	\$26,548	\$9,182	\$59,218

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015

## Depreciation and amortization:

Direct	\$4,027	\$3,385	\$11,097	\$10,280
Retail	408	510	1,233	1,506
Corporate / other	360	365	1,089	1,088
Total depreciation and amortization	\$4,795	\$4,260	\$13,419	\$12,874

(in thousands)	October 28, 2016	October 30, 2015	January 29, 2016
----------------	------------------	------------------	------------------

## Total Assets:

Direct	\$1,073,975	\$1,166,991	\$953,502
Retail	78,373	79,492	69,321
Corporate / other	160,830	135,536	258,703
Total assets	\$1,313,178	\$1,382,019	\$1,281,526

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 28, 2016	October 30, 2015	October 28, 2016	October 30, 2015

## Capital expenditures:

Direct	\$8,041	\$4,415	\$25,804	\$17,717
Retail	25	95	279	148
Corporate / other	—	87	—	252
Total capital expenditures	\$8,066	\$4,597	\$26,083	\$18,117

## NOTE 12. RECENT ACCOUNTING PRONOUNCEMENTS

## Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. Under this ASU, non-LIFO inventory will be measured at the lower of cost and net realizable value, eliminating the options that currently exist for market valuation. The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. No other changes were made to the current guidance on inventory measurement. This guidance was effective for Lands' End in the First Quarter 2016 and only applies to our international inventory as United States inventory is valued using LIFO. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

## Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued ASU 2015-05, Customers' Accounting for Fees Paid in a Cloud Computing Arrangement, which clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. This guidance was effective for Lands' End in the First Quarter 2016. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

## Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changed the required presentation of debt issuance costs from an asset on the balance sheet to a deduction from the related debt liability. This guidance was adopted by the Company during First Quarter 2016. See Note 4, Debt, for further discussion.



#### 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 is currently in the process of evaluating the impact of adoption of this ASU and related clarifications on the Company's Condensed Consolidated Financial Statements.

#### Compensation - Stock Compensation

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation, which simplifies the accounting for the taxes related to stock based compensation, including adjustments to how excess tax benefits and a company's payments for tax withholdings should be classified. This guidance will be effective for Lands' End in the first quarter of its fiscal year ending February 2, 2018. The adoption of this guidance is not expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

#### 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.

#### 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 Lands' End in the first quarter of its fiscal year ending January 31, 2020. The Company is currently in the process of evaluating the impact of adoption of this ASU 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 29, 2016, for a discussion of the uncertainties, risks and assumptions associated with these statements.

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

- ABL Facility - Asset-based senior secured credit agreements, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- Debt Facilities - Collectively, the ABL Facility and the Term Loan Facility
- ERP - Enterprise resource planning software solutions
- ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert
- Fiscal 2016 - the fifty-two weeks ending January 27, 2017
- Fiscal 2015 - the fifty-two weeks ended January 29, 2016
- Fiscal November 2016 - the four week fiscal month ending November 25, 2016
- Fourth Quarter 2015 - The thirteen weeks ended January 29, 2016
- GAAP - Accounting principles generally accepted in the United States
- 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 (other than, for all periods following the Separation, Lands' End)
- Sears Roebuck - Sears, Roebuck and Co., a subsidiary of Sears Holdings Corporation
- 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
- Term Loan Facility - Term loan credit agreements, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- Third Quarter 2016 - the thirteen weeks ended October 28, 2016
- Third Quarter 2015 - the thirteen weeks ended October 30, 2015
- UK Borrower - A United Kingdom subsidiary borrower of Lands' End under the ABL Facility
- Year to Date 2016 - the thirty-nine weeks ended October 28, 2016
- Year to Date 2015 - the thirty-nine weeks ended October 30, 2015

## 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 the 2016 and 2015 third fiscal quarter and fiscal year to date periods.

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 clothing, accessories and footwear, as well as home products. We offer products through catalogs, online at [www.landsend.com](http://www.landsend.com), [www.canvasbylandsend.com](http://www.canvasbylandsend.com) and affiliated specialty and international websites, and through retail locations, primarily at Lands' End Shops at Sears, stand-alone Lands' End Inlet stores and international shop-in-shops that sell merchandise in various retail department 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 reportable segments and 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 form Schedule 13D filed with the SEC by ESL, ESL beneficially owned significant portions of both the Company's and Sears Holdings Corporation's outstanding shares of common stock. Therefore Sears Holdings Corporation, the Company's former parent company, is considered a related party both prior to and subsequent to the Separation.

The success of our Retail segment depends on the performance of the Lands' End Shops at Sears. Under the terms of the master lease agreement and master sublease agreement pursuant to which Sears Roebuck leases or subleases to us the premises for the Lands' End Shops at Sears, Sears Roebuck has certain rights to (1) relocate our leased premises within the building in which such premises are located, subject to certain limitations, including our right to terminate the applicable lease if we are not satisfied with the new premises, and (2) terminate without liability the lease with respect to a particular





Lands' End Shop if the overall Sears store in which such Lands' End Shop is located is closed or sold. Sears Holdings announced that it intends to continue to right-size, redeploy and highlight the value of its assets, including its real estate portfolio, in its transition from an asset-intensive, store-focused retailer and that it has entered into lease agreements with third party retailers for stand-alone stores. On July 7, 2015, Sears Holdings completed a rights offering and sale-leaseback transaction (the "Seritage transaction") with Seritage Growth Properties ("Seritage"), an independent publicly traded real estate investment trust. Sears Holdings disclosed that as part of the Seritage transaction, it sold 235 properties to Seritage (the "REIT properties") along with Sears Holdings' 50% interest in each of three real estate joint ventures (collectively, the "JVs"). Sears Holdings also disclosed that it contributed 31 properties to the JVs (the "JV properties"). As of October 28, 2016, 55 of the REIT properties contained a Lands' End Shop and 15 of the JV properties contained a Lands' End Shop, the leases with respect to which Sears Roebuck retained for its own account. Sears Holdings disclosed that Seritage and the JVs have a recapture right with respect to approximately 50% of the space within the stores at the REIT properties and JV properties (subject to certain exceptions), and with respect to eight of the stores that contain a Lands' End Shop, Seritage has the additional right to recapture 100% of the space within the Sears Roebuck store. If Sears Roebuck continues to dispose of retail stores that contain Lands' End Shops, and/or offer us relocation alternatives for Lands' End Shops that are less attractive than the current premises, our business and results of operations could be adversely affected. On October 28, 2016 the Company operated 219 Lands' End Shops at Sears, compared with 227 Lands' End Shops at Sears on October 30, 2015.

#### 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 approximately 34% 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:

	13 Weeks Ended			October 30, 2015		
	October 28, 2016			October 30, 2015		
(in thousands)	\$'s	% of Net revenue		\$'s	% of Net revenue	
Net revenue	\$311,476	100.0	%	\$334,434	100.0	%
Cost of sales (excluding depreciation and amortization)	177,825	57.1	%	172,019	51.4	%
Gross profit	133,651	42.9	%	162,415	48.6	%
Selling and administrative	132,365	42.5	%	135,867	40.6	%
Depreciation and amortization	4,795	1.5	%	4,260	1.3	%
Other operating (income), net	(86)	) —	%	(1,009)	) (0.3)	)%
Operating (loss) income	(3,423)	) (1.1)	)%	23,297	7.0	%
Interest expense	6,149	2.0	%	6,204	1.9	%
Other (income) expense, net	(432)	) (0.1)	)%	796	0.2	%
(Loss) income before income taxes	(9,140)	) (2.9)	)%	16,297	4.9	%
Income tax (benefit) expense	(1,918)	) (0.6)	)%	5,572	1.7	%
NET (LOSS) INCOME	\$(7,222)	) (2.3)	)%	\$10,725	3.2	%

(in thousands)	39 Weeks Ended October 28, 2016			October 30, 2015		
	\$'s	% of Net revenue		\$'s	% of Net revenue	
Net revenue	\$876,919	100.0	%	\$946,235	100.0	%
Cost of sales (excluding depreciation and amortization)	477,446	54.4	%	492,756	52.1	%
Gross profit	399,473	45.6	%	453,479	47.9	%
Selling and administrative	390,291	44.5	%	394,261	41.7	%
Depreciation and amortization	13,419	1.5	%	12,874	1.4	%
Other operating (income), net	(40 )	—	%	(3,366 )	(0.4 )	%
Operating (loss) income	(4,197 )	(0.5 )	%	49,710	5.3	%
Interest expense	18,493	2.1	%	18,615	2.0	%
Other (income) expense, net	(1,413 )	(0.2 )	%	(210 )	—	%
(Loss) income before income taxes	(21,277 )	(2.4 )	%	31,305	3.3	%
Income tax (benefit) expense	(6,316 )	(0.7 )	%	11,395	1.2	%
NET (LOSS) INCOME	\$(14,961 )	(1.7 )	%	\$19,910	2.1	%

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

#### Net (Loss) Income and Adjusted EBITDA

We recorded a Net loss of \$7.2 million in the Third Quarter 2016 compared to a Net income of \$10.7 million in the Third Quarter 2015. In addition to our Net (loss) income determined in accordance with GAAP, for purposes of evaluating operating performance, we use an Adjusted EBITDA measurement. Adjusted EBITDA is computed as Net (loss) income appearing on the Condensed Consolidated Statements of Operations net of Income tax (benefit) expense, 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 excluded 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.

We excluded the gain or loss on disposal of property and equipment as 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 30, 2015		
	October 28, 2016					
	\$'s	% of		\$'s	% of	
		Net revenue			Net revenue	
Net (loss) income	\$(7,222)	(2.3 )%		\$10,725	3.2 %	
Income tax (benefit) expense	(1,918 )	(0.6 )%		5,572	1.7 %	
Other (income) expense, net	(432 )	(0.1 )%		796	0.2 %	
Interest expense	6,149	2.0 %		6,204	1.9 %	
Operating (loss) income	(3,423 )	(1.1 )%		23,297	7.0 %	
Depreciation and amortization	4,795	1.5 %		4,260	1.3 %	
Product recall	(212 )	(0.1 )%		(1,007 )	(0.3 )%	
Loss (gain) on disposal of property and equipment	126	— %		(2 )	— %	
Adjusted EBITDA	\$1,286	0.4 %		\$26,548	7.9 %	

(in thousands)	39 Weeks Ended			October 30, 2015		
	October 28, 2016					
	\$'s	% of		\$'s	% of	
		Net revenue			Net revenue	
Net (loss) income	\$(14,961)	(1.7 )%		\$19,910	2.1 %	
Income tax (benefit) expense	(6,316 )	(0.7 )%		11,395	1.2 %	
Other (income) expense, net	(1,413 )	(0.2 )%		(210 )	— %	
Interest expense	18,493	2.1 %		18,615	2.0 %	
Operating (loss) income	(4,197 )	(0.5 )%		49,710	5.3 %	
Depreciation and amortization	13,419	1.5 %		12,874	1.4 %	
Product recall	(212 )	— %		(3,371 )	(0.4 )%	
Loss on disposal of property and equipment	172	— %		5	— %	
Adjusted EBITDA	\$9,182	1.0 %		\$59,218	6.3 %	

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

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

#### Discussion and Analysis

#### Third Quarter 2016 compared with the Third Quarter 2015

##### Net Revenue

Net revenue for the Third Quarter 2016 was \$311.5 million, compared with \$334.4 million in the comparable period of the prior year, a decrease of \$23.0 million or 6.9%. The decrease was comprised of a decrease in our Direct segment of \$15.7 million and a decrease in our Retail segment of \$7.3 million.

Net revenue in our Direct segment was \$272.1 million for the Third Quarter 2016, a decrease of \$15.7 million, or 5.5% from the comparable period of the prior year. The decrease in the Direct segment was a continuation of the difficult retail environment which led us to broaden our promotional activity with deeper discounting. The Direct segment did, however,



experience an incremental improvement from Second Quarter 2016 as the Company increased catalog circulation and improved catalog presentation. During the quarter our uniform business out performed the rest of the Direct segment. Net revenue in our Retail segment was \$39.3 million for the Third Quarter 2016, a decrease of \$7.3 million, or 15.6% from the comparable period of the prior year. The decrease was driven by a 14.3% decrease in Same Store Sales, and a decrease in the number of Lands' End Shops at Sears. The Same Store Sales decrease was attributable to the same competitive marketplace as in our Direct segment as well as declining traffic at our Lands' End Shops at Sears. On October 28, 2016, the Company operated 219 Lands' End Shops at Sears, 14 global Lands' End Inlet stores and no international shop-in-shops compared with 227 Lands' End Shops at Sears, 14 global Lands' End Inlet stores and five international shop-in-shops on October 30, 2015.

#### Gross Profit

Total gross profit decreased \$28.8 million to \$133.7 million and gross margin decreased approximately 570 basis points to 42.9% of total Net revenue in the Third Quarter 2016, compared with \$162.4 million, or 48.6% of total Net revenue, in the Third Quarter 2015. The gross profit decrease was comprised of a decrease in our Direct segment of \$25.2 million and a decrease in our Retail segment of \$3.6 million.

Gross profit in the Direct segment was \$116.7 million compared with \$141.9 million for the Third Quarter 2016 and Third Quarter 2015, respectively. Gross margin in the Direct segment decreased approximately 640 basis points to 42.9% in the Third Quarter 2016 versus 49.3% in the comparable prior year period. The decrease in Gross margin during the third quarter was primarily attributable to increased promotional activity in the highly competitive retail environment. Additionally, approximately 160 basis points of the decrease resulted from a \$4.4 million write down of under performing Canvas by Lands' End inventory.

Retail segment gross profit decreased \$3.6 million to \$16.9 million in the Third Quarter 2016 from \$20.5 million in the Third Quarter 2015. Retail segment gross margin decreased to 42.9% for the Third Quarter 2016 compared to 44.0% for the Third Quarter 2015 driven by increased promotional activity to remain competitive in current retail environment.

#### Selling and Administrative Expenses

Selling and administrative expenses were \$132.4 million, or 42.5% of total Net revenue compared with \$135.9 million or 40.6% of total Net revenue in the Third Quarter 2016 and Third Quarter 2015, respectively. During the quarter we incurred \$1.2 million of expenses associated with the departure of the Company's former Chief Executive Officer. The decrease in Selling and administrative expenses was primarily due to a decrease of \$2.1 million in the Direct segment, a decrease of \$1.7 million in the Retail segment and an increase of \$0.3 million in the Corporate segment. The Direct segment Selling and administrative expenses were \$102.8 million compared with \$104.9 million for the Third Quarter 2016 and Third Quarter 2015, respectively. The \$2.1 million or 2.0% decrease, was primarily attributable to a property tax recovery related to our claims and ongoing litigation against the City of Dodgeville and lower variable costs resulting from lower revenue.

The Retail segment Selling and administrative expenses were \$20.5 million compared with \$22.2 million for the Third Quarter 2016 and Third Quarter 2015, respectively. The \$1.7 million or 8.0% decrease was primarily attributable to a decrease in marketing investments and personnel costs.

Corporate / other Selling and administrative expenses increased to \$9.1 million in the Third Quarter 2016 compared to \$8.8 million in the Third Quarter 2015 due to increased severance expenses resulting from the CEO transition, partially offset by a decrease in other personnel costs.

#### Depreciation and Amortization

Depreciation and amortization expense was \$4.8 million in the Third Quarter 2016, an increase of \$0.5 million or 12.6%, compared with \$4.3 million in Third Quarter 2015, primarily attributable to an increase in depreciation associated with acquired information technology assets.

Other Operating (Income), Net

The decrease in Other operating income, net was attributable to the Third Quarter 2015 reversal of approximately \$1.0 million of the product recall accrual that was recorded in Fourth Quarter 2014.

Operating (Loss) Income

Operating (loss) income decreased to a \$3.4 million loss in the Third Quarter 2016 from \$23.3 million of income in Third Quarter 2015 primarily due to lower revenues and lower gross margin discussed above.

Interest Expense

Interest expense was essentially unchanged at \$6.1 million in the Third Quarter 2016 compared to \$6.2 million in the Third Quarter 2015.

Other (Income) / Expense, Net

Other (Income) / Expense, Net in the Third Quarter 2015 includes a charge of \$1.2 million from the reduction to a tax receivable from our former parent as a result of favorable tax settlements in certain tax jurisdictions.

Income Tax (Benefit) Expense

Income tax benefit was \$1.9 million for the Third Quarter 2016 compared with income tax expense of \$5.6 million in the Third Quarter 2015. The decrease was primarily attributable to a Net loss in comparison to Net income in the prior year. The effective tax rate was 21.0% in the Third Quarter 2016 compared with 34.2% in the Third Quarter 2015. The change is primarily attributable to the effects of credits and other permanent differences for the Company.

Net (Loss) Income

As a result of the above factors, Net loss was \$7.2 million and diluted loss per share was \$0.23 in the Third Quarter 2016 compared with Net income of \$10.7 million and diluted earnings per share of \$0.33 in the Third Quarter 2015. Net loss for the Third Quarter 2016 includes the aforementioned \$4.4 million inventory write-down (\$3.0 million net of tax), as well as \$1.2 million in one-time personnel costs net of reversals (\$0.8 million net of tax), primarily related to the departure of the Company's former Chief Executive Officer.

Adjusted EBITDA

As a result of the above factors, Adjusted EBITDA decreased to \$1.3 million in the Third Quarter 2016 from \$26.5 million in the Third Quarter 2015.

Year to Date 2016 compared with the Year to Date 2015

Net Revenue

Net revenue for the Year to Date 2016 was \$876.9 million, compared with \$946.2 million in the comparable period of the prior year, a decrease of \$69.3 million or 7.3%. The decrease was comprised of a decrease in our Direct segment of \$55.2 million and a decrease in our Retail segment of \$14.1 million.

Net revenue in our Direct segment was \$750.7 million for the Year to Date 2016, a decrease of \$55.2 million, or 6.9% from the comparable period of the prior year. The decrease was attributable to declines in all of our markets, though primarily concentrated in our U.S. consumer business. We realized declining performance in most of our major product categories, as the highly competitive and promotional retail environment negatively impacted our ability to generate traffic to our U.S. consumer websites.

Net revenue in our Retail segment was \$126.1 million for the Year to Date 2016, a decrease of \$14.1 million, or 10.1% from the comparable period of the prior year. The decrease was driven by a 7.9% decrease in Same Store Sales, and a decrease in the number of Lands' End Shops at Sears. The Same Store Sales decrease was attributable to the same competitive marketplace as in our Direct segment as well as declining traffic at our Lands' End Shops at Sears. On October 28, 2016, the

Company operated 219 Lands' End Shops at Sears, 14 global Lands' End Inlet stores and no international shop-in-shops compared with 227 Lands' End Shops at Sears, 14 global Lands' End Inlet stores and five international shop-in-shops on October 30, 2015.

#### Gross Profit

Total gross profit decreased \$54.0 million to \$399.5 million and gross margin decreased approximately 230 basis points to 45.6% of total Net revenue, compared with \$453.5 million, or 47.9% of total Net revenue, for the Year to Date 2016 and Year to Date 2015, respectively.

Gross profit in the Direct segment was \$346.0 million compared with \$390.5 million for the Year to Date 2016 and Year to Date 2015, respectively. The decrease in Gross profit is largely attributable to lower revenue. Gross margin in the Direct segment decreased approximately 240 basis points to 46.1% in the Year to Date 2016 versus 48.5% in the comparable prior year period, primarily attributable to a highly competitive retail environment resulting in increased promotional activity and deeper product discounts. Additionally, approximately 60 basis points of the decrease resulted from a \$4.4 million write down of under performing Canvas by Lands' End inventory.

Retail segment gross profit decreased \$9.5 million to \$53.3 million in the Year to Date 2016 from \$62.8 million in the Year to Date 2015. Retail segment gross margin decreased approximately 260 basis points to 42.2% compared with 44.8% for the Year to Date 2016 and Year to Date 2015, respectively, driven by the same factors which impacted our Direct segment.

#### Selling and Administrative Expenses

Selling and administrative expenses were \$390.3 million, or 44.5% of total Net revenue compared with \$394.3 million or 41.7% of total Net revenue in the Year to Date 2016 and Year to Date 2015, respectively. The \$4.0 million decrease was attributable to a \$0.7 million decrease in the Direct segment, a \$3.4 million decrease in the Retail segment, and the Corporate segment was essentially flat.

The Direct segment Selling and administrative expenses were \$304.5 million compared with \$305.2 million for the Year to Date 2016 and Year to Date 2015, respectively. The \$0.7 million or 0.2% decrease was primarily attributable to property tax recoveries related to our claims and ongoing litigation against the City of Dodgeville, partially offset by increased marketing investments.

The Retail segment Selling and administrative expenses were \$60.3 million compared with \$63.7 million for the Year to Date 2016 and Year to Date 2015, respectively. The \$3.4 million or 5.3% decrease was primarily attributable to a decrease in personnel expenses, and expenses related to closed stores.

Corporate / other Selling and administrative expenses were \$25.5 million compared with \$25.4 million for the Year to Date 2016 and Year to Date 2015, respectively.

#### Depreciation and Amortization

Depreciation and amortization expense increased to \$13.4 million in the Year to Date 2016 compared to \$12.9 million in the Year to Date 2015, primarily attributable to an increase in depreciation associated with acquired information technology assets.

#### Other Operating (Income), Net

The decrease in Other Operating (Income), Net was attributable to the Third Quarter 2015 reversal of approximately \$3.4 million of the product recall accrual that was recorded in Fourth Quarter 2014.

#### Operating (Loss) Income

Operating (loss) income decreased to a \$4.2 million Operating loss in Year to Date 2016 from Operating income of \$49.7 million in Year to Date 2015 primarily due to lower revenues and lower gross margin discussed above.



#### Interest Expense

Interest expense is essentially unchanged at \$18.5 million in the Year to Date 2016 compared with \$18.6 million in the Year to Date 2015.

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

Other (Income) / Expense, Net in the Year to Date 2015 includes a charge of \$1.2 million from the reduction to a tax receivable from our former parent as a result of favorable tax settlements in certain tax jurisdictions.

#### Income Tax (Benefit) Expense

Income tax benefit was \$6.3 million for the Year to Date 2016 compared with an Income tax expense of \$11.4 million in the Year to Date 2015. The change was primarily attributable to an operating loss in the Year to Date 2016 compared to operating income in the Year to Date 2015. The effective tax rate was 29.7% in the Year to Date 2016 compared with 36.4% in the Year to Date 2015. The change is primarily attributable to the effects of credits and other permanent differences for the Company.

#### Net (Loss) Income

As a result of the above factors, Net loss was \$15.0 million and diluted loss per share was \$0.47 in the Year to Date 2016 compared with Net income of \$19.9 million and diluted earnings per share of \$0.62 in the Year to Date 2015. Net loss for the Year to Date 2016 includes the aforementioned \$4.4 million inventory write-down (\$3.0 million net of tax), as well as \$1.2 million in one-time personnel costs net of reversals (\$0.8 million net of tax), primarily related to the departure of the Company's former Chief Executive Officer. Year to Date 2015 contained a product recall adjustment that favorably impacted Net income by \$2.1 million (after tax).

#### Adjusted EBITDA

As a result of the above factors, Adjusted EBITDA decreased 84.5% to \$9.2 million in the Year to Date 2016 from \$59.2 million in the Year to Date 2015.

#### Liquidity and Capital Resources

Our primary need for liquidity is to fund working capital requirements of our business, capital expenditures, debt service and for general corporate purposes. Our cash and cash equivalents and the ABL Facility serve as sources of liquidity for short-term working capital needs and general corporate purposes. We expect that our cash on hand and cash flows from operations, along with our ABL Facility, will be adequate to meet our capital requirements and operational needs for at least the next 12 months. Cash generated from our net 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

Lands' End entered into the ABL Facility, which provides 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 has 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 is available for working capital and other general corporate purposes, and was undrawn at October 28, 2016 and October 30, 2015, other than for letters of credit. The Company had borrowing availability under the ABL Facility of \$161.2 million as of October 28, 2016, net of outstanding letters of credit of \$13.8 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.

#### Maturity; Amortization and Prepayments

The ABL Facility will mature on April 4, 2019. 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 Lands' End 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 are guaranteed by its existing and future direct and indirect subsidiaries organized in the United Kingdom. The ABL Facility is secured by a first priority security interest in certain working capital of the borrowers and guarantors consisting primarily of accounts receivable and inventory. The Term Loan Facility is secured by a second priority security interest in the same collateral, with certain exceptions.

The Term Loan Facility 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 is secured by a second priority security interest in the same collateral.

#### Interest; Fees

The interest rates per annum applicable to the loans under the Debt Facilities are based on a fluctuating rate of interest measured by reference to, at the borrowers' election, either (i) 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 is subject to adjustment based on the average excess availability under the ABL Facility for the preceding fiscal quarter, and will range from 1.50% to 2.00% 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 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 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 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 28, 2016.

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

#### Events of Default

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

#### Cash Flows from Operating Activities

Operating activities used net cash of \$67.3 million and \$94.8 million for the Year to Date 2016 and Year to Date 2015, respectively, primarily due to the combination of:

- Lower inventories as the Company has worked diligently to manage inventory levels,
- Higher accounts payable due to the timing of inventory receipts in the current quarter, and
- Lower revenues, which drove a decrease in net (loss) income before non-cash items.

#### Cash Flows from Investing Activities

Net cash used in investing activities was \$26.0 million and \$18.1 million for the Year to Date 2016 and Year to Date 2015, 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 2016, we plan to invest a total of approximately \$35.0 million to \$40.0 million in capital expenditures for strategic investments and infrastructure, primarily associated with our ERP investment, other technology investments and general corporate needs.

#### Cash Flows from Financing Activities

Net cash used by financing activities was \$3.9 million for both the Year to Date 2016 and Year to Date 2015, consisting of our quarterly payments for 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 29, 2016.

#### Financial Instruments with Off-Balance-Sheet Risk

Lands' End entered into the ABL Facility, which provides 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 has 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 is available for working capital and other general corporate purposes, and was undrawn at October 28, 2016 and October 30, 2015, other than for letters of credit. The Company had borrowing availability under the ABL Facility of \$161.2 million as of October 28, 2016, net of outstanding letters of credit of \$13.8 million.

#### 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 29, 2016.

As previously discussed, Lands' End reviews the Company's 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, Lands' End determined that the income approach, specifically the relief from royalty method, was most appropriate for analyzing the Company's 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 2015 annual impairment assessment, the Company recorded a non-cash pretax intangible asset impairment charge of \$98.3 million during Fiscal 2015 to reduce the carrying value of the trade name to the fair value. During Year to Date 2016, there were no events or changes in circumstances that indicated that the carrying value of 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 2016. 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 2016.

#### Recent Accounting Pronouncements

See Part I, Item 1, Note 12 – 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 additional factors, among others, could cause our actual results, performance, and achievements to differ from those described in the forward-looking statements: our ability to offer merchandise and services that customers want to purchase, including a product assortment with improved fit and quality; 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 direct mail catalogs and digital/social media marketing efforts; the success of our efforts to improve catalog quality and optimize catalog productivity; the success of our overall marketing strategies, some of which, if successful, may not produce positive results in the short term; the success of our efforts to optimize promotions to drive sales and maximize gross margin dollars; 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; the success of our efforts to grow and expand into new markets and channels; fluctuations and increases in costs of raw 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 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; our exposure to periodic litigation and other regulatory proceedings, including with respect to product liability claims; incurrence of charges due to impairment of goodwill, other intangible assets and long-lived assets; our failure to retain our executive management team and to attract qualified new personnel; the impact on our business of adverse worldwide economic and market conditions, including economic factors that negatively impact consumer spending on discretionary items; the inability of our past performance generally, as reflected on our historical financial statements, to be indicative of our future performance; 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; our inability to engage in certain corporate transactions after the Separation; 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; declines in our stock price due to the eligibility of a number of our shares of common stock for future sale; our inability to pay dividends; stockholders' percentage ownership in Lands' End may be diluted in the future; and increases in our expenses and administrative burden in relation to being a public company, in particular to maintain compliance with certain provisions of the Sarbanes-Oxley Act of 2002; 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 29, 2016 and other filings with the SEC. 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 28, 2016, we had \$21.5 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 our Term Loan Facility and our ABL Facility, as both require us 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 \$2.6 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 Co-Interim Chief Executive Officers and Executive Vice Presidents, one of which is also the Chief Financial Officer, Chief Operating Officer and Treasurer have concluded that, as of October 28, 2016, the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) are effective.

#### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the Company's third fiscal quarter ended October 28, 2016 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 - Legal Proceedings 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 29, 2016, which was filed with the SEC on April 1, 2016.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the Third Quarter 2016 and Third Quarter 2015, we did not issue or sell any shares of our common stock or other equity securities pursuant to unregistered transactions in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended.

ITEM 6. EXHIBITS

The following documents are filed as exhibits hereto:

- 3.1 Amended and Restated Certificate of Incorporation of Lands' End, Inc. (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by Lands' End, Inc. on March 20, 2014 (File No. 001-09769)).
- 3.2 Amended and Restated Bylaws of Lands' End, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on April 8, 2014 (File No. 001-09769)).
- 10.1 Compensation Committee Resolutions dated September 23, 2016 regarding Co-Interim Chief Executive Officer Compensation.
- 10.2 Director Compensation Policy effective as of November 16, 2016.
- 31.1 Certification of Co-Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Co-Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1 Certification of Co-Principal Executive Officers 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\*

\* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be "furnished" and not "filed."



SIGNATURES

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

Lands' End, Inc.

By: /s/ James F. Gooch

James F. Gooch

Co-Interim Chief Executive Officer and Executive Vice President, Chief Financial Officer, Chief Operating Officer and Treasurer

(Co-Principal Executive Officer and Principal Financial Officer)

Dated: December 1, 2016