

LANDS' END, INC.  
Form 10-Q  
June 09, 2015

---

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 May 1, 2015

-OR-

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

---

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

---

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

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

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

The aggregate market value (based on the closing price of the Registrant's common stock quoted on the NASDAQ Stock Market) of the Registrant's common stock owned by non-affiliates (which are assumed, solely for the purpose of this calculation, to be stockholders other than (i) directors and executive officers of the Registrant and (ii) any

Edgar Filing: LANDS' END, INC. - Form 10-Q

person known by the Registrant to beneficially own five percent or more of the Registrant's common shares), as of August 1, 2014, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$452.8 million.

As of June 4, 2015, the registrant had 31,956,521 shares of common stock, \$0.01 par value, outstanding.

---

LANDS' END, INC.  
INDEX TO QUARTERLY REPORT ON FORM 10-Q  
Table of Contents

|                                       | Page   |
|---------------------------------------|--|
| <b>PART I – FINANCIAL INFORMATION</b> |  |
| Item 1.                               | Financial Statements (Unaudited) <u>1</u>  |
|                                       | Condensed Consolidated and Combined Statements of Operations for the Fiscal Quarter ended May 1, 2015 and May 2, 2014 <u>1</u>               |
|                                       | Condensed Consolidated and Combined Statements of Comprehensive Operations for the Fiscal Quarter ended May 1, 2015 and May 2, 2014 <u>2</u> |
|                                       | Condensed Consolidated Balance Sheets at May 1, 2015, May 2, 2014 and January 30, 2015 <u>3</u>  |
|                                       | Condensed Consolidated and Combined Statements of Cash Flows for the Fiscal Quarter ended May 1, 2015 and May 2, 2014 <u>4</u>               |
|                                       | Condensed Consolidated and Combined Statements of Stockholders' Equity for the Fiscal Quarter ended May 1, 2015 and May 2, 2014 <u>5</u>     |
|                                       | Notes to Condensed Consolidated and Combined Financial Statements <u>6</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>29</u>   |
| Item 4.                               | Controls and Procedures <u>29</u>  |
| <b>PART II – OTHER INFORMATION</b>    |  |
| Item 1.                               | Legal Proceedings <u>30</u>  |
| Item 1A.                              | Risk Factors <u>30</u>   |
| Item 2.                               | Unregistered Sales of Equity Securities and Use of Proceeds <u>30</u>  |
| Item 5.                               | Other Information <u>30</u>  |
| Item 6.                               | Exhibits <u>30</u>   |

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## LANDS' END, INC.

Condensed Consolidated and Combined Statements of Operations  
(Unaudited)

| (in thousands except per share amount)                  | 13 Weeks Ended |             |
|---|----------------|-------------|
|   | May 1, 2015    | May 2, 2014 |
| Merchandise sales and services, net                     | \$299,387      | \$330,483   |
| Cost of sales (excluding depreciation and amortization) | 152,823        | 168,461     |
| Gross profit  | 146,564        | 162,022     |
| Selling and administrative                              | 133,514        | 138,206     |
| Depreciation and amortization                           | 4,553          | 5,002       |
| Other operating expense                                 | 2              | 20          |
| Operating income  | 8,495          | 18,794      |
| Interest expense  | 6,186          | 1,925       |
| Other income, net                                       | 508            | 137         |
| Income before income taxes                              | 2,817          | 17,006      |
| Income tax expense                                      | 1,093          | 6,138       |
| NET INCOME  | \$1,724        | \$10,868    |
| NET INCOME PER COMMON SHARE (Note 4)                    |                |             |
| Basic:  | \$0.05         | \$0.34      |
| Diluted:  | \$0.05         | \$0.34      |
| Basic weighted average common shares outstanding        | 31,957         | 31,957      |
| Diluted weighted average common shares outstanding      | 32,060         | 31,957      |

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

LANDS' END, INC.

Condensed Consolidated and Combined Statements of Comprehensive Operations

(Unaudited)

| (in thousands except per share amount)   | 13 Weeks Ended |             |
|--|----------------|-------------|
|  | May 1, 2015    | May 2, 2014 |
| NET INCOME                               | \$1,724        | \$10,868    |
| Other comprehensive income, net of tax   |                |             |
| Foreign currency translation adjustments | 363            | 879         |
| COMPREHENSIVE INCOME                     | \$2,087        | \$11,747    |

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

2

---

## LANDS' END, INC.

Condensed Consolidated Balance Sheets  
(Unaudited)

| (in thousands, except share amount)   | May 1, 2015        | May 2, 2014        | January 30,<br>2015 |
|---|--------------------|--------------------|---------------------|
| <b>ASSETS</b>   |                    |                    |                     |
| Current assets  |                    |                    |                     |
| Cash and cash equivalents   | \$177,814          | \$64,976           | \$221,454           |
| Restricted cash   | 3,300              | 3,300              | 3,300               |
| Accounts receivable, net  | 36,423             | 39,800             | 30,073              |
| Inventories, net  | 284,589            | 326,973            | 301,367             |
| Deferred tax assets   | 2,349              | —                  | 3,438               |
| Prepaid expenses and other current assets   | 37,899             | 29,663             | 31,408              |
| Total current assets  | 542,374            | 464,712            | 591,040             |
| Property and equipment, net   | 105,393            | 98,656             | 101,223             |
| Goodwill  | 110,000            | 110,000            | 110,000             |
| Intangible assets, net  | 528,300            | 530,683            | 528,712             |
| Other assets  | 22,099             | 23,703             | 22,462              |
| <b>TOTAL ASSETS</b>   | <b>\$1,308,166</b> | <b>\$1,227,754</b> | <b>\$1,353,437</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                    |                    |                     |
| Current liabilities   |                    |                    |                     |
| Accounts payable  | \$93,972           | \$76,091           | \$132,796           |
| Deferred tax liabilities  | —                  | 3,732              | —                   |
| Other current liabilities   | 101,491            | 108,776            | 107,553             |
| Total current liabilities   | 195,463            | 188,599            | 240,349             |
| Long-term debt  | 504,700            | 509,850            | 505,988             |
| Long-term deferred tax liabilities  | 184,274            | 168,349            | 184,483             |
| Other liabilities   | 16,768             | 15,630             | 18,424              |
| <b>TOTAL LIABILITIES</b>  | <b>901,205</b>     | <b>882,428</b>     | <b>949,244</b>      |
| Commitments and contingencies   |                    |                    |                     |
| <b>STOCKHOLDERS' EQUITY</b>   |                    |                    |                     |
| Common stock, par value \$0.01- authorized: 480,000,000 shares;<br>issued and outstanding: 31,956,521, 31,956,521, 31,956,521 | 320                | 320                | 320                 |
| Additional paid-in capital  | 342,975            | 340,176            | 342,294             |
| Retained earnings   | 70,601             | 5,946              | 68,877              |
| Accumulated other comprehensive loss  | (6,935             | ) (1,116           | ) (7,298            |
| Total stockholders' equity  | 406,961            | 345,326            | 404,193             |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$1,308,166</b> | <b>\$1,227,754</b> | <b>\$1,353,437</b>  |

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

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

| (in thousands)  | 13 Weeks Ended    |                  |
|---|-------------------|------------------|
|   | May 1, 2015       | May 2, 2014      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |                  |
| Net income  | \$ 1,724          | \$ 10,868        |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                   |                  |
| Depreciation and amortization   | 4,553             | 5,002            |
| Amortization of debt issuance costs   | 490               | 155              |
| Stock-based compensation  | 681               | —                |
| Loss on disposal of property and equipment  | 2                 | 20               |
| Deferred income taxes   | 684               | 2,774            |
| Change in operating assets and liabilities:   |                   |                  |
| Inventories   | 16,766            | 44,135           |
| Accounts payable  | (36,025           | ) (39,543        |
| Other operating assets  | (13,076           | ) (7,344         |
| Other operating liabilities   | (7,287            | ) 15,310         |
| Net cash (used in) provided by operating activities   | (31,488           | ) 31,377         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                   |                  |
| Purchases of property and equipment   | (10,974           | ) (1,548         |
| Net cash used in investing activities   | (10,974           | ) (1,548         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                   |                  |
| Contributions from Sears Holdings, net  | —                 | 8,784            |
| Proceeds from issuance of long-term debt  | —                 | 515,000          |
| Payments on term loan facility  | (1,288            | ) —              |
| Debt issuance costs   | —                 | (11,311          |
| Dividend paid to a subsidiary of Sears Holdings Corporation                                 | —                 | (500,000         |
| Net cash (used in) provided by financing activities   | (1,288            | ) 12,473         |
| Effects of exchange rate changes on cash  | 110               | 263              |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                                 | <b>(43,640</b>    | <b>) 42,565</b>  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                                       | <b>221,454</b>    | <b>22,411</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>   | <b>\$ 177,814</b> | <b>\$ 64,976</b> |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>  |                   |                  |
| Unpaid liability to acquire property and equipment  | \$ 1,453          | \$ 391           |
| Income taxes paid   | \$ 12,793         | \$ 2,079         |
| Interest paid   | \$ 5,634          | \$ —             |

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

## LANDS' END, INC.

## Condensed Consolidated and Combined Statements of Changes in Stockholders' Equity

(Unaudited)

| (in thousands<br>except share<br>amounts)   | Common Stock Issued |        | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Net Parent<br>Company<br>Investment | Total<br>Stockholders'<br>Equity |
|---|---------------------|--------|----------------------------------|----------------------|---|-------------------------------------|----------------------------------|
|   | Shares              | Amount |                                  |                      |   |                                     |                                  |
| Balance at<br>January 31, 2014  | —                   | \$—    | \$—                              | \$—                  | \$ (1,995 )                                   | \$ 794,309                          | \$ 792,314                       |
| Net income  | —                   | —      | —                                | 5,946                | —   | 4,922                               | 10,868                           |
| Cumulative<br>translation<br>adjustment, net of<br>tax  | —                   | —      | —                                | —                    | 879   | —                                   | 879                              |
| Contribution from<br>parent company,<br>net   | —                   | —      | —                                | —                    | —   | 8,784                               | 8,784                            |
| Dividend paid to<br>parent company  | —                   | —      | —                                | —                    | —   | (500,000 )                          | (500,000 )                       |
| Separation related<br>adjustments   | —                   | —      | —                                | —                    | —   | 32,481                              | 32,481                           |
| Reclassification of<br>net parent<br>company<br>investment to<br>common stock<br>and additional<br>paid-in capital in<br>conjunction with<br>the separation | 31,956,521          | 320    | 340,176                          | —                    | —   | (340,496 )                          | —                                |
| Balance at May 2,<br>2014   | 31,956,521          | \$ 320 | \$ 340,176                       | \$ 5,946             | \$ (1,116 )                                   | \$—                                 | \$ 345,326                       |
| Balance at<br>January 30, 2015  | 31,956,521          | \$ 320 | \$ 342,294                       | \$ 68,877            | \$ (7,298 )                                   | \$—                                 | \$ 404,193                       |
| Net income  | —                   | —      | —                                | 1,724                | —   | —                                   | 1,724                            |
| Cumulative<br>translation<br>adjustment, net of<br>tax  | —                   | —      | —                                | —                    | 363   | —                                   | 363                              |
| Stock-based<br>compensation<br>expense  | —                   | —      | 681                              | —                    | —   | —                                   | 681                              |
| Balance at May 1,<br>2015   | 31,956,521          | \$ 320 | \$ 342,975                       | \$ 70,601            | \$ (6,935 )                                   | \$—                                 | \$ 406,961                       |



See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

5

---

LANDS' END, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

NOTE 1. BACKGROUND AND BASIS OF PRESENTATION

Description of Business and Separation

Lands' End, Inc. ("Lands' End" or the "Company") is a leading multi-channel retailer of casual clothing, accessories and footwear, as well as home products. Lands' End offers products through catalogs, online at [www.landsend.com](http://www.landsend.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 and combined financial statements are defined as follows:

- 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)
- Separation - On April 4, 2014 Sears Holdings distributed 100% of the outstanding common stock of Lands' End to its shareholders
- First Quarter 2015 - The thirteen weeks ended May 1, 2015
- First Quarter 2014 - The thirteen weeks ended May 2, 2014
- EPS - Earnings per share
- ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert
- ABL Facility - Asset-based senior secured credit agreements, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- Term Loan Facility - Term loan credit Agreement, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- Facilities - Collectively, the ABL Facility and the Term Loan Facility
- UK Borrower - A United Kingdom subsidiary borrower of Lands' End under the ABL Facility
- GAAP - Accounting principles generally accepted in the United States
- SEC - United States Securities and Exchange Commission
- FASB - Financial Accounting Standards Board
- FASB ASC - FASB 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 SEC registrants
- ASU - FASB Accounting Standards Update
- Tax Sharing Agreement - A tax sharing agreement entered into by Sears Holdings Corporation and Lands' End in connection with the Separation
- UTBs - Gross unrecognized tax benefits
- LIBOR - London inter-bank offered rate
- Sears Roebuck - Sears, Roebuck and Co., a subsidiary of Sears Holdings Corporation
- CAM - Common area maintenance for leased properties

- SYW - Shop Your Way member loyalty program
- Adjusted EBITDA - Adjusted Earnings before Interest, Taxes, Depreciation and Amortization

On March 14, 2014, the board of directors of Sears Holdings approved the distribution of the issued and outstanding shares of Lands' End common stock on the basis of 0.300795 shares of Lands' End common stock for each share of Sears Holdings Corporation common stock held on March 24, 2014. Sears Holdings Corporation distributed 100 percent of the outstanding common stock of Lands' End to its shareholders on April 4, 2014.

A Registration Statement on Form 10 relating to the Separation was filed by the Company with the SEC, and was subsequently amended by the Company and declared effective by the SEC on March 17, 2014. The Company's common stock began "regular way" trading on the NASDAQ Stock Market after the distribution date under the symbol "LE".

Prior to the completion of the Separation, Sears Holdings transferred all the remaining assets and liabilities of Lands' End that were held by Sears Holdings to Lands' End or its subsidiaries. Lands' End also paid a dividend of \$500.0 million to a subsidiary of Sears Holdings Corporation.

#### Basis of Presentation

The financial statements presented herein represent (i) periods prior to April 4, 2014 when Lands' End was a wholly owned subsidiary of Sears Holdings Corporation (referred to as "Combined Financial Statements") and (ii) the period as of and subsequent to April 4, 2014 when Lands' End became a separate publicly-traded company (referred to as "Consolidated Financial Statements").

The Condensed Consolidated and Combined 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 and Combined 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 17, 2015.

Our historical Combined Financial Statements have been prepared on a stand-alone basis and have been derived from the consolidated financial statements and accounting records of Sears Holdings. The Combined Financial Statements include Lands' End, Inc. and subsidiaries and certain other items related to the Lands' End business which were held by Sears Holdings prior to the Separation. These items were contributed by Sears Holdings to Lands' End, Inc. prior to the Separation. These historical Combined Financial Statements reflect the Company's financial position, results of operations and cash flows in conformity with GAAP.

All intracompany transactions and accounts have been eliminated. Prior to the Separation, all intercompany transactions between Sears Holdings and Lands' End were considered to be effectively settled in the Condensed Combined Financial Statements at the time the transactions were recorded. The total net effect of the settlement of these intercompany transactions is reflected in the Condensed Combined Statements of Cash Flows as a financing activity.

Upon completion of the Separation, the Company had 31,956,521 shares of common stock outstanding at a par value of \$0.01 per share. After Separation adjustments were recorded, the remaining Net parent company investment, which includes all earnings prior to Separation, was transferred to Additional paid-in capital.

As a business operation of Sears Holdings, Lands' End did not maintain its own tax and certain other corporate support functions prior to the Separation. Lands' End entered into agreements with Sears Holdings for the continuation of certain of these services, as well as to support the Lands' End Shops at Sears. These expenses had been allocated to Lands' End based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis based upon revenue, headcount, square footage or other measures. Lands' End considers the expense allocation methodology and results to be reasonable for all periods presented. However, the costs and allocations charged to the Company by Sears Holdings do not necessarily reflect the costs of obtaining the services from unaffiliated third parties or of the Company providing the applicable services itself. The historical Condensed Combined Financial Statements contained herein may not be indicative of the Company's financial position, operating results, and cash flows in the future, or what they would have been if it had been a stand-alone company during all periods presented. See Note 9 - Related Party Transactions.

Prior to the Separation, Sears Holdings provided financing, cash management and other treasury services to Lands' End. Sears Holdings used a centralized approach to its United States domestic cash management and financing of its operations. The majority of the Company's cash was transferred to Sears Holdings on a daily basis. Sears Holdings was also the Company's only source of funding for its operating and investing activities. Upon Separation, cash and restricted cash held by Sears Holdings were not allocated to Lands' End unless the cash or restricted cash was held by an entity that was transferred to Lands' End. Sears Holdings' third-party debt, and the related interest expense, was not allocated to Lands' End for any of the periods presented as it was not the legal obligor of the debt and the Sears Holdings' borrowings were not directly attributable to the Company's business.

#### NOTE 2. 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 U.S. 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 U.S. federal, state and local income taxes. Lands' End generally is liable for all other income taxes attributable to its business, including all foreign taxes.

As of May 1, 2015, the Company had gross UTBs of \$9.0 million. Of this amount, \$5.8 million would, if recognized, impact our effective tax rate, with the remaining amount being comprised of UTBs related to gross temporary differences or other indirect benefits. The Company does not expect that UTBs will fluctuate in the next 12 months for tax audit settlements and the expiration of the statute of limitations for certain jurisdictions. Pursuant to the Tax Sharing Agreement, Sears Holdings Corporation is generally responsible for all U.S. federal, state and local UTBs through the date of the Separation and, as such, an indemnification asset from Sears Holdings Corporation for the \$8.7 million pre-Separation UTBs recorded in Other assets in the Condensed Consolidated Balance Sheets.

The Company classifies interest expense and penalties related to UTBs and interest income on tax overpayments as components of income tax expense. As of May 1, 2015, the total amount of interest expense and penalties recognized on our balance sheet was \$5.7 million (\$3.7 million net of federal benefit). The total amount of net interest expense recognized in the Condensed Consolidated and Combined Statements of Operations was insignificant for the First Quarter 2015 and the First Quarter 2014, respectively. We file income tax returns in both the United States and various foreign jurisdictions. The Company is under examination by various state income tax jurisdictions for the years 2002–2013.

#### Impacts of Separation

Prior to the Separation, the tax provision and related tax accounts represented the tax attributable to the Company as if the Company filed a separate tax return. However, the computed obligations were settled through Sears Holdings Corporation.

As a result of the Separation, the Company will be filing its own income tax returns and, as a result certain tax attributes previously included in Net parent company investment were reclassified. Specifically, subsequent to the Separation the Company has reclassified (i) \$30.4 million of deferred tax assets related primarily to foreign tax credits; and (ii) a \$13.7 million reserve for uncertain tax positions out of Net parent company investment and into Deferred tax liabilities and Other liabilities, respectively. In addition, pursuant to the Tax Sharing Agreement, a \$13.7 million receivable has been recorded by the Company to reflect the indemnification by Sears Holdings Corporation of the pre-Separation uncertain tax positions for which Sears Holdings is responsible. This receivable has been included in Other assets in the Condensed Consolidated Balance Sheets.

#### NOTE 3. 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 include 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 ratably over three years. 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 and Combined Statements of Operations:

|   | 13 Weeks Ended |
|---|----------------|
| (in thousands)                          | May 1, 2015    |
| Performance Awards                      | \$397          |
| Deferred Awards                         | 284            |
| Total stock-based compensation expense  | \$681          |
| Awards Granted Year to Date May 1, 2015 |                |

The Company granted Deferred Awards to various employees during the First Quarter 2015, which generally cliff vest after a three year period.

Changes in the Company's Unvested Stock Awards Year to Date May 1, 2015

| (in thousands, except per share amounts)      | Number of Shares | Weighted Average<br>Grant Date Fair Value |
|---|------------------|---|
| Unvested Deferred Awards, beginning of period | 44               | \$28.01                                   |
| Granted                                       | 132              | 33.32                                     |
| Forfeited                                     | (6               | ) 26.73                                   |
| Unvested Deferred Awards, end of period       | 170              | 32.14                                     |

Total unrecognized stock-based compensation expense related to unvested Deferred Awards approximated \$5.1 million as of May 1, 2015, which will be recognized over a weighted average period of approximately 2.7 years.

## Performance Awards

| (in thousands, except per share amounts)         | Number of Shares | Weighted Average Grant Date Fair Value |
|--|------------------|--|
| Unvested Performance Awards, beginning of period | 197              | \$28.01                                |
| Granted  | —                | —                                      |
| Forfeited  | (23              | ) 26.73                                |
| Unvested Performance Awards, end of period       | 174              | 28.17                                  |

Total unrecognized stock-based compensation expense related to unvested Performance Awards approximated \$2.4 million as of May 1, 2015, which will be recognized over a weighted average period of approximately 2.1 years.

## NOTE 4. EARNINGS PER SHARE

The numerator for both basic and diluted EPS is net 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 FASB ASC. For periods ended April 4, 2014 and prior, basic and diluted earnings per share are computed using the number of shares of Lands' End common stock outstanding on April 4, 2014, the date on which the Lands' End common stock was distributed to the shareholders of Sears Holdings Corporation. The same number of shares was used to calculate basic and diluted earnings per share for the First Quarter 2014 as there were no dilutive securities outstanding. The following table summarizes the components of basic and diluted earnings per share:

| (in thousands, except per share amounts)    | 13 Weeks Ended |             |
|---|----------------|-------------|
|   | May 1, 2015    | May 2, 2014 |
| Net income                                  | \$1,724        | \$10,868    |
| Basic weighted average shares outstanding   | 31,957         | 31,957      |
| Dilutive effect of stock awards             | 103            | —           |
| Diluted weighted average shares outstanding | 32,060         | 31,957      |
| Basic earnings per share                    | \$0.05         | \$0.34      |
| Diluted earnings per share                  | \$0.05         | \$0.34      |

Anti-dilutive stock awards are comprised of awards which are anti-dilutive in the application of the treasury stock method. There were no anti-dilutive securities excluded from the diluted weighted average shares outstanding for the First Quarter 2015 or the First Quarter 2014.

## NOTE 5. OTHER COMPREHENSIVE INCOME (LOSS)

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

| (in thousands)  | 13 Weeks Ended |             |
|---|----------------|-------------|
|   | May 1, 2015    | May 2, 2014 |
| Beginning balance: Accumulated other comprehensive loss (net of tax of \$3,931 and \$1,211, respectively) | \$(7,298)      | \$(1,995)   |
| Other comprehensive income:   |                |             |
| Foreign currency translation adjustments (net of tax expense of \$197 and \$527, respectively)            | 363            | 879         |
| Ending balance: Accumulated other comprehensive loss (net of tax of \$3,734 and \$684, respectively)      | \$(6,935)      | \$(1,116)   |

Comprehensive income—no amounts were reclassified out of Accumulated other comprehensive loss during any of the periods presented.

## NOTE 6. DEBT

The Company's debt consisted of the following:

|   | May 1, 2015 |        | May 2, 2014 |        | January 30, 2015 |        |
|---|-------------|--------|-------------|--------|------------------|--------|
|   | Amount      | Rate   | Amount      | Rate   | Amount           | Rate   |
| Term Loan Facility, maturing April 4, 2021            | \$509,850   | 4.25 % | \$515,000   | 4.25 % | \$511,138        | 4.25 % |
| ABL Facility, maturing April 4, 2019                  | —           | — %    | —           | — %    | —                | — %    |
|   | 509,850     |        | 515,000     |        | 511,138          |        |
| Less: Current maturities in Other current liabilities | 5,150       |        | 5,150       |        | 5,150            |        |
| Long-term debt  | \$504,700   |        | \$509,850   |        | \$505,988        |        |

The Company had borrowing availability under the ABL Facility of \$155.8 million as of May 1, 2015, net of outstanding letters of credit of \$19.2 million.

## Interest; Fees

The interest rates per annum applicable to the loans under the 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 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 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 Facilities do

not otherwise contain financial maintenance covenants. The Company was in compliance with all financial covenants related to the Facilities as of May 1, 2015.

The 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 7. 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 May 1, 2015, May 2, 2014 and January 30, 2015 was approximately \$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 other financial instruments in the Condensed Consolidated Balance Sheets are as follows:

| (in thousands)                               | May 1, 2015     |            | May 2, 2014     |            | January 30, 2015 |            |
|--|-----------------|------------|-----------------|------------|------------------|------------|
|  | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount  | Fair Value |
| Long-term debt, including short-term portion | \$509,850       | \$502,840  | \$515,000       | \$515,000  | \$511,138        | \$491,331  |

Long-term debt was valued utilizing level 2 valuation techniques based on the closing inactive market bid price on May 1, 2015 and January 30, 2015. On May 2, 2014, the carrying value of Long-term debt approximated fair value as contract terms were deemed indicative of the current market due to the short duration between the execution of the agreement and May 2, 2014. There were no nonfinancial assets or nonfinancial liabilities recognized at fair value on a nonrecurring basis as of May 1, 2015 and May 2, 2014.

#### NOTE 8. GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business combinations accounted for under the purchase accounting method. The net carrying amounts of goodwill, trade names and customer lists are included within the Company's Direct segment. Total amortization expense relating to intangible assets was \$0.4 million and \$0.7 million for the First Quarter 2015 and First Quarter 2014, respectively. There were no impairments of goodwill or intangible assets during any periods presented or since the goodwill and intangible assets were first recognized.



The following summarizes goodwill and intangible assets:

| (in thousands)                      | Useful Life | May 1, 2015           |                          | May 2, 2014           |                          | January 30, 2015      |                          |
|-------------------------------------|-------------|-----------------------|--------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                                     |             | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortizing intangible assets:       |             |                       |                          |                       |                          |                       |                          |
| Customer lists                      | 10          | \$26,300              | \$26,300                 | \$26,300              | \$23,917                 | \$26,300              | \$25,888                 |
| Indefinite-lived intangible assets: |             |                       |                          |                       |                          |                       |                          |
| Trade names                         |             | 528,300               | —                        | 528,300               | —                        | 528,300               | —                        |
| Gross intangible assets             |             | \$554,600             | \$26,300                 | \$554,600             | \$23,917                 | \$554,600             | \$25,888                 |
| Total intangible assets, net        |             | \$528,300             |                          | \$530,683             |                          | \$528,712             |                          |
| Goodwill                            |             | \$110,000             |                          | \$110,000             |                          | \$110,000             |                          |

#### NOTE 9. 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 both prior to and subsequent to the Separation.

Prior to the Separation, Sears Holdings Corporation (including certain non-Lands' End subsidiaries) and the Company entered into various agreements to, among other things: (i) support the Lands' End Shops at Sears; (ii) provide various general corporate services; and (iii) support the Company's participation in the SYW program; and (iv) allow for the use of intellectual property or services. The amounts charged to the Company by Sears Holdings do not necessarily reflect the costs of obtaining the services from unaffiliated third parties or of the Company providing the applicable services itself. Management believes that such costs are reasonable; however, the Combined Financial Statements contained herein may not be indicative of the Company's financial position, operating results, and cash flows in the future, or what they would have been if it had been a stand-alone company during all periods presented.

In connection with 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, including the International Buying Office under the Buying Agency Agreement.

References to and descriptions of the agreements below represent the agreements entered into in connection with the Separation.

See further descriptions of the transactions in the Company's 2015 Annual Report on Form 10-K. 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:

| (in thousands)                                    | 13 Weeks Ended |             |
|---|----------------|-------------|
|   | May 1, 2015    | May 2, 2014 |
| Rent, CAM and occupancy costs                     | \$6,350        | \$6,811     |
| Retail services, store labor                      | 6,601          | 7,647       |
| Financial services and payment processing         | 623            | 727         |
| Supply chain costs                                | 277            | 131         |
| Total expenses                                    | \$13,851       | \$15,316    |
| Number of Lands' End Shops at Sears at period end | 235            | 251         |

## General Corporate Services

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

| (in thousands)           | 13 Weeks Ended |             |
|--------------------------|----------------|-------------|
|                          | May 1, 2015    | May 2, 2014 |
| Sourcing                 | \$1,584        | \$1,861     |
| Shop Your Way            | 525            | 1,014       |
| Shared services          | 150            | 133         |
| Co-location and services | —              | 6           |
| Total expenses           | \$2,259        | \$3,014     |

## 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 |             |
|--|----------------|-------------|
|  | May 1, 2015    | May 2, 2014 |
| Lands' End business outfitters revenue | \$403          | \$750       |
| Credit card revenue                    | 287            | 248         |
| Call center services                   | 214            | 226         |
| Royalty income                         | 21             | 12          |
| Gift card revenue                      | (4             | ) 241       |
| Total income                           | \$921          | \$1,477     |

## 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 member loyalty program. This income is net of agreed upon costs directly attributable to the Company providing these services. The income is included in Merchandise sales and services, net and costs are included in Selling and administrative expenses in the Condensed Consolidated and Combined Statements of Operations. Total call center service income included in Merchandise sales and services, net was \$1.3 million and \$1.5 million for the First Quarter 2015 and the First Quarter 2014, respectively.

## Additional Balance Sheet Information

At May 1, 2015 and May 2, 2014 the Company included \$5.2 million and \$4.6 million in Accounts receivable, net, respectively and \$7.8 million and \$9.5 million in Accounts payable, respectively, in the Condensed Consolidated Balance Sheets to reflect amounts due from and owed to Sears Holdings. At May 1, 2015 and May 2, 2014, a \$14.5 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 uncertain tax positions (including penalties and interest) for which Sears Holdings Corporation is responsible.

## NOTE 10. SEGMENT REPORTING

The Company is a leading multi-channel retailer of casual 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 sales are divided by product categories: Apparel and Non-apparel. The Non-apparel sales include accessories, footwear, and home goods. Services and other revenue includes embroidery, monogramming, gift wrapping, shipping and other services. Merchandise sales and services, net are aggregated by product category in the following table:

| (in thousands)                            | 13 Weeks Ended |             |
|---|----------------|-------------|
|   | May 1, 2015    | May 2, 2014 |
| Merchandise sales and services, net:      |                |             |
| Apparel                                   | \$253,445      | \$275,857   |
| Non-apparel                               | 31,325         | 37,617      |
| Services and other                        | 14,617         | 17,009      |
| Total merchandise sales and services, net | \$299,387      | \$330,483   |

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 and Combined 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 the First Quarter 2015 and First Quarter 2014.

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 inventory in the retail stores, fixtures and leasehold improvements.

The Corporate segment records revenues related to a licensing agreement with Sears Holdings Management Corporation, a subsidiary of Sears Holdings Corporation, whereby royalties are paid in consideration for sharing or use of intellectual property.

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 for the First Quarter 2015 and the First Quarter 2014.

## SUMMARY OF SEGMENT DATA

|   | 13 Weeks Ended |             |                  |
|---|----------------|-------------|------------------|
| (in thousands)                            | May 1, 2015    | May 2, 2014 |                  |
| Merchandise sales and services, net:      |                |             |                  |
| Direct                                    | \$253,373      | \$276,041   |                  |
| Retail                                    | 45,992         | 54,430      |                  |
| Corporate/ other                          | 22             | 12          |                  |
| Total merchandise sales and services, net | \$299,387      | \$330,483   |                  |
|   | 13 Weeks Ended |             |                  |
| (in thousands)                            | May 1, 2015    | May 2, 2014 |                  |
| Adjusted EBITDA:                          |                |             |                  |
| Direct                                    | \$21,678       | \$29,263    |                  |
| Retail                                    | 144            | 2,326       |                  |
| Corporate/ other                          | (8,772         | ) (7,773    |                  |
| Total adjusted EBITDA                     | \$13,050       | \$23,816    |                  |
|   | 13 Weeks Ended |             |                  |
| (in thousands)                            | May 1, 2015    | May 2, 2014 |                  |
| Depreciation and amortization:            |                |             |                  |
| Direct                                    | \$3,695        | \$4,015     |                  |
| Retail                                    | 497            | 644         |                  |
| Corporate/ other                          | 361            | 343         |                  |
| Total depreciation and amortization       | \$4,553        | \$5,002     |                  |
| (in thousands)                            | May 1, 2015    | May 2, 2014 | January 30, 2015 |
| Total assets:                             |                |             |                  |
| Direct                                    | \$1,032,589    | \$1,077,769 | \$1,023,364      |
| Retail                                    | 57,549         | 66,808      | 67,765           |
| Corporate/ other                          | 218,028        | 83,177      | 262,308          |
| Total assets                              | \$1,308,166    | \$1,227,754 | \$1,353,437      |

| (in thousands)             | Fiscal Quarter Ended |             |
|----------------------------|----------------------|-------------|
|                            | May 1, 2015          | May 2, 2014 |
| Capital expenditures:      |                      |             |
| Direct                     | \$ 10,883            | \$ 1,467    |
| Retail                     | —                    | —           |
| Corporate/ other           | 91                   | 81          |
| Total capital expenditures | \$ 10,974            | \$ 1,548    |

**NOTE 11. COMMITMENTS AND CONTINGENCIES****Legal Proceedings**

The Company is party to various legal proceedings arising in the ordinary course of business. These actions include commercial, intellectual property, employment, regulatory and consumer fraud claims. 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. The Company does not believe that the outcome of any current legal proceeding would 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. As of May 22, 2015, the City has refunded, as the result of various court decisions, over \$4.0 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 were 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; and (3) approximately \$0.9 million arising from the 2008 tax year, recognized in the fiscal year ended January 30, 2015. The claims arising from 2005 and 2006 tax years are closed. The company claims pending before the circuit court arising from tax years 2007 and 2013 remain unresolved, as is the Company's administrative claim for the 2014 and 2015 tax year which will soon be filed with the circuit court. The Company believes that the potential additional aggregate recovery from the City of Dodgeville arising from the 2007 to 2015 tax years will range from \$2.8 million to \$4.6 million, none of which has been recorded in the Condensed Consolidated and Combined Financial Statements.

**NOTE 12. SUPPLEMENTAL FINANCIAL INFORMATION****Non-cash Transactions**

Certain non-cash transactions resulted at the time of the Separation. Such transactions were accounted for as an adjustment to Net parent company investment and did not result in cash flows as follows: (i) a \$1.5 million liability related to postretirement benefits was transferred to Sears Holdings Corporation as it assumed administration and funding of the plan after the Separation, and (ii) as described in Note 2 - Income Taxes, upon Separation, certain tax attributes previously included within Net parent company investment were reclassified.

**NOTE 13. RECENT ACCOUNTING PRONOUNCEMENTS****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 will be effective for Lands' End in the first quarter of its fiscal year ending January 27, 2017. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's Condensed Consolidated and Combined 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 changes the required presentation of debt issuance costs from an asset on the balance sheet to a deduction from the related debt liability. This guidance will be effective for Lands' End in its fiscal year ending January 27, 2017. The adoption of this guidance is not expected to have a material impact on the Company's Condensed Consolidated and Combined Financial Statements.

#### 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 will be effective for Lands' End in the first quarter of its fiscal year ending February 2, 2018. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's Condensed Consolidated and Combined Financial Statements.

#### Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which modifies the requirements for disposals to qualify as discontinued operations and expands related disclosure requirements. This guidance will be effective for Lands' End in its fiscal year ending January 29, 2016. The adoption of this guidance is not expected to have a material impact on the Company's Condensed Consolidated and Combined 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 Consolidated and Combined 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 30, 2015, 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:

- 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)
- Separation - On April 4, 2014 Sears Holdings distributed 100% of the outstanding common stock of Lands' End to its shareholders
- ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert
- ABL Facility - Asset-based senior secured credit agreements, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- Term Loan Facility - Term loan credit Agreement, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- Facilities - Collectively, the ABL Facility and the Term Loan Facility
- UK Borrower - A United Kingdom subsidiary borrower of Lands' End under the ABL Facility
- 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
- SEC - United States Securities and Exchange Commission
- First Quarter 2015 - the thirteen weeks ended May 1, 2015
- First Quarter 2014 - the thirteen weeks ended May 2, 2014

### Executive Overview

#### Introduction

Management's discussion and analysis of financial condition and results of operations accompanies our condensed consolidated and combined 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 combined and segment results of operations for the 2015 and 2014 first fiscal quarter.

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.

Quantitative and qualitative disclosures about market risk. This section discusses how we monitor and manage market risk related to changing currency rates. We also provide an analysis of how adverse changes in market conditions could impact our results based on certain assumptions we have provided.

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.

#### Description of the Company

Lands' End, Inc. is a leading multi-channel retailer of casual clothing, accessories and footwear, as well as home products. We offer products through catalogs, online at [www.landsend.com](http://www.landsend.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."

On March 14, 2014, the board of directors of Sears Holdings approved the distribution of the issued and outstanding shares of Lands' End common stock on the basis of 0.300795 shares of Lands' End common stock for each share of Sears Holdings common stock held on March 24, 2014, the record date. Sears Holdings distributed 100 percent of the outstanding common stock of Lands' End to its shareholders on April 4, 2014.

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 financial statements presented herein represent (i) periods prior to April 4, 2014 when we were a wholly owned subsidiary of Sears Holdings Corporation (referred to as "Combined Financial Statements") and (ii) the period as of and subsequent to April 4, 2014 when we became a separate publicly-traded company (referred to as "Consolidated Financial Statements").

Our historical Combined Financial Statements have been prepared on a stand-alone basis and have been derived from the consolidated financial statements of Sears Holdings and accounting records of Sears Holdings. The Combined Financial Statements include Lands' End, Inc. and subsidiaries and certain other items related to the Lands' End business which were held by Sears Holdings prior to the Separation, primarily the Lands' End Shops at Sears. These items were contributed by Sears Holdings to Lands' End, Inc. prior to the Separation. These historical Combined Financial Statements reflect our financial position, results of operations and cash flows in conformity with GAAP. All intracompany transactions and accounts have been eliminated. Prior to the Separation, all intercompany transactions between Sears Holdings and Lands' End were considered to be effectively settled in the Combined Financial Statements at the time the transactions were recorded. The total net effect of the settlement of these intercompany transactions is reflected in the Combined Statements of Cash Flows as a financing activity.

Upon completion of the Separation, the Company had 31,956,521 shares of common stock outstanding at a par value of \$0.01 per share. After Separation adjustments were recorded, the remaining Net parent company investment, which includes all earnings prior to the Separation, was transferred to Additional paid-in capital.



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 recently 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. Sears Holdings also recently announced that it expects to commence a rights offering in June 2015 in connection with its formation of Seritage Growth Properties, a Real Estate Investment Trust (REIT), that would purchase from and lease back to Sears Holdings 235 Sears and Kmart stores, and that it has completed the formation of real estate joint ventures with third parties. We believe that in connection with these transactions, Sears Roebuck has or intends to sell and leaseback approximately 77 Sears stores that contain a Lands' End Shop, the impact on the Company of which is not known. 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 May 1, 2015 the Company operated 235 Lands' End Shops at Sears, compared with 251 Lands' End Shops at Sears on May 2, 2014.

#### Seasonality

We experience seasonal fluctuations in our net sales 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 sales in the fourth fiscal quarter of the past three years. Thus, lower than expected fourth quarter net sales could have an adverse impact on our annual operating results.

Working capital requirements typically increase during the third quarter of the fiscal year as inventory builds to support peak shipping/selling period and, accordingly, typically decrease during the fourth quarter of the fiscal year as inventory is shipped/sold. Cash provided by operating activities is typically higher in the fourth quarter of the fiscal year due to reduced working capital requirements during that period.

## Results of Operations

The following table sets forth, for the periods indicated, selected income statement data:

| (in thousands)  | 13 Weeks Ended |           | 13 Weeks Ended |           |   |
|---|----------------|-----------|----------------|-----------|---|
|   | May 1, 2015    | % of      | May 2, 2014    | % of      |   |
|   | \$'s           | Net Sales | \$'s           | Net Sales | % |
| Merchandise sales and services, net                     | \$299,387      | 100.0     | % \$330,483    | 100.0     | % |
| Cost of sales (excluding depreciation and amortization) | 152,823        | 51.0      | % 168,461      | 51.0      | % |
| Gross profit  | 146,564        | 49.0      | % 162,022      | 49.0      | % |
| Selling and administrative                              | 133,514        | 44.6      | % 138,206      | 41.8      | % |
| Depreciation and amortization                           | 4,553          | 1.5       | % 5,002        | 1.5       | % |
| Other operating expense, net                            | 2              | —         | % 20           | —         | % |
| Operating income  | 8,495          | 2.8       | % 18,794       | 5.7       | % |
| Interest expense  | 6,186          | 2.1       | % 1,925        | 0.6       | % |
| Other income, net                                       | 508            | 0.2       | % 137          | —         | % |
| Income before income taxes                              | 2,817          | 0.9       | % 17,006       | 5.1       | % |
| Income tax expense                                      | 1,093          | 0.4       | % 6,138        | 1.9       | % |
| Net income  | \$1,724        | 0.6       | % \$10,868     | 3.3       | % |

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

## Net Income and Adjusted EBITDA

We recorded Net income of \$1.7 million and \$10.9 million for the First Quarter 2015 and the First Quarter 2014, respectively. In addition to our Net income determined in accordance with GAAP, for purposes of evaluating operating performance, we use an Adjusted EBITDA measurement. Adjusted EBITDA is computed as Net income appearing on the Consolidated and Combined Statements of Operations net of Income tax expense, 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.

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.

For the First Quarter 2015, and the First Quarter 2014 we excluded the 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 |           |             |           |  |   |
|--|----------------|-----------|-------------|-----------|--|---|
|  | May 1, 2015    | % of      | May 2, 2014 | % of      |  |   |
|  | \$'s           | Net Sales | \$'s        | Net Sales |  |   |
| Net income                                 | \$1,724        | 0.6       | % \$10,868  | 3.3       |  | % |
| Income tax expense                         | 1,093          | 0.4       | % 6,138     | 1.9       |  | % |
| Other income, net                          | (508           | ) 0.2     | % (137      | ) —       |  | % |
| Interest expense                           | 6,186          | 2.1       | % 1,925     | —         |  | % |
| Operating income                           | 8,495          | 2.8       | % 18,794    | 5.7       |  | % |
| Depreciation and amortization              | 4,553          | 1.5       | % 5,002     | 1.5       |  | % |
| Loss on disposal of property and equipment | 2              | —         | % 20        | —         |  | % |
| Adjusted EBITDA                            | \$13,050       | 3.9       | % \$23,816  | 5.5       |  | % |

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 Merchandise sales and services, net. 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. First Quarter 2015 compared with the First Quarter 2014

#### Merchandise Sales and Services, Net

Merchandise sales and services, net for the First Quarter 2015 were \$299.4 million, compared with \$330.5 million in the comparable period of the prior year, a decrease of \$31.1 million or 9%. The decrease was comprised of a decrease in our Direct segment of \$22.7 million and a decrease in our Retail segment of \$8.4 million.

Merchandise sales and services, net in our Direct segment were \$253.4 million for the First Quarter 2015, a decrease of \$22.7 million, or 8% from the comparable period of the prior year. The decrease was driven by a \$15 million decline in the international businesses which was driven principally by a \$9 million negative impact from changes in currency exchange rates, and to a low single digit percentage decline in the U.S. direct businesses; which included an estimated \$2 million negative impact from the West Coast Port delays.

Merchandise sales and services, net in our Retail segment were \$46.0 million for the First Quarter 2015, a decrease of \$8.4 million, or 16% from the comparable period of the prior year. The decrease was attributable to a decrease in same store sales and a decrease in the number of Lands' End Shops at Sears. Same store sales in the First Quarter 2015 decreased 12.1%, driven by lower sales in the Company's Lands' End Shops at Sears. On May 1, 2015, the Company operated 235 Lands' End Shops at Sears, 14 global Lands' End Inlet stores and five international shop-in-shops compared with 251 Lands' End Shops at Sears and 14 global Lands' End Inlet stores on May 2, 2014.

#### Gross Profit

Total gross profit decreased 10% to \$146.6 million and gross margin was unchanged at 49.0% of total Merchandise sales and services, net, compared with \$162.0 million, or 49.0% of total Merchandise sales and services, net, for the First Quarter 2015 and the First Quarter 2014, respectively.

Gross profit in the Direct segment was \$125.4 million compared with \$136.9 million for the First Quarter 2015 and the First Quarter 2014, respectively. Gross margin in the Direct segment decreased approximately 10 basis

points to 49.5% in the First Quarter 2015 versus 49.6% in the comparable prior year period, primarily attributable to the negative impact of changes in currency exchange rates; which was offset primarily by currency-neutral margin improvement in our international businesses. Changes in currency exchanges rates negatively impacted Direct segment gross margins by approximately 140 basis points.

Retail segment gross profit decreased \$3.9 million to \$21.2 million in the First Quarter 2015 from \$25.1 million in the First Quarter 2014. Retail segment gross margin decreased approximately 10 basis points to 46.0% compared with 46.1% for the First Quarter 2015 and the First Quarter 2014, respectively, driven by less promotional activity during the First Quarter 2015.

#### Selling and Administrative Expenses

Selling and administrative expenses were \$133.5 million, or 44.6% of total Merchandise sales and services, net compared with \$138.2 million or 41.8% of total Merchandise sales and services, net in the First Quarter 2015 and the First Quarter 2014, respectively. The \$4.7 million decrease was attributable to a \$4.0 million decrease in the Direct segment and a \$1.7 million decrease in the Retail segment partially offset by a \$1.0 million increase in the Corporate segment.

The Direct segment Selling and administrative expenses were \$103.7 million compared with \$107.7 million for the First Quarter 2015 and the First Quarter 2014, respectively. The \$4.0 million or 4% decrease was primarily attributable to a decrease in personnel related expenses of \$3.0 million and a decrease in marketing spend of \$1.1 million. The decreases in personnel and marketing spend were largely attributable to changes in currency exchange rates.

The Retail segment Selling and administrative expenses were \$21.0 million compared with \$22.8 million for the First Quarter 2015 and the First Quarter 2014, respectively. The \$1.7 million or 8% decrease was primarily attributable to a decrease in personnel related expenses of \$1.5 million and a decrease in occupancy costs of \$0.2 million.

Corporate / other Selling and administrative expenses were \$8.8 million compared with \$7.8 million for the First Quarter 2015 and the First Quarter 2014, respectively. The \$1.0 million or 13% increase was primarily attributable to an increase in personnel related expenses of \$1.1 million. The increase in personnel related expenses was largely attributable to executive level transition and stand-alone costs.

#### Depreciation and Amortization

Depreciation and amortization expense decreased 9.0% to \$4.6 million in the First Quarter 2015 from \$5.0 million in the First Quarter 2014 primarily attributable to an increase in fully depreciated assets.

#### Operating Income

As a result of the above factors, Operating income decreased to \$8.5 million in the First Quarter 2015 from \$18.8 million in the First Quarter 2014.

#### Interest Expense

Interest expense increased to \$6.2 million in the First Quarter 2015 compared with \$1.9 million in the First Quarter 2014. There were two additional months of interest expense in the First Quarter 2015 compared with the First Quarter 2014. The increase was attributable to higher debt levels and costs related to the issuance of the term loan prior to the separation in April 2014.

#### Income Tax Expense

Income tax expense was \$1.1 million for the First Quarter 2015 compared with \$6.1 million in the First Quarter 2014. The decrease was primarily attributable to lower Operating income and increased Interest expense. The effective tax rate was 38.8% in the First Quarter 2015 compared with 36.1% in the First Quarter 2014. The increase in the effective rate was attributable to certain discrete beneficial items associated with the Separation in the First Quarter 2014.

#### Net Income

As a result of the above factors, Net income decreased to \$1.7 million and diluted earnings per share decreased to \$0.05 in the First Quarter 2015 compared with Net income of \$10.9 million and diluted earnings per share of \$0.34 in the First Quarter 2014.

#### Adjusted EBITDA

Adjusted EBITDA decreased 45.2% to \$13.1 million in the First Quarter 2015 from \$23.8 million in the First Quarter 2014.

#### 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 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 sales and operating cash flows generally occurring in the fourth fiscal quarter of each year.

#### Description of Material Indebtedness

##### Debt Arrangements

Lands' End entered into an asset-based senior secured credit agreement, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders, which provides for maximum borrowings of \$175.0 million under the ABL Facility 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 May 1, 2015 and May 2, 2014, other than for letters of credit. The Company had borrowing availability under the ABL Facility of \$155.8 million as of May 1, 2015, net of outstanding letters of credit of \$19.2 million.

Also on April 4, 2014, Lands' End entered into a term loan credit agreement with Bank of America, N.A., with respect to the Term Loan Facility of \$515.0 million, the proceeds of which 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 Facilities of approximately \$11.4 million, with the remaining proceeds to be 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 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 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 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 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 Facilities do not otherwise contain financial maintenance covenants. The Company was in compliance with all financial covenants related to the Facilities as of May 1, 2015.

The 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 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 \$31.5 million for the First Quarter 2015 compared with a cash generated from operating activities of \$31.4 million for the First Quarter 2014 due to:

• The one time impact of items that were settled through intercompany transactions with our former parent prior to the separation, and

Decreased Merchandise sales and services, net negatively impacted cash generated by operating activities through increased inventory levels and lower net income.

#### Cash Flows from Investing Activities

Net cash used in investing activities was \$11.0 million and \$1.5 million for the First Quarter 2015 and the First Quarter 2014, 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 2015, we plan to invest a total of approximately \$35.0 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 \$1.3 million for the First Quarter 2015 compared with net cash provided by financing activities of \$12.5 million for the First Quarter 2014.

Financing activities in the First Quarter 2015 consisted of a quarterly payment for the Term Loan. Financing activities in the First Quarter 2014 consisted of cash proceeds of \$515.0 million from our Term Loan Facility and a \$8.8 million contribution from Sears Holdings, offset by a \$500.0 million dividend paid to a subsidiary of Sears Holdings Corporation prior to the Separation and \$11.3 million of debt issuance costs related to the Facilities.

#### 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 30, 2015.

#### 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 May 1, 2015 and May 2, 2014, other than for letters of credit. The Company had borrowing availability under the ABL Facility of \$155.8 million as of May 1, 2015, net of outstanding letters of credit of \$19.2 million.

In addition, Lands' End has a \$2.1 million foreign subsidiary credit facility that is supported by a Lands' End, Inc. guarantee. This credit facility guarantees and allows for deferred payment of custom duties. This credit facility was not utilized during the First Quarter 2015 and the First Quarter 2014.

#### 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 30, 2015.

#### Recent Accounting Pronouncements

See Part I, Item I Note 13 – Recent Accounting Pronouncements, of the Condensed Consolidated and Combined 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. 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 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; changes in customer preference for our branded merchandise; customers’ use of our digital platform, including our e-commerce websites, and response to direct mail catalogs and digital marketing; the success of our overall marketing strategies, including our maintenance of a robust customer list; our dependence on information technology and a failure of information technology systems, including with respect to our e-commerce operations, or an inability to upgrade or adapt our systems; the success of our ERP implementation; fluctuations and increases in the 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 model; if Sears Roebuck sells or disposes of its retail stores 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 consumer 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 the 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 that have been executed in connection with the Separation 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 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.





The foregoing factors should not be understood as exhaustive and should be read in conjunction with the other cautionary statements, including the "Risk Factors," that were included in our Annual Report filed on Form 10-K filed on April 17, 2015 and in our other filings with the SEC and our other public announcements. While we believe that our forecasts and assumptions are reasonable, we caution that actual results may differ materially. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Consequently, actual events and results may vary significantly from those included in or contemplated or implied by our forward-looking statements. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly Report on Form 10-Q, and we undertake no obligation to publicly update or review any forward-looking statement made by us or on our behalf, whether as a result of new information, future developments, subsequent events or circumstances or otherwise.

### 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. We have not been materially impacted by fluctuations in foreign currency exchange rates as 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 May 1, 2015, we had \$23.0 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 \$0.9 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 President and Chief Executive Officer and Executive Vice President, Chief Operating Officer/Chief Financial Officer and Treasurer have concluded that, as of May 1, 2015, 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 first fiscal quarter ended May 1, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

We are involved in various claims, legal proceedings and investigations, including those described below. 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 our results of operations, cash flows or financial position, except where noted below.

Lands' End's legal proceedings include commercial, intellectual property, employment, regulatory, and product liability claims. Some of these actions involve complex factual and legal issues and are subject to uncertainties. There are no material legal proceedings presently pending, except for routine litigation incidental

to the business to which the Company is a party or of which any of its property is the subject, and the matters described below. We do not believe that the outcome of any current legal proceeding would have a material adverse effect on results of operations, cash flows or financial position taken as a whole.

See Part I, Item 1 "Financial Statements - Notes to Consolidated and Combined Financial Statements," Note 11 "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 with respect to the factors disclosed in our Annual Report filed on Form 10-K for the year ended January 30, 2015, which was filed with the SEC on April 17, 2015.

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

During the Fiscal Quarter Ended ended May 1, 2015 and May 2, 2014, 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 5: OTHER INFORMATION

At its Annual Meeting of Stockholders held on June 5, 2015, the Company announced a multi-dimensional strategy involving: (1) Product & Merchandising, (2) Branding & Marketing, (3) Operations & Technology, (4) Channels of Distribution, and (5) Talent. No assurance can be given that our strategy will be successful and will not have a material adverse effect on our financial condition and operating results.

### 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 Lands' End, Inc. 2014 Stock Plan (As Amended and Restated) (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2015 (File No. 001-09769)).
- 10.2 Lands' End, Inc. Umbrella Incentive Program (As Amended and Restated) (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2015 (File No. 001-09769)).



Edgar Filing: LANDS' END, INC. - Form 10-Q

- 10.3 Lands' End, Inc. Long-Term Incentive Plan (As Amended and Restated) (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2015 (File No. 001-09769)).
- 10.4 Lands' End, Inc. Cash Long-Term Incentive Plan (As Amended and Restated) (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2015 (File No. 001-09769)).
- 10.5 Lands' End, Inc. Annual Incentive Plan (As Amended and Restated) (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2015 (File No. 001-09769)).
- 10.6 Letter from Lands' End, Inc. to Federica Marchionni relating to employment, dated January 30, 2015 (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2015 (File No. 001-09769)).
- 10.7 Executive Severance Agreement dated and effective as of January 30, 2015 between Lands' End, Inc. and its affiliates and subsidiaries and Federica Marchionni (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2015 (File No. 001-09769)).\*
- 10.8 Restricted Stock Unit Agreement dated and effective as of February 17, 2015 between Lands' End, Inc. and Federica Marchionni (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2015 (File No. 001-09769)).
- 10.9 Letter from Lands' End, Inc. to Edgar Huber, dated February 1, 2015 (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2015 (File No. 001-09769)).
- 10.10 2015 Additional Definitions Under Lands' End, Inc. Annual Incentive Plan (As Amended and Restated) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 6, 2015 (File No. 001-09769)).
- 10.11 2015 Additional Definitions Under Lands' End, Inc. Long-Term Incentive Program (As Amended and Restated) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 6, 2015 (File No. 001-09769)).
- 10.12 Form of Restricted Stock Unit Award Agreement (Timed-Based) (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 6, 2015 (File No. 001-09769)).
- 31.1 Certification of Chief Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Chief Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1 Certification of Chief Executive Officer and Chief 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\*\*

\* Confidential treatment was granted as to omitted portions of this exhibit. The omitted material has been filed separately with the Securities and Exchange Commission.

\*\* 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.”

Certain of the agreements incorporated by reference into this report contain representations and warranties and other agreements and undertakings by us and third parties. These representations and warranties, agreements and undertakings have been made as of specific dates, may be subject to important qualifications and limitations agreed to by the parties to the agreement in connection with negotiating the terms of the agreement, and have been included in the agreement for the purpose of allocating risk between the parties to the agreement rather than to establish matters as facts. Any such representations and warranties, agreements, and undertakings have been made solely for the benefit of the parties to the agreement and should not be relied upon by any other person.

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/ Michael P. Rosera  
Michael P. Rosera  
Executive Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer (Principal Financial Officer)

Dated: June 9, 2015