

LANDS' END, INC.  
Form 10-Q  
June 06, 2017

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

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FORM 10-Q

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(Mark One)

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended April 28, 2017

-OR-

Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to .

Commission File Number: 001-09769

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

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

1 Lands' End Lane 53595  
Dodgeville, Wisconsin  
(Address of Principal Executive Offices) (Zip Code)  
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, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

As of June 6, 2017, the registrant had 32,029,359 shares of common stock, \$0.01 par value, outstanding.

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LANDS' END, INC.  
INDEX TO QUARTERLY REPORT ON FORM 10-Q  
FOR THE PERIOD ENDED APRIL 28, 2017  
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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## LANDS' END, INC.

## Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands except per share data)	13 Weeks Ended	
	April 28, 2017	April 29, 2016
Net revenue	\$268,365	\$273,433
Cost of sales (excluding depreciation and amortization)	145,722	143,763
Gross profit	122,643	129,670
Selling and administrative	121,346	129,034
Depreciation and amortization	6,509	4,136
Other operating expense (income), net	1,508	(14 )
Operating loss	(6,720 )	(3,486 )
Interest expense	6,125	6,170
Other income, net	(742 )	(453 )
Loss before income taxes	(12,103 )	(9,203 )
Income tax benefit	(4,264 )	(3,444 )
NET LOSS	\$(7,839 )	\$(5,759 )
NET LOSS PER COMMON SHARE (Note 2)		
Basic:	\$(0.24 )	\$(0.18 )
Diluted:	\$(0.24 )	\$(0.18 )
Basic weighted average common shares outstanding	32,029	32,002
Diluted weighted average common shares outstanding	32,029	32,002

See accompanying Notes to Condensed Consolidated Financial Statements.

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LANDS' END, INC.

Condensed Consolidated Statements of Comprehensive Operations  
(Unaudited)

	13 Weeks Ended	
(in thousands)	April 28, 2017	April 29, 2016
NET LOSS	\$(7,839)	\$(5,759)
Other comprehensive income, net of tax		
Foreign currency translation adjustments	517	2,315
COMPREHENSIVE LOSS	\$(7,322)	\$(3,444)

See accompanying Notes to Condensed Consolidated Financial Statements.

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## LANDS' END, INC.

## Condensed Consolidated Balance Sheets

(in thousands, except share data)	April 28, 2017 (unaudited)	April 29, 2016 (unaudited)	January 27, 2017
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 139,810	\$ 169,073	\$ 213,108
Restricted cash	3,300	3,300	3,300
Accounts receivable, net	32,731	31,127	39,284
Inventories, net	309,914	309,855	325,314
Prepaid expenses and other current assets	38,009	32,118	26,394
Total current assets	523,764	545,473	607,400
Property and equipment, net	124,021	111,208	122,836
Goodwill	110,000	110,000	110,000
Intangible asset, net	257,000	430,000	257,000
Other assets	16,975	15,386	17,155
<b>TOTAL ASSETS</b>	<b>\$ 1,031,760</b>	<b>\$ 1,212,067</b>	<b>\$ 1,114,391</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable	\$ 88,331	\$ 76,038	\$ 162,408
Other current liabilities	85,798	86,807	86,446
Total current liabilities	174,129	162,845	248,854
Long-term debt, net	489,095	492,890	490,043
Long-term deferred tax liabilities	89,994	158,499	90,467
Other liabilities	13,872	16,216	13,615
<b>TOTAL LIABILITIES</b>	<b>767,090</b>	<b>830,450</b>	<b>842,979</b>
Commitments and contingencies			
<b>STOCKHOLDERS' EQUITY</b>			
Common stock, par value \$0.01- authorized: 480,000,000 shares; issued and outstanding: 32,029,359, 31,969,645 and 32,029,359, respectively	320	320	320
Additional paid-in capital	344,551	344,796	343,971
Retained earnings	(68,292 )	43,570	(60,453 )
Accumulated other comprehensive loss	(11,909 )	(7,069 )	(12,426 )
Total stockholders' equity	264,670	381,617	271,412
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,031,760</b>	<b>\$ 1,212,067</b>	<b>\$ 1,114,391</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(in thousands)	13 Weeks Ended	
	April 28, 2017	April 29, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(7,839 )	\$(5,759 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,509	4,136
Amortization of debt issuance costs	428	428
Loss (gain) on disposal of property and equipment	62	(14 )
Stock-based compensation	579	713
Deferred income taxes	(974 )	—
Change in operating assets and liabilities:		
Inventories	16,601	21,441
Accounts payable	(70,378 )	(65,390 )
Other operating assets	(4,555 )	(5,637 )
Other operating liabilities	(757 )	31
Net cash used in operating activities	(60,324 )	(50,051 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(11,382 )	(10,485 )
Net cash used in investing activities	(11,382 )	(10,485 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on term loan facility	(1,288 )	(1,288 )
Payments of employee withholding taxes on share-based compensation	—	(161 )
Net cash used in financing activities	(1,288 )	(1,449 )
Effects of exchange rate changes on cash	(304 )	2,690
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(73,298 )</b>	<b>(59,295 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>213,108</b>	<b>228,368</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 139,810</b>	<b>\$ 169,073</b>
<b>SUPPLEMENTAL CASH FLOW DATA</b>		
Unpaid liability to acquire property and equipment	\$4,476	\$2,822
Income taxes paid, net of refund	\$49	\$3,057
Interest paid	\$5,583	\$5,657

See accompanying Notes to Condensed Consolidated Financial Statements.

LANDS' END, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BACKGROUND AND BASIS OF PRESENTATION

Description of Business and Separation

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

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

- ABL Facility - Asset-based senior secured credit agreements, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- ASC - Financial Accounting Standards Board Accounting Standards Codification, which serves as the source for authoritative GAAP, except that rules and interpretive releases by the SEC are also sources of authoritative GAAP for Securities and Exchange Commission registrants
- ASU - FASB Accounting Standards Update
- CAM - Common area maintenance for leased properties
- Debt Facilities - Collectively, the ABL Facility and the Term Loan Facility
- EPS - (Loss) earnings per share
- ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert
- FASB - Financial Accounting Standards Board
- First Quarter 2017 - The thirteen weeks ended April 28, 2017
- First Quarter 2016 - The thirteen weeks ended April 29, 2016
- Fiscal 2017 - The fifty-three weeks ending February 2, 2018
- Fiscal 2016 - The fifty-two weeks ended January 27, 2017
- Fiscal 2015 - The fifty-two weeks ended January 29, 2016
- Fiscal 2014 - The fifty-two weeks ended January 30, 2015
- Fiscal 2009 - The fifty-two weeks ended January 29, 2010
- Fiscal November 2017 - the four week fiscal month ending November 24, 2017
- GAAP - Accounting principles generally accepted in the United States
- LIBOR - London inter-bank offered rate
- Sears Holdings or Sears Holdings Corporation - Sears Holdings Corporation, a Delaware Corporation, and its consolidated subsidiaries (other than, for all periods following the Separation, Lands' End)
- SEC - United States Securities and Exchange Commission
- Second Quarter 2016 - The thirteen weeks ended July 29, 2016
- Separation - On April 4, 2014 Sears Holdings distributed 100% of the outstanding common stock of Lands' End to its shareholders



- SYW or Shop Your Way - Shop Your Way member loyalty program
- Tax Sharing Agreement - A tax sharing agreement entered into by Sears Holdings Corporation and Lands' End in connection with the Separation
- Term Loan Facility - Term loan credit agreements, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- UTBs - Gross unrecognized tax benefits related to uncertain tax positions

Basis of Presentation

The Condensed Consolidated Financial Statements include the accounts of Lands' End, Inc. and its subsidiaries. All intercompany transactions and balances have been eliminated.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all material adjustments which are of a normal and recurring nature necessary for a fair presentation of the results for the periods presented have been reflected. Dollar amounts are reported in thousands, except per share data, unless otherwise noted. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the Lands' End Annual Report on Form 10-K filed with the SEC on March 31, 2017.

Reclassifications

In First Quarter 2017, the Company adopted ASU 2016-09, Compensation - Stock Compensation, which changed the required presentation of payments of employee withholding taxes on share-based compensation on the Condensed consolidated statement of cash flows from an operating activity to a financing activity. As a result of the adoption, the Company reclassified payments of employee withholding taxes on share-based compensation from Other operating liabilities for the 13 weeks ended April 29, 2016 to Payments of employee withholding taxes on share-based compensation. Other requirements of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

NOTE 2. LOSS PER SHARE

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

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

(in thousands, except per share amounts)	13 Weeks Ended	
	April 28, 2017	April 29, 2016
Net loss	\$(7,839)	\$(5,759)
Basic weighted average shares outstanding	32,029	32,002
Dilutive effect of stock awards	—	—
Diluted weighted average shares outstanding	32,029	32,002
Basic loss per share	\$(0.24 )	\$(0.18 )
Diluted loss per share	\$(0.24 )	\$(0.18 )

Stock awards are considered anti-dilutive based on the application of the treasury stock method or in the event of a net loss. There were 98,905 and 65,143 shares excluded from the diluted weighted average shares outstanding for First Quarter 2017 and First Quarter 2016, respectively.

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

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

(in thousands)	13 Weeks Ended	
	April 28, 2017	April 29, 2016
Beginning balance: Accumulated other comprehensive loss (net of tax of \$6,691 and \$5,053, respectively)	\$(12,426)	\$(9,384)
Other comprehensive (loss) income:		
Foreign currency translation adjustments (net of tax expense of \$502 and \$1,247, respectively)	517	2,315
Ending balance: Accumulated other comprehensive loss (net of tax of \$6,189 and \$3,806, respectively)	\$(11,909)	\$(7,069)

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

#### NOTE 4. DEBT

The Company's debt consisted of the following:

	April 28, 2017		April 29, 2016		January 27, 2017	
	Amount	Rate	Amount	Rate	Amount	Rate
Term Loan Facility, maturing April 4, 2021	\$499,550	4.25%	\$504,700	4.25%	\$500,838	4.25%
ABL Facility, maturing April 4, 2019	—	— %	—	— %	—	— %
	499,550		504,700		500,838	
Less: Current maturities in Other current liabilities, net	5,150		5,150		5,150	
Less: Unamortized debt issuance costs	5,305		6,660		5,645	
Long-term debt, net	\$489,095		\$492,890		\$490,043	

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

	April 28, 2017	April 29, 2016	January 27, 2017
ABL maximum borrowing	\$175,000	\$175,000	\$175,000
Outstanding Letters of Credit	19,967	13,164	19,705
Borrowing availability under ABL	\$155,033	\$161,836	\$155,295

#### Interest; Fees

The interest rates per annum applicable to the loans under the Debt Facilities are based on a fluctuating rate of interest measured by reference to, at the borrowers' election, either (i) an adjusted LIBOR rate plus a borrowing margin, or (ii) an alternative base rate plus a borrowing margin. The borrowing margin is fixed for the Term Loan Facility at 3.25% in the case of LIBOR loans and 2.25% in the case of base rate loans. For the Term Loan Facility, LIBOR is subject to a 1% interest rate floor. The borrowing margin for the ABL Facility is subject to adjustment based on the average excess availability under the ABL Facility for the preceding fiscal quarter, and will range from 1.50% to 2.00% in the case of LIBOR borrowings and will range from 0.50% to 1.00% in the case of base rate borrowings.

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

Representations and Warranties; Covenants

Subject to specified exceptions, the Debt Facilities contain various representations and warranties and restrictive covenants that, among other things, restrict the ability of Lands' End and its subsidiaries to incur indebtedness (including guarantees), grant liens, make investments, make dividends or distributions with respect to capital stock, make prepayments on other indebtedness, engage in mergers or change the nature of their business. In addition, if excess availability under the ABL Facility falls below the greater of 10% of the loan cap amount or \$15.0 million, Lands' End will be required to comply with a minimum fixed charge coverage ratio of 1.0 to 1.0. The Debt Facilities do not otherwise contain financial maintenance covenants. The Company was in compliance with all financial covenants related to the Debt Facilities as of April 28, 2017.

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

NOTE 5. STOCK-BASED COMPENSATION

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

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

- i. Time vesting stock awards ("Deferred Awards") which are in the form of restricted stock units which only require each recipient to complete a service period; Deferred awards generally vest over three years or in full after a three year period. The fair value of Deferred Awards is based on the closing price of the Company's common stock on the grant date and is reduced for estimated forfeitures of those awards not expected to vest due to employee turnover.
- ii. Stock option awards ("Option Awards") which provide the recipient with the option to purchase a set number of shares at a stated exercise price over the term of the contract, which is 10 years for all Option Awards granted.
- iii. Performance-based stock awards ("Performance Awards") which are 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. Similar to the Deferred Awards, Performance Awards fair value is based on the closing price of the Company's common stock on the grant date and the compensation expense is reduced for estimated forfeitures of those awards not expected to vest due to employee turnover.

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

	13 Weeks Ended	
(in thousands)	April 28, 2017	April 29, 2016
Deferred Awards	\$421	\$ 479
Option Awards	91	—
Performance Awards	67	234
Total stock-based compensation expense	\$579	\$ 713

The following table provides a summary of the activities for stock awards for First Quarter 2017:

(in thousands, except per share amounts)	Option Awards		Deferred Awards		Performance Awards	
	Number of Shares	Weighted Average Exercise Price per Share	Number of Shares	Weighted Average Grant Date Fair Value per Share	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding as of January 27, 2017	—	\$ —	252	\$ 24.42	69	\$ 26.38
Granted	294	18.10	124	17.75	—	—
Vested	—	—	—	—	—	—
Exercised	—	—	—	—	—	—
Forfeited or expired	—	—	(33)	25.12	(28)	23.47
Outstanding as of April 28, 2017	294	18.10	343	22.01	41	28.33

Total unrecognized stock-based compensation expense related to unvested Option Awards, Deferred Awards and Performance Awards was approximately \$2.4 million, \$5.5 million and \$0.1 million, respectively, as of April 28, 2017, which is expected to be recognized ratably over a weighted average period of 3.8 years, 2.4 years and 0.1 years, respectively.

During First Quarter 2017, the Company granted long-term incentive awards to employees consisting of 294,118 Option Awards and 124,226 Deferred Awards with respective weighted average grant date fair values per share of \$8.49 and \$17.75. The Option Awards vest ratably over 4.0 years and the contract to buy Option Awards extends for another 6.0 years. Based on the closing price of Lands' End common stock on the grant date, the weighted average option exercise price is \$18.10. The fair value of each Option Award was estimated on the grant date using the Black-Scholes option pricing model. No Option Awards were exercisable as of April 28, 2017. Deferred Awards granted to various employees during First Quarter 2017 generally vest ratably for a period between fifteen months to four years.

The fair value of stock options is determined on the grant date utilizing a Black-Scholes option pricing model. The following weighted average assumptions were utilized in deriving the fair value for Option Awards for First Quarter 2017:

Risk-free interest rate	1.90%
Expected dividend yield	—%
Volatility	46.12%
Expected life (in years)	6.25
Weighted average grant date fair value per share	\$8.49

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

#### NOTE 6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

Level 2 inputs—inputs other than quoted market prices included in Level 1 that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates.



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

Restricted cash is reflected on the Condensed Consolidated Balance Sheets at fair value. The fair value of restricted cash as of April 28, 2017, April 29, 2016 and January 27, 2017 was \$3.3 million based on Level 1 inputs. Restricted cash amounts are valued based upon statements received from financial institutions.

Cash and cash equivalents, accounts receivable, accounts payable and other current liabilities are reflected on the Condensed Consolidated Balance Sheets at cost, which approximates fair value due to the short-term nature of these instruments.

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

	April 28, 2017		April 29, 2016		January 27, 2017	
(in thousands)	Carrying	Fair	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value	Amount	Value
Long-term debt, including short-term portion	\$499,550					