LANDS' END, INC.
Form 10-Q
December 03, 2015

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

FORM 10-Q

(Mark One)
x Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended October 30, 2015
-OR-
¨ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to to .
Commission File Number: 001-09769

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

Delaware (State or Other Jurisdiction of Incorporation of Organization)	36-2512786 (I.R.S. Employer Identification No.)
1 Lands’ End Lane Dodgeville, Wisconsin (Address of Principal Executive Offices)	53595 (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 x 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 x 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	x	Smaller Reporting Company	¨

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

person known by the Registrant to beneficially own five percent or more of the Registrant's common shares), as of July 31, 2015, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately $235.8 million.

As of December 2, 2015, the registrant had 31,991,343 shares of common stock, $0.01 par value, outstanding.

LANDS' END, INC.
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FOR THE PERIOD ENDED OCTOBER 30, 2015
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
LANDS' END, INC.
Condensed Consolidated and Combined Statements of Operations
(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
(in thousands except per share data)	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Net revenue	$334,434	$373,082	$946,235	$1,050,787
Cost of sales (excluding depreciation and amortization)	172,019	189,787	492,756	537,064
Gross profit	162,415	183,295	453,479	513,723
Selling and administrative	135,867	143,370	394,261	419,859
Depreciation and amortization	4,260	4,802	12,874	14,629
Other operating (income) expense, net	(1,009)	25	(3,366)	45
Operating income	23,297	35,098	49,710	79,190
Interest expense	6,204	6,194	18,615	14,324
Other expense (income), net	796	(507)	(210)	(847)
Income before income taxes	16,297	29,411	31,305	65,713
Income tax expense	5,572	11,420	11,395	25,009
NET INCOME	$10,725	$17,991	$19,910	$40,704
NET INCOME PER COMMON SHARE (Note 4)				
Basic:	$0.34	$0.56	$0.62	$1.27
Diluted:	$0.33	$0.56	$0.62	$1.27
Basic weighted average common shares outstanding	31,991	31,957	31,975	31,957
Diluted weighted average common shares outstanding	32,059	31,971	32,042	31,965

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

LANDS' END, INC.
Condensed Consolidated and Combined Statements of Comprehensive Operations
(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
NET INCOME	$10,725	$17,991	$19,910	$40,704
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	260	(2,698)	925	(2,316)
COMPREHENSIVE INCOME	$10,985	$15,293	$20,835	$38,388

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.
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LANDS’ END, INC.
Condensed Consolidated Balance Sheets

(in thousands, except share data)	October 30, 2015 (unaudited)	October 31, 2014 (unaudited)	January 30, 2015
ASSETS			
Current assets			
Cash and cash equivalents	$104,986	$105,574	$221,454
Restricted cash	3,300	3,300	3,300
Accounts receivable, net	37,875	39,459	30,073
Inventories, net	436,712	403,938	301,367
Deferred tax assets	—	—	3,438
Prepaid expenses and other current assets	42,187	40,361	31,408
Total current assets	625,060	592,632	591,040
Property and equipment, net	105,661	99,070	101,223
Goodwill	110,000	110,000	110,000
Intangible assets, net	528,300	529,369	528,712
Other assets	20,335	22,942	22,462
TOTAL ASSETS	$1,389,356	$1,354,013	$1,353,437
LIABILITIES AND STOCKHOLDERS’ EQUITY			
Current liabilities			
Accounts payable	$151,429	$157,674	$132,796
Deferred tax liabilities	2,526	2,850	—
Other current liabilities	107,596	121,924	107,553
Total current liabilities	261,551	282,448	240,349
Long-term debt	502,125	507,275	505,988
Long-term deferred tax liabilities	182,400	172,930	184,483
Other liabilities	16,390	17,439	18,424
TOTAL LIABILITIES	962,466	980,092	949,244
Commitments and contingencies			
STOCKHOLDERS' EQUITY			
Common stock, par value $0.01- authorized: 480,000,000 shares; issued and outstanding: 31,991,343, 31,956,521, 31,956,521	320	320	320
Additional paid-in capital	344,156	342,130	342,294
Retained earnings	88,787	35,782	68,877
Accumulated other comprehensive loss	(6,373)	(4,311)	(7,298)
Total stockholders’ equity	426,890	373,921	404,193
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$1,389,356	$1,354,013	$1,353,437

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.
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LANDS’ END, INC.
Condensed Consolidated and Combined Statements of Cash Flows
(Unaudited)

(in thousands)	39 Weeks Ended October 30, 2015	October 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$19,910	$40,704
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	12,874	14,629
Product recall	(3,371)	—
Amortization of debt issuance costs	1,313	1,092
Stock-based compensation	2,307	1,954
Loss on disposal of property and equipment	5	45
Deferred income taxes	3,381	7,730
Change in operating assets and liabilities:		
Inventories	(134,690)	(36,306)
Accounts payable	20,078	44,989
Other operating assets	(18,124)	(23,402)
Other operating liabilities	1,523	34,123
Net cash (used in) provided by operating activities	(94,794)	85,558
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(18,117)	(11,141)
Net cash used in investing activities	(18,117)	(11,141)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions from Sears Holdings, net	—	8,784
Proceeds from issuance of long-term debt	—	515,000
Payments on term loan facility	(3,863)	(2,575)
Debt issuance costs	—	(11,433)
Dividend paid to a subsidiary of Sears Holdings Corporation	—	(500,000)
Net cash (used in) provided by financing activities	(3,863)	9,776
Effects of exchange rate changes on cash	306	(1,030)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(116,468)	83,163
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	221,454	22,411
CASH AND CASH EQUIVALENTS, END OF PERIOD	$104,986	$105,574
SUPPLEMENTAL CASH FLOW INFORMATION:		
Unpaid liability to acquire property and equipment	$2,695	$2,030
Income taxes paid	$19,714	$13,013
Interest paid	$17,037	$13,020

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 except share data)	Common Stock Issued Shares	Common Stock Issued Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Net Parent Company Investment	Total Stockholders' Equity
Balance at January 31, 2014	—	$—	$—	$—	$ (1,995)	$794,309	$792,314
Net income	—	—	—	35,782	—	4,922	40,704
Cumulative translation adjustment, net of tax	—	—	—	—	(2,316)	—	(2,316)
Stock-based compensation	—	—	1,954	—	—	—	1,954
Contribution from parent company, net	—	—	—	—	—	8,784	8,784
Dividend paid to parent company	—	—	—	—	—	(500,000)	(500,000)
Separation related adjustments	—	—	—	—	—	32,481	32,481
Reclassification of net parent company investment to common stock and additional paid-in capital in conjunction with the separation	31,956,521	320	340,176	—	—	(340,496)	—
Balance at October 31, 2014	31,956,521	$320	$342,130	$35,782	$ (4,311)	$—	$373,921
Balance at January 30, 2015	31,956,521	$320	$342,294	$68,877	$ (7,298)	$—	$404,193
Net income	—	—	—	19,910	—	—	19,910
Cumulative translation adjustment, net of tax	—	—	—	—	925	—	925
Stock-based compensation		—	2,307	—	—	—	2,307
Vesting of restricted stock	52,623	—	—	—	—	—	—
Restricted stock shares surrendered	(17,801)	—	(445)	—	—	—	(445)

for taxes							
Balance at October 30, 2015	31,991,343	$320	$344,156	$88,787	$ (6,373)	$—	$426,890

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.
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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 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:
• ABL Facility - Asset-based senior secured credit agreement, dated as of April 4, 2014, with Bank of America, N.A and certain other lenders
• Adjusted EBITDA - Adjusted Earnings before Interest, Taxes, Depreciation and Amortization, Other Income, net, and certain significant items
• 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
• CAM - Common area maintenance for leased properties
• EPS - Earnings per share
• ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert
• Facilities - Collectively, the ABL Facility and the Term Loan Facility
• FASB - Financial Accounting Standards Board
• Fiscal 2014 - The fiscal year ended January 30, 2015
• 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
• Separation - On April 4, 2014 Sears Holdings distributed 100% of the outstanding common stock of Lands' End to its shareholders
• SYW - Shop Your Way member loyalty program
• Tax Sharing Agreement - A tax sharing agreement entered into by Sears Holdings Corporation and Lands' End in connection with the Separation
• Term Loan Facility - Term loan credit agreement, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
• Third Quarter 2015 - The thirteen weeks ended October 30, 2015
• Third Quarter 2014 - The thirteen weeks ended October 31, 2014

• UTBs - Gross unrecognized tax benefits related to uncertain tax positions
• Year to Date 2015 - The thirty-nine weeks ended October 30, 2015
• Year to Date 2014 - The thirty-nine weeks ended October 31, 2014

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 United States federal, state, local and foreign taxes attributable to the Lands’ End business. In addition to the allocation of tax liabilities, the Tax Sharing Agreement addresses the preparation and filing of tax returns for such taxes and dispute resolution with taxing authorities regarding such taxes. Generally, Sears Holdings Corporation is liable for all pre-Separation United States federal, state and local income taxes. Lands’ End generally is liable for all other income taxes attributable to its business, including all foreign taxes.

As of October 30, 2015, the Company had gross UTBs of $8.2 million. Of this amount, $5.3 million would, if recognized, impact its effective tax rate, with the remaining amount being comprised of UTBs related to gross temporary differences or other indirect benefits. Pursuant to the Tax Sharing Agreement, Sears Holdings Corporation is generally responsible for all United States federal, state and local UTBs through the date of the Separation and, as such, an indemnification asset from Sears Holdings Corporation for the pre-Separation UTBs is recorded in Other assets in the Condensed Consolidated Balance Sheets.

The Company classifies interest expense and penalties related to UTBs and interest income on tax overpayments as components of income tax expense. As of October 30, 2015, the total amount of interest expense and penalties recognized on our balance sheet was $5.5 million ($3.6 million net of federal benefit). The total amount of net interest expense recognized in the Condensed Consolidated and Combined Statements of Operations was insignificant for all periods presented. The Company files income tax returns in both the United States and various foreign jurisdictions. The Company is under examination by various income tax jurisdictions for the years 2009 to 2014.

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 began 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 reclassified (i) $30.4 million of deferred tax assets related primarily to foreign tax credits; and (ii) a $13.7 million reserve, including $5.0 million of accrued interest and penalties, 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, at Separation a $13.7 million receivable was recorded by the Company to reflect the indemnification by Sears Holdings Corporation of the pre-Separation UTBs for which Sears Holdings is responsible. This receivable has been included in Other assets in the Condensed Consolidated Balance Sheets and is $13.5 million at October 30, 2015.

During the Third Quarter 2015, Sears Holdings settled tax audits in certain state tax jurisdictions related to pre-Separation. As a result, the Company has re-evaluated the reserves for the pre-Separation period and recorded a $1.2 million reduction in income tax expense, before consideration of federal income tax benefit. Under the Tax Sharing Agreement, Sears Holdings indemnifies the Company for such liabilities and, as a result, the Company reduced the indemnification receivable by $1.2 million; such reduction was reflected as a decrease in Other assets in the Condensed Consolidated Balance Sheets and as Other expense (income), net in the Condensed Consolidated and Combined Statements of Operations.

NOTE 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 or in full after a three year period. Performance Awards were granted in the form of restricted stock units which have, in addition to a service requirement, performance criteria that must be achieved for the awards to be earned. Performance Awards have annual vesting, but due to the performance criteria, are not eligible for straight-line expensing. Therefore, Performance Awards are amortized using a graded expense process. The fair value of all awards is based on the closing price of the Company’s common stock on the grant date. Compensation expense is reduced for estimated forfeitures of those awards not expected to vest due to employee turnover.

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

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Performance Awards	$315	$1,086	$1,096	$1,804
Deferred Awards	471	86	1,211	150
Total stock-based compensation expense	$786	$1,172	$2,307	$1,954

Awards Granted Year to Date 2015

The Company granted Deferred Awards to various employees during the Year to Date 2015, which generally vest in full after a three year period. There were no Performance Awards granted in the Year to Date 2015.

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

Deferred Awards

(in thousands, except per share amounts)	Number of Shares	Weighted Average Grant Date Fair Value
Unvested Deferred Awards, as of January 31, 2015	44	$28.01
Granted	145	32.47
Vested	(9)	28.02
Forfeited	(13)	28.26
Unvested Deferred Awards, as of October 30, 2015	167	31.84

Total unrecognized stock-based compensation expense related to unvested Deferred Awards approximated $4.1 million as of October 30, 2015, which will be recognized over a weighted average period of approximately 2.3 years.

Performance Awards

(in thousands, except per share amounts)	Number of Shares	Weighted Average Grant Date Fair Value
Unvested Performance Awards, as of January 31, 2015	197	$28.01
Granted	—	—
Vested	(43)	27.86
Forfeited	(37)	28.30
Unvested Performance Awards, as of October 30, 2015	117	27.97

Total unrecognized stock-based compensation expense related to unvested Performance Awards approximated $1.4 million as of October 30, 2015, which will be recognized over a weighted average period of approximately 1.6 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 following table summarizes the components of basic and diluted earnings per share:

	13 Weeks Ended		39 Weeks Ended	
(in thousands, except per share amounts)	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Net income	$10,725	$17,991	$19,910	$40,704
Basic weighted average shares outstanding	31,991	31,957	31,975	31,957
Dilutive effect of stock awards	68	14	67	8
Diluted weighted average shares outstanding	32,059	31,971	32,042	31,965
Basic earnings per share	$0.34	$0.56	$0.62	$1.27
Diluted earnings per share	$0.33	$0.56	$0.62	$1.27

Anti-dilutive stock awards are comprised of awards which are anti-dilutive in the application of the treasury stock method and are excluded from the diluted weighted average shares outstanding. Total anti-dilutive stock awards were 129 and 126,602 shares for the Third Quarter 2015 and Year to Date 2015, respectively. There were no anti-dilutive stock awards for the Third Quarter 2014 and Year to Date 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.

(in thousands)	13 Weeks Ended October 30, 2015	13 Weeks Ended October 31, 2014	39 Weeks Ended October 30, 2015	39 Weeks Ended October 31, 2014
Beginning balance: Accumulated other comprehensive loss (net of tax of $3,572, $988, $3,931 and $1,211, respectively)	$(6,633)	$(1,613)	$(7,298)	$(1,995)
Other comprehensive income (loss):				
Foreign currency translation adjustments (net of tax (expense) benefit of $(141), $1,654, $(500) and $1,431, respectively)	260	(2,698)	925	(2,316)
Ending balance: Accumulated other comprehensive loss (net of tax of $3,431, $2,642, $3,431 and $2,642, respectively)	$(6,373)	$(4,311)	$(6,373)	$(4,311)

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:

	October 30, 2015 Amount	October 30, 2015 Rate	October 31, 2014 Amount	October 31, 2014 Rate	January 30, 2015 Amount	January 30, 2015 Rate
Term Loan Facility, maturing April 4, 2021	$507,275	4.25%	$512,425	4.25%	$511,138	4.25%
ABL Facility, maturing April 4, 2019	—	—%	—	—%	—	—%
	507,275		512,425		511,138	
Less: Current maturities in Other current liabilities	5,150		5,150		5,150	
Long-term debt	$502,125		$507,275		$505,988	

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

	October 30, 2015	October 31, 2014	January 30, 2015
ABL maximum borrowing	175,000	175,000	175,000
Outstanding Letters of Credit	18,523	13,514	15,541
Borrowing availability under ABL	156,477	161,486	159,459

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 0.38% 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 October 30, 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 October 30, 2015, October 31, 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 long-term debt, including the short-term portion, in the Condensed Consolidated Balance Sheets are as follows:

	October 30, 2015		October 31, 2014		January 30, 2015	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including short-term portion	$507,275	$473,668	$512,425	$500,895	$511,138	$491,331

Long-term debt was valued utilizing level 2 valuation techniques based on the closing inactive market bid price on October 30, 2015, October 31, 2014, and January 30, 2015. There were no nonfinancial assets or nonfinancial liabilities recognized at fair value on a nonrecurring basis as of October 30, 2015, October 31, 2014, and January 30, 2015.

NOTE 8. GOODWILL AND INTANGIBLE ASSETS

The Company's intangible assets consist of a trade name, goodwill and customer lists valued as a result of business combinations accounted for under the purchase accounting method. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. The net carrying amounts of goodwill, trade names and customer lists are included within the Company's Direct segment. There were no impairments of goodwill or intangible assets during any periods presented or since the goodwill and intangible assets were first recognized. Total amortization expense relating to intangible assets for the periods presented was:

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Amortization expense	$—	$658	$412	$1,973

The following summarizes the Company's goodwill and intangible assets:

		October 30, 2015		October 31, 2014		January 30, 2015	
(in thousands)	Useful Life	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	$25,231	$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	$25,231	$554,600	$25,888
Total intangible assets, net		$528,300		$529,369		$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; (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.

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:

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Retail services, store labor	$6,774	$7,899	$20,051	$23,208
Rent, CAM and occupancy costs	6,167	6,485	19,049	20,078
Financial services and payment processing	627	713	1,876	2,144
Supply chain costs	219	246	768	751
Total expenses	$13,787	$15,343	$41,744	$46,181
Number of Lands' End Shops at Sears at period end	227	242	227	242

General Corporate Services

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

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Sourcing	$3,632	$3,203	$7,670	$6,939
Shop Your Way	751	992	2,007	3,040
Shared services	111	150	393	409
Co-location and services	—	2	—	15
Total expenses	$4,494	$4,347	$10,070	$10,403

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:

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Call center services	$674	$605	$1,343	$1,462
Lands' End business outfitters revenue	323	450	1,043	1,682
Credit card revenue	300	353	868	1,025
Royalty income	60	20	183	67
Gift card revenue (expense)	(5)	(72)	(16)	254
Total income	$1,352	$1,356	$3,421	$4,490

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 Net revenue 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 Net revenue was $2.2 million, $2.1 million, $5.3 million and $5.6 million for the Third Quarter 2015, Third Quarter 2014, Year to Date 2015 and Year to Date 2014, respectively.

Additional Balance Sheet Information

At October 30, 2015, October 31, 2014 and January 30, 2015 the Company included $5.1 million, $5.8 million and $5.7 million in Accounts receivable, net, respectively and $9.4 million, $11.0 million and $9.1 million in Accounts payable, respectively, in the Condensed Consolidated Balance Sheets to reflect amounts due from and owed to Sears Holdings.

At October 30, 2015, October 31, 2014 and January 30, 2015 a $13.5 million, $14.1 million and $14.3 million receivable, respectively, was recorded by the Company in Other assets in the Condensed Consolidated Balance Sheets to reflect the indemnification by Sears Holdings Corporation of the pre-Separation UTBs (including penalties and interest) for which Sears Holdings Corporation is responsible Under the Tax Sharing Agreement. The Company reduced the indemnification receivable by $1.2 million in the Third Quarter 2015 as discussed in Note 2 Income Taxes.

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 revenues are divided by product categories: Apparel and Non-apparel. The Non-apparel revenues include accessories, footwear, and home goods. Services and other revenue includes embroidery, monogramming, gift wrapping, shipping and other services. Net revenue is aggregated by product category in the following table:

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Net revenue:				
Apparel	$272,228	$300,398	$783,841	$862,044
Non-apparel	40,708	50,210	106,536	127,524
Services and other	21,498	22,474	55,858	61,219
Total net revenue	$334,434	$373,082	$946,235	$1,050,787

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 Third Quarter 2015 and Third Quarter 2014 and Year to Date 2015 and Year to Date 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 retail inventory, 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.

SUMMARY OF SEGMENT DATA

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Net revenue:				
Direct	$287,778	$320,286	$805,886	$888,889
Retail	46,597	52,776	140,166	161,831
Corporate / other	59	20	183	67
Total net revenue	$334,434	$373,082	$946,235	$1,050,787

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Adjusted EBITDA:				
Direct	$36,951	$47,767	$85,316	$115,550
Retail	(1,714)	816	(907)	4,102
Corporate / other	(8,689)	(8,658)	(25,191)	(25,788)
Total adjusted EBITDA	$26,548	$39,925	$59,218	$93,864

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Depreciation and amortization:				
Direct	$3,385	$3,822	$10,280	$11,682
Retail	510	643	1,506	1,938
Corporate / other	365	337	1,088	1,009
Total depreciation and amortization	$4,260	$4,802	$12,874	$14,629

(in thousands)	October 30, 2015	October 31, 2014	January 30, 2015
Total assets:			
Direct	$1,166,991	$1,127,221	$1,023,364
Retail	79,492	80,406	67,765
Corporate / other	142,873	146,386	262,308
Total assets	$1,389,356	$1,354,013	$1,353,437

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Capital expenditures:				
Direct	$4,415	$4,962	$17,717	$10,393
Retail	95	310	148	452
Corporate / other	87	153	252	296
Total capital expenditures	$4,597	$5,425	$18,117	$11,141

NOTE 11. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is party to various legal proceedings arising in the ordinary course of business. The Company's legal proceedings typically include 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 December 3, 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's claim arising from the 2008 tax year remains unresolved, with respect to a single issue, and is pending before the Wisconsin Court of Appeals. The Company's claims arising from tax years 2007 and 2009 through 2015 remain unresolved, as is the Company's administrative claim for the 2014 and 2015 are still pending before the Circuit Court on several unresolved issues. 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

Product Recall Accrual Adjustment

On March 24, 2015 Lands' End announced a recall of selected styles of children's sleepwear that did not meet the federal flammability standard. As a result of the recall, the Company recorded a product recall accrual of $4.7 million which had the impact of reducing Operating income in the fourth quarter of Fiscal 2014. In the Third Quarter 2015 and Year to Date 2015, the Company recorded income of approximately $1.0 million and $3.4 million, respectively, in Other operating (income) expense, net in the Condensed Consolidated and Combined Statements of Operations related to the product recall accrual. The income relates to reversals of the accrual and a vendor payment received in relation to the recall. The customer return rates for the recalled products have been below estimates, despite efforts by the Company to contact impacted customers. The remaining accrual balance at October 30, 2015 was $0.1 million.

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

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. This update requires an entity to classify deferred tax liabilities and assets as noncurrent within a classified statement of financial position. ASU 2015-17 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early application is permitted as of the beginning of the interim or annual reporting period. The adoption of this guidance is not expected to have a material impact on the Company's Condensed Consolidated and Combined Financial Statements.

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. Under this ASU, non-LIFO inventory will be measured at the lower of cost and net realizable value, eliminating the options that currently exist for market valuation. The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. No other changes were made to the current guidance on inventory measurement. This guidance will be effective for Lands' End in the first quarter of its fiscal year ending January 27, 2017 and only applies to our international inventory as United States inventory is valued using LIFO. The adoption of this guidance is not expected to have a material impact on the Company's Condensed Consolidated and Combined Financial Statements.

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

In April 2015, the FASB issued ASU 2015-05, Customers' Accounting for Fees Paid in a Cloud Computing Arrangement, which clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. This guidance 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 was deferred by ASU 2015-14, issued by the FASB in August 2015, and will be effective for Lands' End in the first quarter of its fiscal year ending February 1, 2019. 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 Condensed 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 terr refer to Lands' End, Inc. and its subsidiaries. Our fiscal year ends on the Friday preceding the Saturday closest to January 31. Other terms that are commonly used in this Quarterly Report on Form 10-Q are defined as follows:

- ABL Facility - Asset-based senior secured credit agreement, dated as of April 4, 2014, with Bank of America, N.A and certain other lenders
- ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert
- Facilities - Collectively, the ABL Facility and the Term Loan Facility
- Fiscal 2014 - The fiscal year ended January 30, 2014
- GAAP - Accounting principles generally accepted in the United States
- UK Borrower - A United Kingdom subsidiary borrower of Lands' End under the ABL Facility
- 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
- Sears Holdings or Sears Holdings Corporation - Sears Holdings Corporation, a Delaware Corporation, and its consolidated subsidiaries (other than, for all periods following the Separation, Lands' End)
- Sears Roebuck - Sears, Roebuck and Co., a subsidiary of Sears Holdings Company
- Separation - On April 4, 2014 Sears Holdings distributed 100% of the outstanding common stock of Lands' End to its shareholders
- Term Loan Facility - Term loan credit agreement, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- Third Quarter 2015 - the thirteen weeks ended October 30, 2015
- Third Quarter 2014 - the thirteen weeks ended October 31, 2014
- Year to Date 2015 - the thirty-nine weeks ended October 30, 2015
- Year to Date 2014 - the thirty-nine weeks ended October 31, 2014

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 third fiscal quarter and year to date periods.
- Liquidity and capital resources. This section provides an overview of our historical and anticipated cash and financing activities. We also review our historical sources and uses of cash in our operating, investing and financing activities.
- 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.
- Application of critical accounting policies and estimates. This section summarizes the accounting policies that we consider important to our financial condition and results of operations and which require significant judgment or estimates to be made in their application.

Executive Overview

Description of the Company

Lands’ End, Inc. is a leading multi-channel retailer of casual clothing, accessories and footwear, as well as home products. We offer products through catalogs, online at www.landsend.com and affiliated specialty and international websites, and through retail locations, primarily at Lands’ End Shops at Sears, 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 Condensed Consolidated and 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 announced that it intends to continue to right-size, redeploy and highlight the value of its assets, including its real estate portfolio, in its transition from an asset-intensive, store-focused retailer and that it has entered into lease agreements with third party retailers for stand-alone stores. On July 7, 2015, Sears Holdings completed a rights offering and sale-leaseback transaction (the “Seritage transaction”) with Seritage Growth Properties (“Seritage”), a recently formed, independent publicly traded real estate investment trust. Sears Holdings disclosed that as part of the Seritage transaction, it sold 235 properties to Seritage (the “REIT properties”) along with Sears Holdings’ 50% interest in each of three real estate joint ventures (collectively, the “JVs”). Sears Holdings also disclosed that it contributed 31 properties to the JVs (the “JV properties”). As of October 30, 2015, 59 of the REIT properties contained a Lands’ End Shop and 15 of the JV properties contained a Lands’ End Shop, the leases with respect to which Sears Roebuck retained for its own account. Sears Holdings disclosed that Seritage and the JVs have a recapture right with respect to approximately 50% of the space within the stores at the REIT properties and JV properties (subject to certain exceptions), and with respect to nine of the stores that contain a Lands’ End Shop, Seritage has the additional right to recapture 100% of the space within the Sears Roebuck store. If Sears Roebuck continues to dispose of retail stores that contain Lands’ End Shops, and/or offer us relocation alternatives for Lands’ End Shops that are less attractive than the current premises, our business and results of operations could be adversely affected. On October 30, 2015 the Company operated 227 Lands’ End Shops at Sears, compared with 242 Lands’ End Shops at Sears on October 31, 2014.

Seasonality

We experience seasonal fluctuations in our net revenue and operating results and historically have realized a significant portion of our net sales and earnings for the year during our fourth fiscal quarter. We generated approximately 34% of our net sales in the fourth fiscal quarter of the past three years. Thus, lower than expected fourth quarter net revenue could have an adverse impact on our annual operating results.

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

Results of Operations

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

	13 Weeks Ended			
	October 30, 2015		October 31, 2014	
(in thousands)	$'s	% of Net revenue	$'s	% of Net revenue
Net revenue	$334,434	100.0 %	$373,082	100.0 %
Cost of sales (excluding depreciation and amortization)	172,019	51.4 %	189,787	50.9 %
Gross profit	162,415	48.6 %	183,295	49.1 %
Selling and administrative	135,867	40.6 %	143,370	38.4 %
Depreciation and amortization	4,260	1.3 %	4,802	1.3 %
Other operating (income) expense, net	(1,009)	(0.3)%	25	— %
Operating income	23,297	7.0 %	35,098	9.4 %
Interest expense	6,204	1.9 %	6,194	1.7 %
Other expense (income), net	796	0.2 %	(507)	(0.1)%
Income before income taxes	16,297	4.9 %	29,411	7.9 %
Income tax expense	5,572	1.7 %	11,420	3.1 %
Net income	$10,725	3.2 %	$17,991	4.8 %

	39 Weeks Ended			
	October 30, 2015		October 31, 2014	
(in thousands)	$'s	% of Net revenue	$'s	% of Net revenue
Net revenue	$946,235	100.0 %	$1,050,787	100.0 %
Cost of sales (excluding depreciation and amortization)	492,756	52.1 %	537,064	51.1 %
Gross profit	453,479	47.9 %	513,723	48.9 %
Selling and administrative	394,261	41.7 %	419,859	40.0 %
Depreciation and amortization	12,874	1.4 %	14,629	1.4 %
Other operating (income) expense, net	(3,366)	(0.4)%	45	— %
Operating income	49,710	5.3 %	79,190	7.5 %
Interest expense	18,615	2.0 %	14,324	1.4 %
Other expense (income), net	(210)	— %	(847)	(0.1)%
Income before income taxes	31,305	3.3 %	65,713	6.3 %
Income tax expense	11,395	1.2 %	25,009	2.4 %
Net income	$19,910	2.1 %	$40,704	3.9 %

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 $10.7 million and $18.0 million for the Third Quarter 2015 and Third Quarter 2014, respectively. We recorded Net income of $19.9 million and $40.7 million for the Year to Date 2015 and Year to Date 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 Condensed Consolidated and Combined Statements of Operations net of Income tax expense, Other (income) expense, net, Interest expense, Depreciation and amortization, and certain significant items set forth below. Our management uses Adjusted EBITDA to evaluate the operating performance of our businesses, as well as executive compensation metrics, for comparable

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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 Third Quarter 2015 and Year to Date 2015, we excluded benefits related to reversals of portions of the product recall accrual recognized in Fiscal 2014, and related vendor payments as these were unusual events that affect the comparability of our financial results.

For the Third Quarter 2015, Third Quarter 2014, Year to Date 2015 and Year to Date 2014, we excluded the gain or loss on disposal of property and equipment as management considers the gains or losses on disposal of assets to result from investing decisions rather than ongoing operations.

	13 Weeks Ended					
	October 30, 2015			October 31, 2014		
(in thousands)	$'s	% of Net revenue		$'s	% of Net revenue	
Net income	$10,725	3.2	%	$17,991	4.8	%
Income tax expense	5,572	1.7	%	11,420	3.1	%
Other expense (income), net	796	0.2	%	(507)	(0.1	)%
Interest expense	6,204	1.9	%	6,194	1.7	%
Operating income	23,297	7.0	%	35,098	9.4	%
Depreciation and amortization	4,260	1.3	%	4,802	1.3	%
Product recall	(1,007)	(0.3	)%	—	—	%
(Gain) loss on disposal of property and equipment	(2)	—	%	25	—	%
Adjusted EBITDA	$26,548	7.9	%	$39,925	10.7	%

	39 Weeks Ended					
	October 30, 2015			October 31, 2014		
(in thousands)	$'s	% of Net revenue		$'s	% of Net revenue	
Net income	$19,910	2.1	%	$40,704	3.9	%
Income tax expense	11,395	1.2	%	25,009	2.4	%
Other expense (income), net	(210)	—	%	(847)	(0.1	)%
Interest expense	18,615	2.0	%	14,324	1.4	%
Operating income	49,710	5.3	%	79,190	7.5	%
Depreciation and amortization	12,874	1.4	%	14,629	1.4	%
Product recall	(3,371)	(0.4	)%	—	—	%
Loss on disposal of property and equipment	5	—	%	45	—	%
Adjusted EBITDA	$59,218	6.3	%	$93,864	8.9	%

In assessing the operational performance of our business, we consider a variety of financial measures. We operate in two reportable segments, Direct (sold through e-commerce websites and direct mail catalogs) and Retail (sold through stores).

A key measure in the evaluation of our business is revenue performance by segment. We also consider gross margin and Selling and administrative expenses in evaluating the performance of our business.

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

Discussion and Analysis

Third Quarter 2015 compared with the Third Quarter 2014

Net Revenue

Net revenue for the Third Quarter 2015 was $334.4 million, compared with $373.1 million in the comparable period of the prior year, a decrease of $38.7 million or 10.4%. The decrease was comprised of a decrease in our Direct segment of $32.5 million and a decrease in our Retail segment of $6.2 million.

Net revenue in our Direct segment was $287.8 million for the Third Quarter 2015, a decrease of $32.5 million, or 10.1% from the comparable period of the prior year. During the quarter Net revenue was impacted by internal and external factors. The decrease was primarily attributable to internal factors which include a reduced promotional approach, planned reduction in catalog circulation, and a lack of customer acceptance of the product offering. These internal factors were partially offset by increased Net revenue attributable to our new marketing strategies. External factors that contributed to the decrease in Net revenue during the quarter include operating in a highly promotional retail environment and unseasonably warm weather compared to last year. The international markets were also impacted by changes in currency exchange rates which negatively impacted reported revenue by $5.0 million. Excluding the impact of currency exchange rates, international Net revenue increased slightly.

Net revenue in our Retail segment was $46.6 million for the Third Quarter 2015, a decrease of $6.2 million, or 11.7% from the comparable period of the prior year. The decrease was driven by an 8.9% decrease in same store sales, and a decrease in the number of Lands’ End Shops at Sears. The same store sales decrease was attributable to the same factors which impacted our direct segment as well as declining traffic at our Lands' End Shops at Sears. On October 30, 2015, the Company operated 227 Lands’ End Shops at Sears, 14 global Lands’ End Inlet stores and five international shop-in-shops compared with 242 Lands’ End Shops at Sears, 14 global Lands’ End Inlet stores and five international shop-in-shops on October 31, 2014.

Gross Profit

Total gross profit decreased 11% to $162.4 million and gross margin decreased 50 basis points to 48.6% of total Net revenue, in the Third Quarter 2015, compared with $183.3 million, or 49.1% of total Net revenue, for the Third Quarter 2014. The gross profit decrease was comprised of a decrease in our Direct segment of $17.6 million and a decrease in our Retail segment of $3.3 million.

Gross profit in the Direct segment was $141.9 million compared with $159.5 million for the Third Quarter 2015 and Third Quarter 2014, respectively. Gross margin in the Direct segment decreased approximately 50 basis points to 49.3% in the Third Quarter 2015 versus 49.8% in the comparable prior year period, primarily attributable to the negative effect of changes in foreign exchange rates.

Retail segment gross profit decreased $3.3 million to $20.5 million in the Third Quarter 2015 from $23.8 million in the Third Quarter 2014. Retail segment gross margin decreased approximately 110 basis points to 44.0% compared with 45.1% for the Third Quarter 2015 and Third Quarter 2014, respectively, driven by increased promotional activity.

Selling and Administrative Expenses

Selling and administrative expenses were $135.9 million, or 40.6% of total Net revenue compared with $143.4 million or 38.4% of total Net revenue in the Third Quarter 2015 and Third Quarter 2014, respectively. The decrease in Selling and administrative expenses was primarily due to a decrease of $6.8 million in the Direct segment and a decrease of $0.8 million in the Retail segment. Of the $7.5 million decrease, changes in currency exchange rates favorably impacted Selling and

administrative expenses by approximately $2.4 million. Excluding impacts of foreign currency exchange, savings were primarily attributable to lower marketing investment and a decrease in incentive compensation expenses.

The Direct segment Selling and administrative expenses were $104.9 million compared with $111.7 million for the Third Quarter 2015 and Third Quarter 2014, respectively. Of the $6.8 million or 6.1% decrease, changes in currency exchange rates favorably impacted Selling and administrative expenses by $2.4 million. The currency neutral decrease of $4.3 million was primarily attributable to a decrease in marketing investment of $4.2 million as this investment was aligned with current marketing strategies during the quarter.

The Retail segment Selling and administrative expenses were $22.2 million compared with $23.0 million for the Third Quarter 2015 and Third Quarter 2014, respectively. The $0.8 million or 3.5% decrease was primarily attributable to a decrease in personnel and other expenses related to closed stores.

Corporate / other Selling and administrative expenses increased to $8.8 million in the Third Quarter 2015 compared to $8.7 million in the Third Quarter 2014 as a decrease in incentive compensation was offset by increased benefits and third party professional fees during the quarter.

Depreciation and Amortization

Depreciation and amortization expense decreased 11.3% to $4.3 million in the Third Quarter 2015 from $4.8 million in Third Quarter 2014 primarily attributable to an increase in fully depreciated assets.

Other Operating (Income) / Expense, Net

Other operating (income) / expense, net includes $1.0 million dollars of income related to the product recall reserve recorded in the fourth quarter of fiscal 2014. The $1.0 million dollars is a reversal of the product recall reserve and a vendor payment received in relation to the recall. The customer return rates for the recalled products have been lower than estimated despite the efforts by the Company to contact impacted consumers. The remaining reserve is insignificant.

Operating Income

As a result of the above factors, Operating income decreased to $23.3 million in the Third Quarter 2015 from $35.1 million in Third Quarter 2014.

Interest Expense

Interest expense was unchanged at $6.2 million in the Third Quarter 2015 compared to the Third Quarter 2014.

Other (Income) / Expense, Net

Other (Income) / Expense, Net includes a charge of $1.2 million from the reduction to a tax receivable from our former parent as a result of favorable tax settlements in certain tax jurisdictions. Consequently, there is a $1.2 million reduction in income tax expense (before consideration of federal income tax impact).

Income Tax Expense

Income tax expense was $5.6 million for the Third Quarter 2015 compared with $11.4 million in the Third Quarter 2014. The decrease was primarily attributable to lower Operating income. The effective tax rate was 34.2% in the Third Quarter 2015 compared with 38.8% in the Third Quarter 2014. The decrease in the effective tax rate was driven by the previously mentioned favorable tax settlements in the Third Quarter 2015.

Net Income

As a result of the above factors, Net income decreased to $10.7 million and diluted earnings per share decreased to $0.33 in the Third Quarter 2015 compared with Net income of $18.0 million and diluted earnings per share of $0.56 in the Third Quarter 2014. The product recall accrual adjustment favorably impacted Net income by $0.6 million (after tax) and earnings per share by $0.02. The impact of changes in currency exchange rates negatively impacted Net Income by $1.4 million (after tax) and earnings per share by $0.04.

Adjusted EBITDA

As a result of the above factors, Adjusted EBITDA decreased 33.5% to $26.5 million in the Third Quarter 2015 from $39.9 million in the Third Quarter 2014. The impact of changes in currency exchange rates negatively impacted EBITDA by $2.3 million.

Year to Date 2015 compared with the Year to Date 2014

Net Revenue

Net revenue for the Year to Date 2015 was $946.2 million, compared with $1,050.8 million in the comparable period of the prior year, a decrease of $104.6 million or 9.9%. The decrease was comprised of a decrease in our Direct segment of $83.0 million and a decrease in our Retail segment of $21.6 million.

Net revenue in our Direct segment was $805.9 million for the Year to Date 2015, a decrease of $83.0 million, or 9.3% from the comparable period of the prior year. The decrease was attributable to declines in all of our markets. We realized declining performance driven by a reduced promotional approach, a decrease in catalog circulation and lower customer acceptance of our product offering in a challenging retail environment, partially offset by our new marketing strategies. The international markets were also impacted by changes in currency exchange rates which negatively impacted reported revenue by $22.1 million.

Net revenue in our Retail segment was $140.2 million for the Year to Date 2015, a decrease of $21.6 million, or 13.4% from the comparable period of the prior year. The decrease was attributable to a 9.6% decrease in same store sales, driven by lower sales in the Company’s Lands’ End Shops at Sears, and a decrease in the number of Lands’ End Shops at Sears.

Gross Profit

Total gross profit decreased 12% to $453.5 million and gross margin decreased 100 basis points to 47.9% of total Net revenue, compared with $513.7 million, or 48.9% of total Net revenue, for the Year to Date 2015 and Year to Date 2014, respectively.

Gross profit in the Direct segment was $390.5 million compared with $440.4 million for the Year to Date 2015 and Year to Date 2014, respectively. The decrease in Gross profit is largely attributable to lower revenue. Gross margin in the Direct segment decreased approximately 100 basis points to 48.5% in the Year to Date 2015 versus 49.5% in the comparable prior year period, primarily attributable to changes in currency exchange rates.

Retail segment gross profit decreased $10.5 million to $62.8 million in the Year to Date 2015 from $73.3 million in the Year to Date 2014, primarily attributable to decreased revenues. Retail segment gross margin decreased approximately 50 basis points to 44.8% compared with 45.3% for the Year to Date 2015 and Year to Date 2014, respectively, primarily attributable to recent promotional activity and Year to Date 2014 mark out of stock favorability, partially offset by improved clearance pricing.

Selling and Administrative Expenses

Selling and administrative expenses were $394.3 million, or 41.7% of total Net revenue compared with $419.9 million or 40.0% of total Net revenue in the Year to Date 2015 and Year to Date 2014, respectively. The $25.6 million decrease was attributable to a $19.6 million decrease in the Direct segment, a $5.5 million decrease in the Retail segment, and a $0.5 million decrease in the Corporate segment. Selling and administrative expenses were favorably impacted by $10.0 million during the Year to Date 2015 period due to changes in currency exchange rates.

The Direct segment Selling and administrative expenses were $305.2 million compared with $324.8 million for the Year to Date 2015 and Year to Date 2014, respectively. The $19.6 million or 6.0% decrease was primarily due to changes in the currency exchange rates which impacted Direct Selling and administrative expenses by $10.0 million. Excluding the impacts of foreign currency exchange, savings were attributable to a decrease in marketing spend of $6.2 million driven by reduction in catalog circulation and a decrease in incentive compensation of $4.3 million.

The Retail segment Selling and administrative expenses were $63.7 million compared with $69.2 million for the Year to Date 2015 and Year to Date 2014, respectively. The $5.5 million or 7.9% decrease was primarily attributable to a decrease in store personnel related expenses of $4.1 million and a $0.9 million decrease in occupancy costs attributable to operating fewer store locations.

Corporate / other Selling and administrative expenses were $25.4 million compared with $25.9 million for the Year to Date 2015 and Year to Date 2014, respectively. The $0.5 million or 1.9% decrease was primarily attributable to a decrease in incentive compensation of $3.9 million partially offset by an increase in non-incentive personnel costs of $2.9 million.

Depreciation and Amortization

Depreciation and amortization expense decreased 12.0% to $12.9 million in the Year to Date 2015 from $14.6 million in the Year to Date 2014 primarily attributable to an increase in fully depreciated assets.

Other Operating (Income) / Expense, Net

Other operating (income) / expense, net was primarily related to the reversal of approximately $3.4 million of the product recall accrual that was recognized and recorded in the fourth quarter of 2014. The accrual was reversed due to customer recall return rates below Company estimates.

Operating Income

As a result of the above factors, Operating income decreased to $49.7 million in the Year to Date 2015 from $79.2 million in the Year to Date 2014.

Interest Expense

Interest expense increased to $18.6 million in the Year to Date 2015 compared with $14.3 million in the Year to Date 2014. There were two additional months of interest expense in the Year to Date 2015 compared with the Year to Date 2014.

Other (Income) / Expense, Net

Other (Income) / Expense, Net includes a charge of $1.2 million from the reduction to a tax receivable from our former parent as a result of favorable tax settlements in certain tax jurisdictions. Consequently, there is a $1.2 million reduction in income tax expense (before consideration of federal income tax benefit).

Income Tax Expense

Income tax expense was $11.4 million for the Year to Date 2015 compared with $25.0 million in the Year to Date 2014. The decrease was primarily attributable to lower Operating income and increased Interest expense. The effective tax rate was 36.4% in the Year to Date 2015 compared with 38.1% in the Year to Date 2014. The decrease in the effective tax rate was driven by the previously mentioned favorable tax settlements in the Year to Date 2015.

Net Income

As a result of the above factors, Net income decreased to $19.9 million and diluted earnings per share decreased to $0.62 in the Year to Date 2015 compared with Net income of $40.7 million and diluted earnings per share of $1.27 in the Year to Date 2014. The product recall accrual adjustment favorably impacted Net income by $2.1 million (after tax) and earnings per share by $0.07. The impact of changes in currency exchange rates negatively impacted Net income by $6.2 million (after tax) and earnings per share by $0.19.

Adjusted EBITDA

As a result of the above factors, Adjusted EBITDA decreased 36.9% to $59.2 million in the Year to Date 2015 from $93.9 million in the Year to Date 2014. The impact of changes in currency exchange rates negatively impacted EBITDA by $10.2 million.

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 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 million for domestic letters of credit and a sub-limit of $15 million for letters of credit for the UK Borrower. The ABL Facility is available for working capital and other general corporate purposes, and was undrawn at October 30, 2015 and October 31, 2014, other than for letters of credit. The Company had borrowing availability under the ABL Facility of $156.5 million as of October 30, 2015, net of outstanding letters of credit of $18.5 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 0.38% 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 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 October 30, 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 $94.8 million for the Year to Date 2015 compared with a cash generated from operating activities of $85.6 million for the Year to Date 2014 is primarily due to:

- Lower revenues, which drove a decrease in net income before non-cash items and an increase in inventory,
- Increased inventory purchases to replenish inventory levels, as beginning inventory for Fiscal 2014 was $68.6 million more than beginning inventory for Fiscal 2015,
- Cash payments for taxes and incentive compensation, and
- The one time impact of in the prior year for items that were settled through inter-company transactions with our former parent prior to the separation.

Cash Flows from Investing Activities

Net cash used in investing activities was $18.1 million and $11.1 million for the Year to Date 2015 and Year to Date 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 $25.0 million to $30.0 million in capital expenditures for strategic investments and infrastructure, primarily associated with our ERP investment, other technology investments and general corporate needs.

Cash Flows from Financing Activities

Net cash used by financing activities was $3.9 million for the Year to Date 2015 compared with net cash provided by financing activities of $9.8 million for the Year to Date 2014.

Financing activities in the Year to Date 2015 consisted of three quarterly payments for the Term Loan. Financing activities in the Year to Date 2014 consisted of cash proceeds of $515.0 million from our Term Loan Facility and a $8.8

million, net, contribution from Sears Holdings, offset by a $500.0 million dividend paid to a subsidiary of Sears Holdings Corporation prior to the Separation, $11.4 million of debt issuance costs related to the Facilities and a quarterly payment for the Term Loan.

Contractual Obligations and Off-Balance-Sheet Arrangements

There have been no material changes to our contractual obligations and off-balance-sheet arrangements as discussed in our Annual Report on Form 10-K for the fiscal year ended January 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 October 30, 2015 and October 31, 2014, other than for letters of credit. The Company had borrowing availability under the ABL Facility of $156.5 million as of October 30, 2015, net of outstanding letters of credit of $18.5 million.

Application of Critical Accounting Policies and Estimates

We believe that the assumptions and estimates associated with inventory valuation, goodwill and intangible asset impairment assessments and income taxes have the greatest potential impact on our financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

There have been no material changes to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended January 30, 2015.

As previously discussed, Lands' End reviews the Company's indefinite-lived intangible asset, the Lands' End trade name, for impairment by comparing the carrying amount of the asset to the fair value. The Company considers the income approach when testing the intangible asset with indefinite life for impairment on an annual basis. Lands' End determined that the income approach, specifically the relief from royalty method, was most appropriate for analyzing the Company's indefinite-lived asset. This method is based on the assumption that, in lieu of ownership, a firm would be willing to pay a royalty in order to exploit the related benefits of this asset class. The relief from royalty method involves two steps: (1) estimation of reasonable royalty rates for the assets and (2) the application of these royalty rates to a revenue stream and discounting the resulting cash flows to determine a value. The Company multiplied the selected royalty rate by the forecasted net sales stream to calculate the cost savings (relief from royalty payment) associated with the asset. The cash flows are then discounted to present value by the selected discount rate and compared to the carrying value of the asset.

During Fiscal 2014 the fair value of the indefinite-lived intangible asset exceeded its carrying value and, as such, the Company did not record any intangible asset impairment charges. The fair value of our indefinite-lived intangible asset exceeded its carrying value by 12% as of the date of our latest annual impairment test. However, a continued decline in revenues could negatively impact the Company's future revenue forecasts and or future projected revenue growth rates. These, and other factors, could negatively impact the fair value of the indefinite-lived intangible assets that will be calculated as we complete our next annual impairment assessment during the fourth quarter and could result in a material impairment charge.

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, including statements about our strategies and our opportunities for growth. Forward-looking statements are subject to risks and uncertainties that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Forward-looking

statements include without limitation information concerning our future financial performance, business strategy, plans, goals and objectives. There can be no assurance that any of our efforts will be successful.
Statements preceded or followed by, or that otherwise include, the words “believes,” “expects,” “anticipates,” “intends,” “project,” “estimates,” “plans,” “forecast,” “is likely to” and similar expressions or future or conditional verbs such as “will,” “ “would,” “should” and “could” are generally forward-looking in nature and not historical facts. Such statements are based upon the current beliefs and expectations of our management and are subject to significant risks and uncertainties. Actual results may differ materially from those set forth in the forward-looking statements.
The following additional factors, among others, could cause our actual results, performance, and achievements to differ from those described in the forward-looking statements: our ability to offer merchandise and services that customers want to purchase, including our ability to strengthen our merchandise offering, including the new Lighthouse by Lands’ End™ label, while retaining and growing sales from core customers; changes in customer preference for our branded merchandise; customers’ use of our digital platform, including our e-commerce websites, customer response to direct mail catalogs and digital marketing and catalogs; the success of our efforts to change the issuance of catalogs and reinvest savings therefrom into marketing initiatives that are designed to drive new customer acquisition and increase brand awareness; the success of our overall marketing strategies, including brand marketing initiatives, some of which, if successful, may not produce positive results in the short term; the success of our efforts to optimize promotions to drive sales and maximize gross margin dollars; ; our maintenance of a robust customer list; our dependence on information technology and a failure of information technology systems, including with respect to our e-commerce operations, or an inability to upgrade or adapt our systems; the success of our ERP implementation; the success of our efforts to grow and expand into new markets and channels; fluctuations and increases in 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; if Sears Holdings sells or disposes of its retail stores, including pursuant to the recapture rights granted to Seritage Growth Properties and other parties, or if its retail business does not attract customers or does not adequately provide services to the Lands’ End Shops at Sears; legal, regulatory, economic and political risks associated with international trade and those markets in which we conduct business and source our merchandise; our failure to protect or preserve the image of our brands and our intellectual property rights; increases in postage, paper and printing costs; failure by third parties who provide us with services in connection with certain aspects of our business to perform their obligations; our failure to timely and effectively obtain shipments of products from our vendors and deliver merchandise to our customers; reliance on promotions and markdowns to encourage customer purchases; our failure to efficiently manage inventory levels; unseasonal or severe weather conditions; the seasonal nature of our business; the adverse effect on our reputation if our independent vendors do not use ethical business practices or comply with applicable laws and regulations; assessments for additional state taxes; our exposure to periodic litigation and other regulatory proceedings, including with respect to product liability claims; incurrence of charges due to impairment of goodwill, other intangible assets and long-lived assets; our failure to retain our executive management team and to attract qualified new personnel; the impact on our business of adverse worldwide economic and market conditions, including economic factors that negatively impact consumer spending on discretionary items; the inability of our past performance generally, as reflected on our historical financial statements, to be indicative of our future performance; the impact of increased costs due to a decrease in our purchasing power following our separation from Sears Holdings (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 discussed in the “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended January 30, 2015 and other filings with the SEC. We intend the forward-looking statements to speak only as of the time made and do not undertake to update or revise them as more information becomes available, except as required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in our financial instruments represents the potential loss arising from adverse changes in currency rates. A significant portion of our business is transacted in U.S. dollars, and is expected to continue to be transacted in U.S. dollars or U.S. dollar-based currencies. As of October 30, 2015, we had $19.9 million of cash denominated in foreign currencies, principally in British Pound Sterling, Euros and Yen. We do not enter into financial instruments for trading purposes or hedging and have not used any derivative financial instruments. We do not consider our foreign earnings to be permanently reinvested.

We are subject to interest rate risk with 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 $1.0 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 October 30, 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 third fiscal quarter ended October 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various claims, legal proceedings and investigations, 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 Year to Date 2015 and Year to Date 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

We are pursuing initiatives that are intended to develop a stronger product offering, marketing proposition, go-to-market strategy, and operating platform. These initiatives include efforts to improve our product appeal, reinforce our core business for our classic consumer, introduce more relevant products to attract new customers, gain a broader market share internationally, improve the overall shopping experience in our Direct segment, and create a marketing and messaging campaign that is intended to improve our brand identity and awareness. One or more of these initiatives may not be accepted by our customers, which may result in the Company's sales being less than we anticipate; and no assurance can be given that our strategy and offerings will be successful and will not have a material adverse effect on our reputation, 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)).
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*

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

SIGNATURES

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

Lands' End, Inc.

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

Dated: December 3, 2015