LANDS' END, INC.
Form 10-Q
June 09, 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 May 1, 2015
-OR-
¨ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to 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 August 1, 2014, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately $452.8 million.

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

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

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

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

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

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

LANDS' END, INC.
Condensed Consolidated Balance Sheets
(Unaudited)

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

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

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

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

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

LANDS’ END, INC.
Condensed Consolidated and Combined Statements of Changes in Stockholders’ Equity
(Unaudited)

(in thousands except share amounts)	Common Stock Issued		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Net Parent Company Investment	Total Stockholders' Equity
	Shares	Amount					
Balance at January 31, 2014	—	$—	$—	$—	$ (1,995)	$794,309	$792,314
Net income	—	—	—	5,946	—	4,922	10,868
Cumulative translation adjustment, net of tax	—	—	—	—	879	—	879
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 May 2, 2014	31,956,521	$320	$340,176	$5,946	$ (1,116)	$—	$345,326
Balance at January 30, 2015	31,956,521	$320	$342,294	$68,877	$ (7,298)	$—	$404,193
Net income	—	—	—	1,724	—	—	1,724
Cumulative translation adjustment, net of tax	—	—	—	—	363	—	363
Stock-based compensation expense	—	—	681	—	—	—	681
Balance at May 1, 2015	31,956,521	$320	$342,975	$70,601	$ (6,935)	$—	$406,961

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

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

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

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

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

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

Basis of Presentation

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

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

The accompanying unaudited Condensed Consolidated and Combined Financial Statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all material adjustments which are of a normal and recurring nature necessary for a fair presentation of the results for the periods presented have been reflected. Dollar amounts are reported in thousands, except per share data, unless otherwise noted. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the Lands' End Annual Report on Form 10-K filed with the SEC on April 17, 2015.

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

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

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

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

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

NOTE 2. INCOME TAXES

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

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

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

Impacts of Separation

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

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

NOTE 3. STOCK-BASED COMPENSATION

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

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

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

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

Awards Granted Year to Date May 1, 2015

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

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

Deferred Awards

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

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

Performance Awards

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

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

NOTE 4. EARNINGS PER SHARE

The numerator for both basic and diluted EPS is net income. The denominator for basic EPS is based upon the number of weighted average shares of Lands’ End common stock outstanding during the reporting periods. The denominator for diluted EPS is based upon the number of weighted average shares of Lands' End common stock and common stock equivalents outstanding during the reporting periods using the treasury stock method in accordance with the FASB ASC. For periods ended April 4, 2014 and prior, basic and diluted earnings per share are computed using the number of shares of Lands’ End common stock outstanding on April 4, 2014, the date on which the Lands’ End common stock was distributed to the shareholders of Sears Holdings Corporation. The same number of shares was used to calculate basic and diluted earnings per share for the First Quarter 2014 as there were no dilutive securities outstanding.

The following table summarizes the components of basic and diluted earnings per share:

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

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

NOTE 5. OTHER COMPREHENSIVE INCOME (LOSS)

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

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

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

NOTE 6. DEBT

The Company's debt consisted of the following:

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

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

Interest; Fees

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

Representations and Warranties; Covenants

Subject to specified exceptions, the Facilities contain various representations and warranties and restrictive covenants that, among other things, restrict the ability of Lands' End and its subsidiaries to incur indebtedness (including guarantees), grant liens, make investments, make dividends or distributions with respect to capital stock, make prepayments on other indebtedness, engage in mergers or change the nature of their business. In addition, if excess availability under the ABL Facility falls below the greater of 10% of the loan cap amount or $15.0 million, Lands' End will be required to comply with a minimum fixed charge coverage ratio of 1.0 to 1.0. The Facilities do

not otherwise contain financial maintenance covenants. The Company was in compliance with all financial covenants related to the Facilities as of May 1, 2015.
The Facilities contain certain affirmative covenants, including reporting requirements such as delivery of financial statements, certificates and notices of certain events, maintaining insurance, and providing additional guarantees and collateral in certain circumstances.

NOTE 7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES
The Company determines fair value of financial assets and liabilities based on the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:
Level 1 inputs—unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occurs with sufficient frequency and volume to provide ongoing pricing information.
Level 2 inputs—inputs other than quoted market prices included in Level 1 that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates.
Level 3 inputs—unobservable inputs for the asset or liability.
Restricted cash is reflected on the Condensed Consolidated Balance Sheets at fair value. The fair value of restricted cash as of May 1, 2015, May 2, 2014 and January 30, 2015 was approximately $3.3 million based on Level 1 inputs. Restricted cash amounts are valued based upon statements received from financial institutions.
Cash and cash equivalents, accounts receivable, accounts payable and other current liabilities are reflected on the Condensed Consolidated Balance Sheets at cost, which approximates fair value due to the short-term nature of these instruments.
Carrying values and fair values of other financial instruments in the Condensed Consolidated Balance Sheets are as follows:

	May 1, 2015		May 2, 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	$509,850	$502,840	$515,000	$515,000	$511,138	$491,331

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

NOTE 8. GOODWILL AND INTANGIBLE ASSETS
Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business combinations accounted for under the purchase accounting method. The net carrying amounts of goodwill, trade names and customer lists are included within the Company's Direct segment. Total amortization expense relating to intangible assets was $0.4 million and $0.7 million for the First Quarter 2015 and First Quarter 2014, respectively. There were no impairments of goodwill or intangible assets during any periods presented or since the goodwill and intangible assets were first recognized.

The following summarizes goodwill and intangible assets:

		May 1, 2015		May 2, 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	$23,917	$26,300	$25,888
Indefinite-lived intangible assets:							
Trade names		528,300	—	528,300	—	528,300	—
Gross intangible assets		$554,600	$26,300	$554,600	$23,917	$554,600	$25,888
Total intangible assets, net		$528,300		$530,683		$528,712	
Goodwill		$110,000		$110,000		$110,000	

NOTE 9. RELATED PARTY TRANSACTIONS

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

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

In connection with the Separation, the Company entered into various agreements with Sears Holdings which, among other things, (i) govern specified aspects of the Company's relationship following the Separation, especially with regards to the Lands’ End Shops at Sears, and (ii) establish terms pursuant to which subsidiaries of Sears Holdings Corporation are providing services to us, including the International Buying Office under the Buying Agency Agreement.

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

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

Lands’ End Shops at Sears

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

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

General Corporate Services

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

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

Use of Intellectual Property or Services

Related party revenue and costs charged by the Company to and from Sears Holdings for the use of intellectual property or services is as follows:

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

Call Center Services

The Company has entered into a contract with Sears Holdings Management Corporation, a subsidiary of Sears Holdings Corporation, to provide call center services in support of Sears Holdings’ SYW member loyalty program. This income is net of agreed upon costs directly attributable to the Company providing these services. The income is included in Merchandise sales and services, net and costs are included in Selling and administrative expenses in the Condensed Consolidated and Combined Statements of Operations. Total call center service income included in Merchandise sales and services, net was $1.3 million and $1.5 million for the First Quarter 2015 and the First Quarter 2014, respectively.

Additional Balance Sheet Information

At May 1, 2015 and May 2, 2014 the Company included $5.2 million and $4.6 million in Accounts receivable, net, respectively and $7.8 million and $9.5 million in Accounts payable, respectively, in the Condensed Consolidated Balance Sheets to reflect amounts due from and owed to Sears Holdings. At May 1, 2015 and May 2, 2014, a $14.5 million and $13.7 million receivable, respectively, was recorded by the Company in Other assets in the Condensed Consolidated Balance Sheets to reflect the indemnification by Sears Holdings Corporation of the pre-Separation uncertain tax positions (including penalties and interest) for which Sears Holdings Corporation is responsible.

NOTE 10. SEGMENT REPORTING

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

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

The Company identifies reportable segments according to how business activities are managed and evaluated. Each of the Company's operating segments are reportable segments and are strategic business units that offer similar products and services but are sold either directly from its warehouses (Direct) or through its retail stores (Retail). Adjusted EBITDA is the primary measure used to make decisions on allocating resources and assessing performance of each operating segment. Adjusted EBITDA is computed as Income before taxes appearing on the Condensed Consolidated and Combined Statements of Operations net of interest expense, depreciation and amortization and other significant items that while periodically affecting the Company's results, may vary significantly from period to period and may have a disproportionate effect in a given period, which may affect comparability of results. Reportable segment assets are those directly used in or clearly allocable to an operating segment's operations. Depreciation, amortization, and property and equipment expenditures are recognized in each respective segment. There were no material transactions between reporting segments for the First Quarter 2015 and First Quarter 2014.

- The Direct segment sells products through the Company's e-commerce websites and direct mail catalogs. Operating costs consist primarily of direct marketing costs (catalog and e-commerce marketing costs); order processing and shipping costs; direct labor and benefits costs and facility costs. Assets primarily include goodwill and trade name intangible assets, inventory, accounts receivable, prepaid expenses (deferred catalog costs), technology infrastructure, and property and equipment.
- The Retail segment sells products and services through dedicated Lands' End Shops at Sears across the United States, the Company's stand-alone Lands' End Inlet stores and international shop-in-shops. Operating costs consist primarily of labor and benefits costs; rent, CAM and occupancy costs; distribution costs; and in-store marketing costs. Assets primarily include inventory in the retail stores, fixtures and leasehold improvements.
- The Corporate segment records revenues related to a licensing agreement with Sears Holdings Management Corporation, a subsidiary of Sears Holdings Corporation, whereby royalties are paid in consideration for sharing or use of intellectual property.

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Corporate overhead and other expenses include unallocated shared-service costs, which primarily consist of employee services and financial services, legal and corporate expenses. These expenses include labor and benefits costs, corporate headquarters occupancy costs and other administrative expenses. Assets include corporate headquarters and facilities, corporate cash and cash equivalents and deferred income taxes.

Financial information by segment is presented in the following tables for the First Quarter 2015 and the First Quarter 2014.

SUMMARY OF SEGMENT DATA

	13 Weeks Ended	
(in thousands)	May 1, 2015	May 2, 2014
Merchandise sales and services, net:		
Direct	$253,373	$276,041
Retail	45,992	54,430
Corporate/ other	22	12
Total merchandise sales and services, net	$299,387	$330,483

	13 Weeks Ended	
(in thousands)	May 1, 2015	May 2, 2014
Adjusted EBITDA:		
Direct	$21,678	$29,263
Retail	144	2,326
Corporate/ other	(8,772)	(7,773)
Total adjusted EBITDA	$13,050	$23,816

	13 Weeks Ended	
(in thousands)	May 1, 2015	May 2, 2014
Depreciation and amortization:		
Direct	$3,695	$4,015
Retail	497	644
Corporate/ other	361	343
Total depreciation and amortization	$4,553	$5,002

(in thousands)	May 1, 2015	May 2, 2014	January 30, 2015
Total assets:			
Direct	$1,032,589	$1,077,769	$1,023,364
Retail	57,549	66,808	67,765
Corporate/ other	218,028	83,177	262,308
Total assets	$1,308,166	$1,227,754	$1,353,437

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

NOTE 11. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is party to various legal proceedings arising in the ordinary course of business. These actions include commercial, intellectual property, employment, regulatory and consumer fraud claims. Some of these actions involve complex factual and legal issues and are subject to uncertainties. At this time, the Company is not able to either predict the outcome of these legal proceedings or reasonably estimate a potential range of loss with respect to the proceedings. The Company does not believe that the outcome of any current legal proceeding would have a material adverse effect on results of operations, cash flows or financial position taken as a whole.

Beginning in 2005, the Company initiated the first of several claims in Iowa County Circuit Court against the City of Dodgeville (the "City") to recover overpaid taxes resulting from the city’s excessive property tax assessment of the Company’s headquarters campus. As of May 22, 2015, the City has refunded, as the result of various court decisions, over $4.0 million in excessive taxes and interest to the Company in the following amounts: (1) approximately $1.6 million arising from the 2005 and 2006 tax years that were recognized in the fiscal year ended January 29, 2010; (2) approximately $1.6 million arising from the 2007, 2009 and 2010 tax years, recognized in the fiscal year ended January 31, 2014; and (3) approximately $0.9 million arising from the 2008 tax year, recognized in the fiscal year ended January 30, 2015. The claims arising from 2005 and 2006 tax years are closed. The company claims pending before the circuit court arising from tax years 2007 and 2013 remain unresolved, as is the Company's administrative claim for the 2014 and 2015 tax year which will soon be filed with the circuit court. The Company believes that the potential additional aggregate recovery from the City of Dodgeville arising from the 2007 to 2015 tax years will range from $2.8 million to $4.6 million, none of which has been recorded in the Condensed Consolidated and Combined Financial Statements.

NOTE 12. SUPPLEMENTAL FINANCIAL INFORMATION

Non-cash Transactions

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

NOTE 13. RECENT ACCOUNTING PRONOUNCEMENTS

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

In April 2015, the FASB issued ASU 2015-05, Customers' Accounting for Fees Paid in a Cloud Computing Arrangement, which clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. This guidance will be effective for Lands' End in the first quarter of its fiscal year ending January 27, 2017. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's Condensed Consolidated and Combined Financial Statements.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the required presentation of debt issuance costs from an asset on the balance sheet to a deduction from the related debt liability. This guidance will be effective for Lands' End in its fiscal year ending January 27, 2017. The adoption of this guidance is not expected to have a material impact on the Company's Condensed Consolidated and Combined Financial Statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. This guidance will be effective for Lands' End in the first quarter of its fiscal year ending February 2, 2018. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's Condensed Consolidated and Combined Financial Statements.

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

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

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

You should read the following discussion in conjunction with the Consolidated and Combined Financial Statements and accompanying notes included elsewhere in this Quarterly Report on Form 10-Q. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. The matters discussed in these forward-looking statements are subject to risk, uncertainties, and other factors that could cause actual results to differ materially from those made, projected or implied in the forward-looking statements. See "Cautionary Statements Concerning Forward-Looking Statements" below and "Item 1A. Risk Factors" in our Annual Report filed on Form 10-K for the year ended January 30, 2015, for a discussion of the uncertainties, risks and assumptions associated with these statements.

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

- Sears Holdings or Sears Holdings Corporation - Sears Holdings Corporation, a Delaware Corporation, and its consolidated subsidiaries (other than, for all periods following the Separation, Lands' End)
- Separation - On April 4, 2014 Sears Holdings distributed 100% of the outstanding common stock of Lands' End to its shareholders
- ESL - ESL Investments, Inc. and its investment affiliates, including Edward S. Lampert
- ABL Facility - Asset-based senior secured credit agreements, dated as of April 4, 2014, with Bank of America, N.A and certain other lenders
- Term Loan Facility - Term loan credit Agreement, dated as of April 4, 2014, with Bank of America, N.A. and certain other lenders
- Facilities - Collectively, the ABL Facility and the Term Loan Facility
- UK Borrower - A United Kingdom subsidiary borrower of Lands' End under the ABL Facility
- GAAP - Accounting principles generally accepted in the United States
- Same Store Sales - Net sales, from stores that have been open for at least 12 full months where selling square footage has not changed by 15% or more within the past fiscal year
- SEC - United States Securities and Exchange Commission
- First Quarter 2015 - the thirteen weeks ended May 1, 2015
- First Quarter 2014 - the thirteen weeks ended May 2, 2014

Executive Overview

Introduction

Management's discussion and analysis of financial condition and results of operations accompanies our condensed consolidated and combined financial statements and provides additional information about our business, financial condition, liquidity and capital resources, cash flows and results of operations. We have organized the information as follows:

- Executive overview. This section provides a brief description of our business, accounting basis of presentation and a brief summary of our results of operations.

- Discussion and analysis. This section highlights items affecting the comparability of our financial results and provides an analysis of our combined and segment results of operations for the 2015 and 2014 first fiscal quarter.
- Liquidity and capital resources. This section provides an overview of our historical and anticipated cash and financing activities. We also review our historical sources and uses of cash in our operating, investing and financing activities.
- Quantitative and qualitative disclosures about market risk. This section discusses how we monitor and manage market risk related to changing currency rates. We also provide an analysis of how adverse changes in market conditions could impact our results based on certain assumptions we have provided.
- Critical accounting policies and estimates. This section summarizes the accounting policies that we consider important to our financial condition and results of operations and which require significant judgment or estimates to be made in their application.

Description of the Company

Lands' End, Inc. is a leading multi-channel retailer of casual clothing, accessories and footwear, as well as home products. We offer products through catalogs, online at www.landsend.com and affiliated specialty and international websites, and through retail locations, primarily at Lands' End Shops at Sears, stand-alone Lands' End Inlet stores and international shop-in-shops that sell merchandise in various retail department stores. We are a classic American lifestyle brand with a passion for quality, legendary service and real value, and we seek to deliver timeless style for men, women, kids and the home. Lands' End was founded in 1963 in Chicago by Gary Comer and his partners to sell sailboat hardware and equipment by catalog. While our product focus has shifted significantly over the years, we have continued to adhere to our founder's motto as one of our guiding principles: "Take care of the customer, take care of the employee and the rest will take care of itself."

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

The Company identifies reportable segments according to how business activities are managed and evaluated. Each of the Company's operating segments are reportable segments and are strategic business units that offer similar products and services but are sold either directly from our warehouses (Direct) or through our retail stores (Retail).

Basis of Presentation

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

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

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

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

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

The success of our Retail segment depends on the performance of the Lands’ End Shops at Sears. Under the terms of the master lease agreement and master sublease agreement pursuant to which Sears Roebuck leases or subleases to us the premises for the Lands’ End Shops at Sears, Sears Roebuck has certain rights to (1) relocate our leased premises within the building in which such premises are located, subject to certain limitations, including our right to terminate the applicable lease if we are not satisfied with the new premises, and (2) terminate without liability the lease with respect to a particular Lands’ End Shop if the overall Sears store in which such Lands’ End Shop is located is closed or sold. Sears Holdings recently announced that it intends to continue to right-size, redeploy and highlight the value of its assets, including its real estate portfolio, in its transition from an asset-intensive, store-focused retailer and that it has entered into lease agreements with third party retailers for stand-alone stores. Sears Holdings also recently announced that it expects to commence a rights offering in June 2015 in connection with its formation of Seritage Growth Properties, a Real Estate Investment Trust (REIT), that would purchase from and lease back to Sears Holdings 235 Sears and Kmart stores, and that it has completed the formation of real estate joint ventures with third parties. We believe that in connection with these transactions, Sears Roebuck has or intends to sell and leaseback approximately 77 Sears stores that contain a Lands' End Shop, the impact on the Company of which is not known. If Sears Roebuck continues to