

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

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended July 29, 2018

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 001-37641

DULUTH HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of
incorporation or organization)

39-1564801
(I.R.S. Employer
Identification Number)

**170 Countryside Drive
P.O. Box 409
Belleville, Wisconsin**
(Address of principal executive offices)

53508
(Zip Code)

(608) 424-1544

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer (Do not check if smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the Registrant's Class A common stock, no par value, as of September 4, 2018, was 3,364,200.
The number of shares outstanding of the Registrant's Class B common stock, no par value, as of September 4, 2018, was 29,224,207.

DULUTH HOLDINGS INC.
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED July 29, 2018
INDEX

	Page
<u>Part I—Financial Information</u>	
<u>Item 1.</u>	
<u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of July 29, 2018 and January 28, 2018 (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations for the three and six months ended July 29, 2018 and July 30, 2017 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended July 29, 2018 and July 30, 2017 (Unaudited)</u>	5
<u>Condensed Consolidated Statement of Shareholders' Equity for the six months ended July 29, 2018 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the six months ended July 29, 2018 and July 30, 2017 (Unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
<u>Item 4.</u>	
<u>Controls and Procedures</u>	29
<u>Part II—Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	29
<u>Item 1A.</u>	
<u>Risk Factors</u>	29
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
<u>Item 6.</u>	
<u>Exhibits</u>	30
<u>Signatures</u>	31

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DULUTH HOLDINGS INC.
Condensed Consolidated Balance Sheets
(Unaudited)
(Amounts in thousands)

ASSETS	July 29, 2018	January 28, 2018
Current Assets:		
Cash	\$ 2,423	\$ 2,865
Accounts receivable	46	52
Other receivables	336	273
Inventory, less reserve for excess and obsolete items of \$2,124 and \$1,866, respectively	102,365	89,548
Prepaid expenses & other current assets	10,256	7,642
Deferred catalog costs	1,213	1,446
Total current assets	116,639	101,826
Property and equipment, net	144,800	109,705
Restricted cash	1,154	4,218
Available-for-sale security	6,323	6,323
Goodwill	402	402
Other assets, net	1,120	628
Total assets	\$ 270,438	\$ 223,102
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 19,455	\$ 17,320
Accrued expenses and other current liabilities	20,522	25,261
Income taxes payable	2,236	7,631
Bank overdrafts	481	—
Current maturities of long-term debt	85	84
Total current liabilities	42,779	50,296
Finance lease obligations under build-to-suit leases	40,485	26,578
Long-term debt, less current maturities	36,382	1,424
Deferred rent obligations, less current maturities	4,099	3,355
Deferred tax liabilities	1,400	2,100
Total liabilities	125,145	83,753
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 10,000 shares authorized; no shares issued or outstanding as of July 29, 2018 and January 28, 2018	—	—
Common stock (Class A), no par value; 10,000 shares authorized; 3,364 shares issued and outstanding as of July 29, 2018 and January 28, 2018	—	—
Common stock (Class B), no par value; 200,000 shares authorized; 29,227 shares issued and 29,222 shares outstanding as of July 29, 2018 and 29,101 shares issued and 29,098 shares outstanding as of January 28, 2018	—	—
Treasury stock, at cost; 5 and 3 shares as of July 29, 2018 and January 28, 2018, respectively	(92)	(57)
Capital stock	88,901	88,043
Retained earnings	53,122	48,084
Total shareholders' equity of Duluth Holdings Inc.	141,931	136,070
Noncontrolling interest	3,362	3,279
Total shareholders' equity	145,293	139,349
Total liabilities and shareholders' equity	\$ 270,438	\$ 223,102

The accompanying notes are an integral part of these condensed consolidated financial statements.

DULUTH HOLDINGS INC.
Condensed Consolidated Statements of Operations
(Unaudited)
(Amounts in thousands, except per share figures)

	Three Months Ended		Six Months Ended	
	July 29, 2018	July 30, 2017	July 29, 2018	July 30, 2017
Net sales	\$ 110,653	\$ 86,226	\$ 210,860	\$ 169,913
Cost of goods sold (excluding depreciation and amortization)	48,413	37,303	92,680	72,347
Gross profit	62,240	48,923	118,180	97,566
Selling, general and administrative expenses	52,344	41,534	108,541	89,428
Operating income	9,896	7,389	9,639	8,138
Interest expense	1,234	372	2,055	538
Other income, net	2	45	165	102
Income before income taxes	8,664	7,062	7,749	7,702
Income tax expense	2,212	2,709	1,980	2,934
Net income	6,452	4,353	5,769	4,768
Less: Net income attributable to noncontrolling interest	75	69	83	129
Net income attributable to controlling interest	\$ 6,377	\$ 4,284	\$ 5,686	\$ 4,639
Basic earnings per share (Class A and Class B):				
Weighted average shares of common stock outstanding	32,065	31,828	32,056	31,825
Net income per share attributable to controlling interest	\$ 0.20	\$ 0.13	\$ 0.18	\$ 0.15
Diluted earnings per share (Class A and Class B):				
Weighted average shares and equivalents outstanding	32,414	32,318	32,439	32,344
Net income per share attributable to controlling interest	\$ 0.20	\$ 0.13	\$ 0.18	\$ 0.14

The accompanying notes are an integral part of these condensed consolidated financial statements.

DULUTH HOLDINGS INC.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(Amounts in thousands)

	Three Months Ended		Six Months Ended	
	July 29, 2018	July 30, 2017	July 29, 2018	July 30, 2017
Net income	\$ 6,452	\$ 4,353	\$ 5,769	\$ 4,768
Other comprehensive income	—	—	—	—
Comprehensive income	6,452	4,353	5,769	4,768
Comprehensive income attributable to noncontrolling interest	75	69	83	129
Comprehensive income attributable to controlling interest	\$ 6,377	\$ 4,284	\$ 5,686	\$ 4,639

The accompanying notes are an integral part of these condensed consolidated financial statements.

DULUTH HOLDINGS INC.
Condensed Consolidated Statement of Shareholders' Equity
(Unaudited)
(Amounts in thousands)

	Capital stock			Retained earnings	Noncontrolling interest in variable interest entity	Total shareholders' equity
	Shares	Amount	Treasury stock			
Balance at January 28, 2018	32,462	\$ 88,043	\$ (57)	\$ 48,084	\$ 3,279	\$ 139,349
Cumulative effect from adoption of ASC 606 (Footnote 1)	—	—	—	(648)	—	(648)
Balance at January 29, 2018	32,462	\$ 88,043	\$ (57)	\$ 47,436	\$ 3,279	\$ 138,701
Issuance of common stock	126	—	—	—	—	—
Amortization of stock-based compensation	—	858	—	—	—	858
Restricted stock surrendered for taxes	(2)	—	(35)	—	—	(35)
Net income	—	—	—	5,686	83	5,769
Balance at July 29, 2018	32,586	\$ 88,901	\$ (92)	\$ 53,122	\$ 3,362	\$ 145,293

The accompanying notes are an integral part of these condensed consolidated financial statements.

DULUTH HOLDINGS INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Amounts in thousands)

	Six Months Ended	
	July 29, 2018	July 30, 2017
Cash flows from operating activities:		
Net income	\$ 5,769	\$ 4,768
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	5,069	3,280
Amortization of stock-based compensation	858	617
Deferred income taxes	(323)	(418)
Changes in operating assets and liabilities:		
Accounts receivable	6	11
Other receivables	(63)	(70)
Inventory	(12,130)	(12,879)
Prepaid expense & other current assets	(2,265)	(2,749)
Deferred catalog costs	(1,483)	1,050
Trade accounts payable	818	6,641
Income taxes payable	(5,544)	(4,924)
Accrued expenses and deferred rent obligations	(3,297)	(7,495)
Net cash used in operating activities	(12,585)	(12,168)
Cash flows from investing activities:		
Purchases of property and equipment	(26,798)	(20,054)
Change in other assets	(527)	(6,495)
Purchases of other assets	—	(68)
Net cash used in investing activities	(27,325)	(26,617)
Cash flows from financing activities:		
Proceeds from line of credit	57,093	17,395
Payments on line of credit	(22,093)	(5,452)
Proceeds from long term debt	—	800
Payments on long term debt	(39)	(20)
Payments on capital lease obligations	(2)	(10)
Change in bank overdrafts	481	2,350
Proceeds from finance lease obligations	941	1,310
Capital contributions to variable interest entity	—	794
Shares withheld for tax payments on vested restricted shares	(35)	—
Other	58	21
Net cash provided by financing activities	36,404	17,188
Decrease in cash and restricted cash	(3,506)	(21,597)
Cash and restricted cash at beginning of period	7,083	25,477
Cash and restricted cash at end of period	\$ 3,577	\$ 3,880
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,925	\$ 472
Income taxes paid	\$ 7,852	\$ 8,340
Supplemental disclosure of non-cash information:		
Property and equipment acquired under build-to-suit leases	\$ 12,907	\$ 2,090
Unpaid liability to acquire property and equipment	\$ 2,452	\$ 4,411

The accompanying notes are an integral part of these condensed consolidated financial statements.

DULUTH HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

A. Nature of Operations

Duluth Holdings Inc. (“Duluth Trading” or the “Company”), a Wisconsin corporation, is a lifestyle brand of men’s and women’s casual wear, workwear and accessories sold exclusively through the Company’s own direct and retail channels. The direct segment, consisting of the Company’s website and catalogs, offers products nationwide. In 2010, the Company added retail to its omni-channel platform with the opening of its first store. Since then, Duluth Trading has expanded its retail presence, and as of July 29, 2018, the Company operated 36 retail stores and three outlet stores. The Company’s products are marketed under the Duluth Trading brand, with the majority of products being exclusively developed and sold as Duluth Trading branded merchandise.

The Company has two classes of authorized common stock: Class A common stock and Class B common stock. The rights of holders of Class A common stock and Class B common stock are identical, except for voting and conversion rights. Each share of Class A common stock is entitled to ten votes per share and is convertible at any time into one share of Class B common stock. Each share of Class B common stock is entitled to one vote per share. The Company’s Class B common stock trades on the NASDAQ Global Select Market under the symbol “DLTH.”

B. Basis of Presentation

The condensed consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”). The Company consolidates Schlecht Retail Ventures LLC (“SRV”) as a variable interest entity (see Note 6 “Variable Interest Entity”). All intercompany balances and transactions have been eliminated.

The Company’s fiscal year ends on the Sunday nearest to January 31 of the following year. Fiscal 2018 is a 53-week period and ends on February 3, 2019. Fiscal 2017 was a 52-week period and ended on January 28, 2018. The three and six months of fiscal 2018 and fiscal 2017 represent the Company’s 13 and 26-week periods ended July 29, 2018 and July 30, 2017, respectively.

The accompanying condensed consolidated financial statements as of and for the three and six months ended July 29, 2018 and July 30, 2017 have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and, in the opinion of the Company, include all adjustments (which are normal and recurring in nature) necessary to present fairly the financial position, results of operations and cash flows of the Company for the interim periods presented. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such SEC rules and regulations as of and for the three and six months ended July 29, 2018 and July 30, 2017. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s annual report on Form 10-K for the fiscal year ended January 28, 2018.

C. Seasonality of Business

The Company’s business is affected by the pattern of seasonality common to most retail apparel businesses. Historically, the Company has recognized a significant portion of its revenue and operating profit in the fourth fiscal quarter of each year as a result of increased sales during the holiday season.

D. Restricted Cash and Reconciliation of cash and restricted cash to the condensed statement of cash flows

The Company’s restricted cash is held in escrow accounts and is used to pay a portion of the construction loans entered into by third party landlords (the “Landlords”) in connection with the Company’s retail store leases. The restricted cash is disbursed based on the escrow agreements entered into by and among the Landlords, the Company and the escrow agent.

The following table provides a reconciliation of cash and restricted cash reported within the Condensed Consolidated Balance Sheet that sum to the total of the same such amounts shown in the Condensed Consolidated Statements of Cash Flows.

	<u>July 29, 2018</u>
<i>(in thousands)</i>	
Cash	\$ 2,423
Restricted cash	1,154
Total cash and restricted cash shown in the condensed consolidated statement of cash flows	<u>\$ 3,577</u>

DULUTH HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

E. Build-to-Suit Lease

The Company may at times be involved in the construction of stores to be leased by the Company and, depending on the extent to which the Company is involved, the Company may be deemed the owner of the leased premises for accounting purposes during the store construction period. Similarly, the Company's lease for its new headquarters is also treated as a build-to-suit lease transaction for accounting purposes during the construction period. For leases that the Company is deemed the owner of the property during the construction period, upon commencement of the construction project, the Company is required to capitalize the cash and non-cash assets contributed by the landlord for construction as property and equipment on the Company's Condensed Consolidated Balance Sheets. Upon the completion of the construction project, the Company performs an analysis on the lease to determine if the Company qualifies for sale-leaseback treatment. For those qualifying leases, the finance lease obligation and the associated property and equipment are removed and the difference is reclassified to either prepaid or deferred rent and amortized over the lease term as an increase or decrease to rent expense. If the lease does not qualify for sale-leaseback treatment, the finance lease obligation is amortized over the lease term based on the rent payments in the lease agreement and the associated property and equipment are depreciated over the estimated useful life.

As of July 29, 2018, the Company capitalized \$55.2 million in property and equipment and \$0.6 million in accumulated depreciation and recorded a \$40.5 million non-current liability related to build-to-suit transactions in which the Company is considered the owner for accounting purposes. As of January 28, 2018, the Company capitalized \$36.5 million in property and equipment and \$0.3 million in accumulated depreciation and recorded a \$26.6 million non-current liability related to build-to-suit transactions in which the Company is considered the owner for accounting purposes.

F. Significant Accounting Policies

Except as disclosed below, there have been no significant changes to the Company's significant accounting policies as described in the Company's Annual Report on Form 10-K for the year ended January 28, 2018.

Recently Adopted Accounting Pronouncements

On January 29, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASC 606"), which supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*. ASC 606 requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 also requires disclosure of the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted ASC 606 utilizing the modified retrospective approach, with the cumulative effect of initially applying the new standard recognized in retained earnings. As such, the comparative prior period information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of ASC 606 had the following effect beginning with the Company's January 29, 2018 financial statements: (1) revenues on direct sales are recognized upon shipment, which is when the customer obtains control of the product and reflects the consideration the Company expects to be entitled to in exchange for the product; (2) catalog costs are expensed upon receipt by customers; and (3) the estimated cost of inventory associated with sales returns reserve is presented within prepaid expense and other current assets rather than netted in product returns reserve within accrued expenses and other current liabilities on the condensed consolidated balance sheets. The adoption of ASC 606 did not have a material impact on the Company's condensed consolidated financial statements.

On January 29, 2018, the Company adopted ASU No. 2016-08, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASC 230"), which requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. As a result of the adoption of ASC 230, the Company no longer discloses changes in restricted cash on the statement of cash flows and discloses a reconciliation to the total cash and restricted cash balances on the condensed consolidated balance sheets (see item D above).

On January 29, 2018, the Company adopted ASU No. 2016-01, *Financial Instruments (Subtopic 825-10)* ("ASC 825-10"), which amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. The most significant impact relates to the accounting for equity instruments. The adoption of ASC 825-10 did not have a material impact on the Company's condensed consolidated financial statements.

DULUTH HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

G. Reclassifications

As discussed above in the significant accounting policies section, with the adoption of ASC 230, the prior year cash flows from investing activities have been reclassified:

	July 30, 2017
<i>(in thousands)</i>	
Net cash used in investing activities:	
As previously reported	\$ (27,651)
Reclassification based on adoption of ASC 230	1,034
As reclassified	\$ (26,617)

2. REVENUES

Effective January 29, 2018, the Company adopted ASC 606 using the modified retrospective method. The comparative information presented in the condensed consolidated financial statements is not restated and is reported under the accounting standards in effect for those periods presented. See Note 1 under “Significant Accounting Policies” for a discussion of the significant changes resulting from the adoption of ASC 606.

The Company’s revenue primarily consists of the sale of apparel, footwear and hard goods. For the Company’s direct segment, revenues are recognized upon shipment, which is when the customer obtains control of the product and has the ability to direct the use of the product, including, among other options, the ability to redirect the product to a different shipping destination. For the Company’s retail segment, revenues are recognized at the point of sale. The Company provides the customer the right of return on the product and revenue is adjusted based on an estimate of the expected returns based on historical rates as well as events that may cause changes to historical rates. The Company considers the sale of products in either the direct or retail segment as a single performance obligation. Shipping and processing revenue generated from customer orders are included as a component of net sales and shipping and processing expense, including handling expense, is included as a component of selling, general and administrative expenses. Sales tax collected from customers and remitted to taxing authorities is excluded from revenue and is included in accrued expenses.

The Company’s contract liabilities primarily consist of gift card liabilities and are recorded in accrued expenses and other current liabilities under deferred revenue (see Note 4 “Accrued Expenses and Other Current Liabilities”) on the Company’s condensed consolidated balance sheets. Upon the issuance of a gift card, a liability is established for its cash value. The gift card liability is relieved and revenues on gift cards are recorded at the time of redemption by the customer. Based on historical redemption patterns, gift cards are generally redeemed within one year and gift card breakage is not material.

The following table presents the impact of the adoption of ASC 606 on the Company’s condensed consolidated balance sheets as of January 29, 2018, the first day of fiscal 2018:

	January 28, 2018	Adjustments due to ASC 606	January 29, 2018
<i>(in thousands)</i>			
Inventory, net	\$ 89,548	\$ (629)	\$ 88,919
Prepaid expenses & other current assets	7,642	1,073	8,715
Deferred catalog costs	1,446	(1,365)	81
Total current assets	101,826	(921)	100,905
Total assets	223,102	(921)	222,181
Accrued expenses and other current liabilities	25,261	(45)	25,216
Income taxes payable	7,631	149	7,780
Total current liabilities	50,296	104	50,400
Deferred tax liabilities	2,100	(377)	1,723
Total liabilities	83,753	(273)	83,480
Total shareholders' equity	139,349	(648)	138,701
Total liabilities and shareholders' equity	223,102	(921)	222,181

DULUTH HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

The following tables present the effects of the adoption of ASC 606 on the Company's condensed consolidated balance sheets as of July 29, 2018 and the Company's condensed consolidated statements of operations for the three and six months ended July 29, 2018:

	July 29, 2018		
	As Reported	Adjustments due to ASC 606	Balances without Adoption of ASC 606
<i>(in thousands)</i>			
Inventory, net	\$ 102,365	\$ 914	\$ 103,279
Prepaid expenses & other current assets	10,256	(226)	10,030
Deferred catalog costs	1,213	93	1,306
Total current assets	116,639	781	117,420
Total assets	270,438	781	271,219
Accrued expenses and other current liabilities	20,522	1,843	22,365
Total current liabilities	42,779	1,843	44,622
Deferred tax liabilities	1,400	(276)	1,124
Total liabilities	125,145	1,566	126,711
Total shareholders' equity	145,293	(786)	144,507
Total liabilities and shareholders' equity	270,438	781	271,219

	July 29, 2018					
	Three Months Ended			Six Months Ended		
	As Reported	Adjustments due to ASC 606	Balances without Adoption of ASC 606	As Reported	Adjustments due to ASC 606	Balances without Adoption of ASC 606
<i>(in thousands)</i>						
Net sales	\$ 110,653	\$ 218	\$ 110,871	\$ 210,860	\$ (1,614)	\$ 209,246
Cost of goods sold (excluding depreciation and amortization)	48,413	(72)	48,341	92,680	(905)	91,775
Gross profit	62,240	290	62,530	118,180	(709)	117,471
Selling, general and administrative expenses	52,344	233	52,577	108,541	1,229	109,770
Operating income	9,896	57	9,953	9,639	(1,938)	7,701
Interest expense	1,234	—	1,234	2,055	—	2,055
Other income, net	2	—	2	165	—	165
Income before income taxes	8,664	57	8,721	7,749	(1,938)	5,811
Income tax expense	2,212	15	2,227	1,980	(504)	1,476
Net income	6,452	42	6,494	5,769	(1,434)	4,335
Less: Net income attributable to noncontrolling interest	75	—	75	83	—	83
Net income attributable to controlling interest	\$ 6,377	\$ 42	\$ 6,419	\$ 5,686	\$ (1,434)	\$ 4,252

DULUTH HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

3. DEBT AND LINE OF CREDIT

Debt consists of the following:

<i>(in thousands)</i>	July 29, 2018	January 28, 2018
SRV Mortgage Term A Note	\$ 671	\$ 690
SRV Mortgage Term B Note	763	783
Line of credit	35,000	—
Capitalized lease obligations	33	35
	\$ 36,467	\$ 1,508
Less: current maturities	85	84
Long-term debt	\$ 36,382	\$ 1,424

Schlecht Retail Ventures LLC

SRV entered into a mortgage note (“SRV Term A Note”) with an original balance of \$0.8 million. The SRV Term A Note was scheduled to mature in September 2017 and required monthly payments of \$3,300 plus interest at 3.1%, with a final balloon payment due in September 2017. On July 20, 2017, SRV refinanced the SRV Term A Note, which extended the maturity date to September 2022, with a final balloon payment in September 2022, and changed the interest rate to 3.69%. The required monthly payments of \$3,300 did not change.

On July 20, 2017, SRV entered into a mortgage note (“SRV Term B Note”) with an original balance of \$0.8 million. The SRV Term B Note matures in September 2022 and requires monthly payments of \$3,300 plus interest at 3.69%, with a final balloon payment in September 2022.

The SRV Term A Note and SRV Term B Note are guaranteed by the Company’s majority shareholder and collateralized by certain real property owned by SRV in Mt. Horeb, Wisconsin.

Line of Credit

On September 29, 2017, the Company entered into a first amendment to the Amended and Restated Loan Agreement dated as of October 7, 2016 (the “Amended and Restated Agreement”), providing for borrowing availability of up to \$60.0 million from September 29, 2017 through July 31, 2019. Effective November 1, 2017, the Company entered into a second amendment to the Amended and Restated Agreement, providing for borrowing availability of up to \$80.0 million from November 1, 2017 through December 31, 2017 and borrowing availability of up to \$60.0 million from January 1, 2018 through July 31, 2019. The Amended and Restated Agreement was scheduled to mature on July 31, 2019, and bore interest, payable monthly, at a rate equal to the adjusted LIBOR rate, as defined in the Amended and Restated Agreement. The Amended and Restated Agreement was secured by essentially all Company assets and required the Company to maintain compliance with certain financial and non-financial covenants, including minimum tangible net worth and a minimum trailing twelve month EBITDA. In addition, the Amended and Restated Agreement did not contain borrowing base limits.

Effective May 17, 2018, the Company terminated its Amended and Restated Agreement and entered into a new credit agreement (the “Credit Agreement”) which provides for borrowing availability of up to \$80.0 million in revolving credit (the “Revolver”), and borrowing availability of up to \$50.0 million in a delayed draw term loan (“DDTL”), for a total credit facility of \$130.0 million. The \$80.0 million revolving credit matures on May 17, 2023. The \$50.0 million DDTL is available to draw upon in differing amounts through May 17, 2020, and matures on May 17, 2023. The outstanding balance of \$27.5 million under the Amended and Restated Agreement was paid off with borrowings under the Credit Agreement. The Credit Agreement is secured by essentially all Company assets and requires the Company to maintain compliance with certain financial and non-financial covenants, including a maximum rent adjusted leverage ratio and a minimum fixed charge coverage ratio as defined in the Credit Agreement. At the Company’s option, the interest rate applicable to the Revolver or DDTL will be a floating rate equal to: (i) the base rate plus a margin of 25 to 100 basis points (“bps”), based upon the Company’s rent adjusted leverage ratio, or (ii) a fixed rate for a one-, two-, three- or six-month interest period equal to LIBOR for such interest period plus a margin of 125 to 200 bps, based upon the Company’s rent adjusted leverage ratio (effective rate of 3.3% at July 29, 2018). In addition, outstanding balances under the DDTL require quarterly principal payments with a final balloon payment at maturity.

As of July 29, 2018 and for the six months then ended, the Company was in compliance with all financial and non-financial covenants for all debts discussed above.

DULUTH HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

4. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

<i>(in thousands)</i>	<u>July 29, 2018</u>	<u>January 28, 2018</u>
Salaries and benefits	\$ 3,208	\$ 5,370
Deferred revenue	5,038	7,285
Freight	1,432	4,062
Product returns	756	1,080
Catalog costs	488	839
Unpaid purchases of property & equipment	2,452	2,028
Accrued advertising	2,340	1,011
Other	4,808	3,586
Total accrued expenses and other current liabilities	<u>\$ 20,522</u>	<u>\$ 25,261</u>

5. INVESTMENT

ASC Topic 820, *Fair Value Measurements and Disclosures* (“ASC 820”), defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., an exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction (or in a hypothetical transaction if an actual transaction does not exist) at the measurement date. ASC 820 describes a fair value hierarchy based on three levels of inputs that may be used to measure fair value, of which the first two are considered observable and the last unobservable, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

DULUTH HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

The carrying value of the Company's available-for-sale security was valued based on a discounted cash flow method (Level 3).

	July 29, 2018			January 28, 2018	
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Estimated Fair Value
<i>(in thousands)</i>					
Level 3 security:					
Corporate trust	\$ 6,323	\$ —	\$ —	\$ 6,323	\$ 6,323

The following table presents future principal receipts related to the Company's available-for-sale security by contractual maturity as of July 29, 2018. Cost and estimated fair value are equal.

	Estimated Fair Value
<i>(in thousands)</i>	
Within one year	\$ 84
After one year through five years	780
After five years through ten years	1,263
After ten years	4,196
Total	<u>\$ 6,323</u>

6. VARIABLE INTEREST ENTITY

Based upon the criteria set forth in ASC 810, *Consolidation*, the Company has determined that it was the primary beneficiary of one variable interest entity ("VIE") as of July 29, 2018 and January 28, 2018, as the Company absorbs significant economics of the entity and has the power to direct the activities that are considered most significant to the entity.

The Company leases certain retail store facilities and office buildings from SRV, a VIE whose primary purpose and activity is to own this real property. SRV is a Wisconsin limited liability company that is owned by the majority shareholder of the Company. The Company considers itself the primary beneficiary for SRV as the Company is expected to receive a majority of SRV's expected residual returns based on the activity of SRV. As the Company is the primary beneficiary, it consolidates SRV and the leases are eliminated in consolidation.

The condensed consolidated balance sheets include the following amounts as a result of the consolidation of SRV as of July 29, 2018 and January 28, 2018:

	July 29, 2018	January 28, 2018
<i>(in thousands)</i>		
Cash	\$ 726	\$ 655
Other receivables	17	10
Property and equipment, net	4,064	4,114
Other assets, net	12	53
Total assets	<u>\$ 4,819</u>	<u>\$ 4,832</u>
Other current liabilities	\$ 104	\$ 160
Long-term debt	1,353	1,393
Noncontrolling interest in VIE	3,362	3,279
Total liabilities and shareholders' equity	<u>\$ 4,819</u>	<u>\$ 4,832</u>

DULUTH HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

On August 18, 2017, the Company entered into a lease agreement with TRI Holdings, LLC (“TRI”), the developer of the Company’s future headquarters in Mt. Horeb, Wisconsin. The Company expects to take occupancy of the future headquarters on November 1, 2018. The Company determined it had a variable interest in TRI, however, the Company does not consolidate TRI, as the Company is not the primary beneficiary. In conjunction with the lease, the Company invested \$6.3 million in a trust (see Note 5 “Investment”) that loaned funds to TRI for the construction of the Company’s future headquarters. The Company does not consolidate the trust as the Company is not the primary beneficiary.

7. EARNINGS PER SHARE

Earnings per share is computed under the provisions of ASC 260, *Earnings Per Share*. Basic earnings per share is based on the weighted average number of common shares outstanding for the period. Diluted earnings per share is based on the weighted average number of common shares plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding restricted stock. The reconciliation of the numerator and denominator of the basic and diluted earnings per share calculation is as follows:

	Three Months Ended		Six Months Ended	
	July 29, 2018	July 30, 2017	July 29, 2018	July 30, 2017
<i>(in thousands, except per share data)</i>				
Numerator - net income attributable to controlling interest	\$ 6,377	\$ 4,284	\$ 5,686	\$ 4,639
Denominator - weighted average shares (Class A and Class B)				
Basic	32,065	31,828	32,056	31,825
Dilutive shares	349	490	383	519
Diluted	<u>32,414</u>	<u>32,318</u>	<u>32,439</u>	<u>32,344</u>
Earnings per share (Class A and Class B)				
Basic	\$ 0.20	\$ 0.13	\$ 0.18	\$ 0.15
Diluted	\$ 0.20	\$ 0.13	\$ 0.18	\$ 0.14

8. STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation plan in accordance with ASC 718, *Stock Compensation*, which requires the Company to measure all share-based payments at grant date fair value and recognize the cost over the requisite service period of the award.

Total stock compensation expense associated with restricted stock recognized by the Company was \$0.5 million and \$0.9 million for the three and six month ended July 29, 2018, respectively, and \$0.3 million and \$0.6 million for the three and six months ended July 30, 2017, respectively. The Company’s total stock compensation expense is included in selling, general and administrative expenses on the Condensed Consolidated Statements of Operations.

A summary of the activity in the Company’s unvested restricted stock during the six months ended July 29, 2018 is as follows:

	Shares	Weighted average fair value per share
Outstanding at January 28, 2018	536,471	\$ 7.60
Granted	126,404	18.20
Vested	(144,534)	5.89
Forfeited	(221)	22.66
Outstanding at July 29, 2018	<u>518,120</u>	<u>\$ 10.37</u>

DULUTH HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

At July 29, 2018, the Company had unrecognized compensation expense of \$3.5 million related to the restricted stock awards, which is expected to be recognized over a weighted average period of 2.4 years.

9. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>July 29, 2018</u>	<u>January 28, 2018</u>
<i>(in thousands)</i>		
Land and land improvements	\$ 3,055	\$ 3,055
Leasehold improvements	27,891	20,985
Buildings	43,968	33,906
Vehicles	161	177
Warehouse equipment	6,160	5,850
Office equipment and furniture	28,644	22,161
Computer equipment	4,157	3,573
Software	15,491	7,540
	<u>129,527</u>	<u>97,247</u>
Accumulated depreciation and amortization	(27,741)	(22,739)
	<u>101,786</u>	<u>74,508</u>
Construction in progress	43,014	35,197
Property and equipment, net	<u>\$ 144,800</u>	<u>\$ 109,705</u>

10. SEGMENT REPORTING

The Company has two operating segments, which are also its reportable segments: direct and retail. The direct segment includes net sales from the Company's website and catalogs. The retail segment includes net sales from the Company's retail and outlet stores. These two operating segments are components of the Company for which separate financial information is available and for which operating results are evaluated on a regular basis by the chief operating decision maker in deciding how to allocate resources and in assessing performance of the segments.

Income tax expense, and corporate expenses, which include but are not limited to: human resources, legal, finance, information technology, design and other corporate-related expenses are included in the Company's direct segment. Interest expense, depreciation and amortization, and property and equipment expenditures, are recognized in each segment. Advertising expenses are generally included in the Company's direct segment, except for specific store advertising, which is included in the Company's retail segment.

Net sales outside of the United States were insignificant. Variable allocations of assets are not made for segment reporting. The Company does not have any assets outside of the United States.

DULUTH HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

Segment information is presented in the following table:

	Three Months Ended		Six Months Ended	
	July 29, 2018	July 30, 2017	July 29, 2018	July 30, 2017
<i>(in thousands)</i>				
Net sales				
Direct	\$ 60,833	\$ 57,667	\$ 127,045	\$ 121,442
Retail	49,820	28,559	83,815	48,471
Total net sales	<u>\$ 110,653</u>	<u>\$ 86,226</u>	<u>\$ 210,860</u>	<u>\$ 169,913</u>
Operating income (loss)				
Direct	\$ 1,123	\$ 3,125	\$ (1,005)	\$ 2,968
Retail	8,773	4,264	10,644	5,170
Total operating income	9,896	7,389	9,639	8,138
Interest expense	1,234	372	2,055	538
Other income, net	2	45	165	102
Income before income taxes	<u>\$ 8,664</u>	<u>\$ 7,062</u>	<u>\$ 7,749</u>	<u>\$ 7,702</u>

Net sales by business is presented in the following table:

	Three Months Ended		Six Months Ended	
	July 29, 2018	July 30, 2017	July 29, 2018	July 30, 2017
<i>(in thousands)</i>				
Net sales				
Men's	\$ 75,434	\$ 59,872	\$ 143,354	\$ 118,506
Women's	29,625	21,557	56,785	42,363
Hard goods/other	5,594	4,797	10,721	9,044
Total net sales	<u>\$ 110,653</u>	<u>\$ 86,226</u>	<u>\$ 210,860</u>	<u>\$ 169,913</u>

Segment total assets is presented in the following table:

	July 29, 2018	January 28, 2018
<i>(in thousands)</i>		
Direct	\$ 162,092	\$ 133,866
Retail	108,346	89,236
Total assets at period end	<u>\$ 270,438</u>	<u>\$ 223,102</u>

DULUTH HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

11. INCOME TAXES

The provision for income taxes for the interim period is based on an estimate of the annual effective tax rate adjusted to reflect the impact of discrete items. Management judgment is required in projecting ordinary income to estimate the Company's annual effective tax rate. The effective tax rate related to controlling interest was 26% for both the three and six months ended July 29, 2018 and 39% for both the three and six months ended July 30, 2017. The decrease in the Company's effective tax rate was primarily due to U.S. tax reform, which was effective January 1, 2018. The income from SRV was excluded from the calculation of the Company's effective tax rate, as SRV is a limited liability company and not subject to income taxes.

12. RECENT ACCOUNTING PRONOUNCEMENTS

Leases

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases* (Topic 842) ("ASU 2016-02"), which requires lessees to recognize most leases on the balance sheets (right-of-use asset and lease liability), but recognize expenses on the income statements in a manner that is similar to the current lease standard. The provisions of ASU 2016-02 are effective for public entities with fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The Company will adopt ASU 2016-02 on February 4, 2019, the first day of the Company's first quarter for the fiscal year ending February 2, 2020, the Company's fiscal year 2019. The Company is currently evaluating the full effect that adoption of ASU 2016-02 will have on its financial condition, results of operations and disclosures. The Company conducts its retail operations through leased stores and therefore, upon adoption, the Company expects to have an increase in assets and liabilities on its consolidated financial statements, due to recording of right-to-use assets and the corresponding lease liabilities, which is expected to be material.

13. SUBSEQUENT EVENTS

Management of the Company evaluated its July 29, 2018 unaudited condensed consolidated financial statements for subsequent events through September 6, 2018, the date the financial statements were available to be issued. Management is not aware of any subsequent events which would require recognition or additional disclosure in the financial statements.

[Table of Contents](#)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with the financial statements and related notes of Duluth Holdings Inc. included in Item 1 of this Quarterly Report on Form 10-Q and with our audited financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018 (“2017 Form 10-K”).

The three and six months of fiscal 2018 and fiscal 2017 represent our 13 and 26-week periods ended July 29, 2018 and July 30, 2017, respectively.

Unless the context indicates otherwise, the terms the “Company,” “Duluth,” “Duluth Trading,” “we,” “our,” or “us” are used to refer to Duluth Holdings Inc.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. All statements other than statements of historical or current facts included in this Quarterly Report on Form 10-Q are forward-looking statements. Forward looking statements refer to our current expectations and projections relating to our financial condition, results of operations, plans, objectives, strategies, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “could,” “estimate,” “expect,” “project,” “plan,” “potential,” “intend,” “believe,” “may,” “might,” “will,” “objective,” “should,” “would,” “can have,” “likely,” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected earnings, revenue, costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties, including the risks and uncertainties described under Part I, Item 1A “Risk Factors,” in our 2017 Form 10-K, which factors are incorporated by reference herein. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. We qualify all of our forward-looking statements by these cautionary statements.

We undertake no obligation to update or revise these forward-looking statements, except as required under the federal securities laws.

Overview

We are a rapidly growing lifestyle brand of men’s and women’s casual wear, workwear and accessories sold exclusively through our own direct and retail channels. The direct segment, consisting of our website and catalogs, offers products nationwide and represented 55.0% and 60.3% of our consolidated net sales for the three and six months ended July 29, 2018, respectively, and 66.9% and 71.5% of our consolidated net sales for the three and six months ended July 30, 2017, respectively. In 2010, we added retail to our omni-channel platform with the opening of our first store. Since then, we have expanded our retail presence, and as of July 29, 2018, we operated 36 retail stores and three outlet stores. Net sales for our retail segment represented 45.0% and 39.7% of our consolidated net sales for the three and six months ended July 29, 2018 and 33.1% and 28.5% of consolidated net sales for the three and six months ended July 30, 2017, respectively.

We offer a comprehensive line of innovative, durable and functional products, such as our Longtail T® shirts, Buck Naked™ underwear, Fire Hose® work pants, and No-Yank® Tank, which reflect our position as the Modern, Self-Reliant American Lifestyle brand. Our brand has a heritage in workwear that transcends tradesmen and appeals to a broad demographic for everyday and on-the-job use.

From our heritage as a catalog for those working in the building trades, Duluth Trading has become a widely recognized brand and proprietary line of innovative and functional apparel and gear. Over the last decade, we have created strong brand awareness, built a loyal customer base and generated robust sales momentum. We have done so by sticking to our roots of “there’s gotta be a better way” and through our relentless focus on providing our customers with quality, functional products.

A summary of our financial results is as follows:

- Net sales have increased year-over-year for 34 consecutive quarters through July 29, 2018;
- Net sales in fiscal 2018 second quarter increased by 28.3% over the prior year second quarter to \$110.7 million and net sales in the first six months of fiscal 2018 increased by 24.1% over the first six months of the prior year to \$210.9 million;

[Table of Contents](#)

- Net income in fiscal 2018 second quarter increased by 48.9% over the prior year second quarter to \$6.4 million and net income in the first six months of fiscal 2018 increased by 22.6% over the first six months of the prior year to \$5.7 million;
- Adjusted EBITDA in fiscal 2018 second quarter increased by 38.6% over the prior year second quarter to \$13.1 million and adjusted EBITDA in the first six months of fiscal 2018 increased by 29.6% over the first six months of the prior year to \$15.7 million;
- We opened six new stores in fiscal 2018 second quarter and eight new stores in the first six months of fiscal 2018, adding approximately 132,000 of gross square footage in fiscal 2018; and
- Our retail stores have achieved and are expected to continue to achieve an average payback of less than two years.

See “Reconciliation of Net Income to EBITDA and EBITDA to Adjusted EBITDA” section for a reconciliation of our net income to EBITDA and EBITDA to Adjusted EBITDA, both of which are non-U.S. GAAP financial measures. See also the information under the heading “Adjusted EBITDA” in the section “How We Assess the Performance of Our Business” for our definition of Adjusted EBITDA.

Our business is seasonal, and as a result, our net sales fluctuate from quarter to quarter, which often affects the comparability of our results between quarters. Net sales are historically higher in the fourth quarter of our fiscal year due to the holiday selling season.

We are pursuing several strategies to continue our growth, including building brand awareness to continue customer acquisition, accelerating retail expansion, selectively broadening assortments in certain men’s product categories and growing our women’s business.

How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of financial and operating measures that affect our operating results.

Net Sales

Net sales reflect our sale of merchandise plus shipping and handling revenue collected from our customers, less returns and discounts. Direct sales are recognized upon shipment of the product and retail sales are recognized at the point of sale. We also use net sales as one of the key financial metrics in determining our annual bonus compensation for our employees.

Gross Profit

Gross profit is equal to our net sales less cost of goods sold. Gross profit as a percentage of our net sales is referred to as gross margin. Cost of goods sold includes the direct cost of purchased merchandise; inventory shrinkage; inventory adjustments due to obsolescence, including excess and slow-moving inventory and lower of cost and net realizable reserves; inbound freight; and freight from our distribution centers to our retail stores. The primary drivers of the costs of individual goods are raw material costs. Depreciation and amortization are excluded from gross profit. We expect gross profit to increase to the extent that we successfully grow our net sales. Given the size of our direct segment sales relative to our total net sales, shipping and handling revenue has had a significant impact on our gross profit and gross profit margin. Historically, this revenue has partially offset shipping and handling expense included in selling, general and administrative expenses. We have experienced declines in shipping and handling revenues, and this trend is expected to continue. Declines in shipping and handling revenues may have a material adverse effect on our gross profit and gross profit margin, as well as Adjusted EBITDA to the extent there are not commensurate declines, or if there are increases, in our shipping and handling expense. Our gross profit may not be comparable to other retailers, as we do not include distribution network and store occupancy expenses in calculating gross profit, but instead we include them in selling, general and administrative expenses.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include all operating costs not included in cost of goods sold. These expenses include all payroll and payroll-related expenses and occupancy expenses related to our stores and to our operations at our headquarters, including utilities, depreciation and amortization. They also include marketing expense, which primarily includes television advertising, catalog production, mailing and print advertising costs, as well as all logistics costs associated with shipping product to our customers, consulting and software expenses and professional services fees. Selling, general and administrative expenses as a percentage of net sales is usually higher in lower-volume quarters and lower in higher-volume quarters because a portion of the costs are relatively fixed.

[Table of Contents](#)

Our historical sales growth has been accompanied by increased selling, general and administrative expenses. The most significant components of these increases are advertising, marketing and payroll costs. While we expect these expenses to increase as we continue to open new stores, increase brand awareness and grow our organization to support our growing business, we believe these expenses will decrease as a percentage of sales over time.

Adjusted EBITDA

We believe Adjusted EBITDA is a useful measure of operating performance, as it provides a clearer picture of operating results by excluding the effects of financing and investing activities by eliminating the effects of interest and depreciation costs and eliminating expenses that are not reflective of underlying business performance. We use Adjusted EBITDA to facilitate a comparison of our operating performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting our business. We also use Adjusted EBITDA as one of the key financial metrics in determining our annual bonus compensation for our employees.

We define Adjusted EBITDA as consolidated net income (loss) before depreciation and amortization, interest expense and provision for income taxes adjusted for the impact of certain items, including non-cash and other items we do not consider representative of our ongoing operating performance. We believe Adjusted EBITDA is less susceptible to variances in actual performance resulting from depreciation, amortization and other items.

[Table of Contents](#)

Results of Operations

The following table summarizes our unaudited consolidated results of operations for the periods indicated, both in dollars and as a percentage of net sales.

	Three Months Ended		Six Months Ended	
	July 29, 2018	July 30, 2017	July 29, 2018	July 30, 2017
<i>(in thousands)</i>				
Direct net sales	\$ 60,833	\$ 57,667	\$ 127,045	\$ 121,442
Retail net sales	49,820	28,559	83,815	48,471
Net sales	110,653	86,226	210,860	169,913
Cost of goods sold (excluding depreciation and amortization)	48,413	37,303	92,680	72,347
Gross profit	62,240	48,923	118,180	97,566
Selling, general and administrative expenses	52,344	41,534	108,541	89,428
Operating income	9,896	7,389	9,639	8,138
Interest expense	1,234	372	2,055	538
Other income, net	2	45	165	102
Income before income taxes	8,664	7,062	7,749	7,702
Income tax expense	2,212	2,709	1,980	2,934
Net income	6,452	4,353	5,769	4,768
Less: Net income attributable to noncontrolling interest	75	69	83	129
Net income attributable to controlling interest	\$ 6,377	\$ 4,284	\$ 5,686	\$ 4,639
Percentage of Net sales:				
Direct net sales	55.0 %	66.9 %	60.3 %	71.5 %
Retail net sales	45.0 %	33.1 %	39.7 %	28.5 %
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold (excluding depreciation and amortization)	43.8 %	43.3 %	44.0 %	42.6 %
Gross profit	56.2 %	56.7 %	56.0 %	57.4 %
Selling, general and administrative expenses	47.3 %	48.2 %	51.5 %	52.6 %
Operating income	8.9 %	8.6 %	4.6 %	4.8 %
Interest expense	1.1 %	0.4 %	1.0 %	0.3 %
Other income, net	0.0 %	0.1 %	0.1 %	0.1 %
Income before income taxes	7.8 %	8.2 %	3.7 %	4.5 %
Income tax expense	2.0 %	3.1 %	0.9 %	1.7 %
Net income	5.8 %	5.0 %	2.7 %	2.8 %
Less: Net income attributable to noncontrolling interest	0.1 %	0.1 %	0.0 %	0.1 %
Net income attributable to controlling interest	5.8 %	5.0 %	2.7 %	2.7 %

Three Months Ended July 29, 2018 Compared to Three Months Ended July 30, 2017

Net Sales

Net sales increased \$24.5 million, or 28.3%, to \$110.7 million in the three months ended July 29, 2018 compared to \$86.2 million in the three months ended July 30, 2017, driven by gains in both direct and retail segments of \$3.2 million, or 5.5%, and \$21.3 million, or 74.4%, respectively, with gains across virtually all product categories and in both men's and women's business. Our website visits increased 15% in the three months ended July 29, 2018 compared to the three months ended July 30, 2017. The increase in retail net sales was primarily due to having 16 more stores during the three months ended July 29, 2018 as compared to the three months ended July 30, 2017.

[Table of Contents](#)

Gross Profit

Gross profit increased \$13.3 million, or 27.2%, to \$62.2 million in the three months ended July 29, 2018 compared to \$48.9 million in the three months ended July 30, 2017. As a percentage of net sales, gross margin decreased 50 basis points to 56.2% of net sales in the three months ended July 29, 2018, compared to 56.7% of net sales in the three months ended July 30, 2017. The decrease in gross margin rate was primarily attributable to a decline in shipping revenues and an increase in freight cost, partially offset by a slight increase in product margin.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$10.8 million, or 26.0%, to \$52.3 million in the three months ended July 29, 2018 compared to \$41.5 million in the three months ended July 30, 2017. Selling, general and administrative expenses as a percentage of net sales decreased 90 basis points to 47.3% in the three months ended July 29, 2018, compared to 48.2% in the three months ended July 30, 2017. The increase in selling, general and administrative expenses was attributable to an increase of \$0.9 million in advertising and marketing costs, \$4.1 million in selling expenses and \$5.8 million in general and administrative expenses.

As a percentage of net sales, advertising and marketing costs decreased 310 basis points to 14.3% in the three months ended July 29, 2018, compared to 17.4% in the three months ended July 30, 2017. The 310 basis point decrease in advertising and marketing costs as a percentage of net sales was primarily attributable to a decrease of 150 basis points in catalog costs due to a planned decrease in catalog spend as a percentage of net sales, coupled with advertising leverage gained from a higher mix of retail sales as compared to the three months ended July 30, 2017.

As a percentage of net sales, selling expenses increased 60 basis points to 14.7% in the three months ended July 29, 2018, compared to 14.1% in the three months ended July 30, 2017, primarily due to an increase in customer service due to our growth in retail, partially offset by a decrease in shipping expenses due to leverage from an increase in the proportion of retail net sales.

As a percentage of net sales, general and administrative expenses increased 160 basis points to 18.3% in the three months ended July 29, 2018, compared to 16.7% in the three months ended July 30, 2017. The 160 basis point increase was primarily attributable to an increase in depreciation and occupancy cost due to growth of our business.

Segment Operating Income

Corporate expenses are included in our direct segment and the majority of advertising costs are included in our direct segment, with the exception of retail-specific advertising. As such, our direct segment is generally burdened with higher overhead and advertising expenses. In addition, for our build to suit leases, a portion of the lease expense is included in interest expense.

Direct segment operating income was \$1.1 million in the three months ended July 29, 2018 compared to income of \$3.1 million in the three months ended July 30, 2017. Direct segment operating income as a percentage of direct net sales decreased 360 basis points to 1.8% in the three months ended July 29, 2018 compared to 5.4% in the three months ended July 30, 2017. The 360 basis point decline was primarily due to a decline of 60 basis points in direct gross margins, based on the factors discussed above in gross profit, coupled with an increase in selling expenses of 110 basis points due to increased distribution costs, an increase of 310 basis points in general and administrative expenses due to an increase in personnel costs and consulting fees and outside services to support the growth of our direct business, partially offset by a decline of 110 basis points in advertising and marketing. The decrease of 110 basis points in advertising and marketing costs was primarily due to a decrease in catalog costs as discussed above.

Retail segment operating income increased \$4.5 million to \$8.8 million in the three months ended July 29, 2018 compared to \$4.3 million in the three months ended July 30, 2017. Retail segment operating income as a percentage of retail net sales increased 280 basis points to 17.7% in the three months ended July 29, 2018 compared to 14.9% in the three months ended July 30, 2017. The 280 basis point increase was due to an increase of 20 basis point in retail gross margins, based on the factors discussed above in gross profit, in addition to a decrease of 260 basis points in selling, general and administrative expenses due to leverage gained from higher retail net sales.

Interest Expense

Interest expense was \$1.2 million in the three months ended July 29, 2018, compared to \$0.4 million in the three months ended July 30, 2017. The increase in interest expense was primarily attributable to an increase in our build-to-suit retail stores, coupled with a higher outstanding debt balance during the quarter as compared to the prior year.

[Table of Contents](#)

Income Tax Expense

Income tax expense was \$2.2 million in the three months ended July 29, 2018, compared to \$2.7 million in the three months ended July 30, 2017. Our effective tax rate related to controlling interest was 26% and 39% for the three months ended July 29, 2018 and July 30, 2017, respectively. The decrease in our effective tax rate was primarily due to the U.S. tax reform, which was effective January 1, 2018.

Net Income

Net income increased \$2.1 million, or 48.9% to \$6.4 million, in the three months ended July 29, 2018 compared to \$4.3 million in the three months ended July 30, 2017, primarily due to the factors discussed above.

Six Months Ended July 29, 2018 Compared to Six Months Ended July 30, 2017

Net Sales

Net sales increased \$41.0 million, or 24.1%, to \$210.9 million in the six months ended July 29, 2018 compared to \$169.9 million in the six months ended July 30, 2017, driven by gains in both direct and retail segments of \$5.6 million, or 4.6%, and \$35.3 million, or 72.9%, respectively, with gains across virtually all product categories and in both men's and women's business. Our website visits increased 15% in the six months ended July 29, 2018 compared to the six months ended July 30, 2017. The increase in retail net sales was primarily attributable to the same factors discussed above for the three months ended July 29, 2018 compared to the three months ended July 30, 2017.

Gross profit increased \$20.6 million, or 21.1%, to \$118.2 million in the six months ended July 29, 2018 compared to \$97.6 million in the six months ended July 30, 2017. As a percentage of net sales, gross margin decreased 140 basis points to 56.0% of net sales in the six months ended July 29, 2018, compared to 57.4% of net sales in the six months ended July 30, 2017. The decrease in gross margin rate was primarily attributable to the continued decline in shipping revenue and a slight decrease in product margin due to an increase in clearance sales from the first quarter of fiscal 2018.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$19.1 million, or 21.4%, to \$108.5 million in the six months ended July 29, 2018 compared to \$89.4 million in the six months ended July 30, 2017. Selling, general and administrative expenses as a percentage of net sales decreased 110 basis points to 51.5% in the six months ended July 29, 2018, compared to 52.6% in the six months ended July 30, 2017. The increase in selling, general and administrative expenses was attributable to an increase of \$1.4 million in advertising and marketing costs, \$8.0 million in selling expenses and \$9.7 million in general and administrative expenses.

As a percentage of net sales, advertising and marketing costs decreased 340 basis points to 17.8% in the six months ended July 29, 2018, compared to 21.2% in the six months ended July 30, 2017. The 340 basis point decrease in advertising and marketing costs as a percentage of net sales was primarily attributable to a decrease of 230 basis points in catalog costs due to the adoption of the new revenue standard which provides for catalog costs expensed upon customer receipt and a planned decrease in catalog spend as a percentage of net sales, coupled with advertising leverage gained from a higher mix of retail sales as compared to the six months ended July 30, 2017.

As a percentage of net sales, selling expenses increased 100 basis points to 15.3% in the six months ended July 29, 2018, compared to 14.3% in the six months ended July 30, 2017, primarily due to an increase in customer service due to our growth in retail, partially offset by a decrease in shipping expenses attributable to the leverage gained from an increase in the proportion of retail net sales.

[Table of Contents](#)

As a percentage of net sales, general and administrative expenses increased 130 basis points to 18.4% in the six months ended July 29, 2018, compared to 17.1% in the six months ended July 30, 2017. The 130 basis point increase was primarily attributable to an increase in depreciation and occupancy cost due to growth of our business.

Segment Operating (Loss) Income

Corporate expenses are included in our direct segment and the majority of advertising costs are included in our direct segment, with the exception of retail-specific advertising. As such, our direct segment is generally burdened with higher overhead and advertising expenses. In addition, for our build to suit leases, a portion of the lease expense is included in interest expense.

Direct segment operating loss of \$1.0 million in the six months ended July 29, 2018 compared to operating income of \$3.0 million in the six months ended July 30, 2017. Direct segment operating (loss) income as a percentage of direct net sales decreased 320 basis points to (0.8)% in the six months ended July 29, 2018 compared to 2.4% in the six months ended July 30, 2017. The 320 basis point decline was primarily due to a decline of 150 basis points in direct gross margins, based on the factors discussed above in gross profit, coupled with an increase in selling, general and administrative expenses of 180 basis points was primarily attributable to the same factors discussed above for the three months ended July 29, 2018 compared to the three months ended July 30, 2017.

Retail segment operating income increased \$5.4 million to \$10.6 million in the six months ended July 29, 2018 compared to \$5.2 million in six months ended July 30, 2017. Retail segment operating income as a percentage of retail net sales increased 200 basis points to 12.7% in the six months ended July 29, 2018 compared to 10.7% in the six months ended July 30, 2017. The 200 basis point increase was primarily due to a decline of 60 basis points in retail gross margins, based on the factors discussed above in gross profit, coupled with a decrease in selling, general and administrative expenses of 260 basis points was primarily attributable to the same factors discussed above for the three months ended July 29, 2018 compared to the three months ended July 30, 2017.

Interest Expense

Interest expense was \$2.1 million in the six months ended July 29, 2018, compared to \$0.5 million in the six months ended July 30, 2017. The increase in interest expense was primarily attributable to an increase in our build-to-suit retail stores, coupled with a higher outstanding debt balance during the quarter as compared to the prior year.

Income Tax Expense

Income tax expense was \$2.0 million in the six months ended July 29, 2018, compared to income tax expense of \$2.9 million in the six months ended July 30, 2017. Our effective tax rate related to controlling interest was 26% and 39%, for the six months ended July 29, 2018 and July 30, 2017, respectively.

Net Income

Net income increased \$1.0 million, or 22.6% to \$5.7 million, in the six months ended July 29, 2018 compared to a net income of \$4.6 million in the six months ended July 30, 2017, primarily due to the factors discussed above.

Reconciliation of Net Income to EBITDA and EBITDA to Adjusted EBITDA

The following table presents reconciliations of net income to EBITDA and EBITDA to Adjusted EBITDA, both of which are non-U.S. GAAP financial measures, for the periods indicated below. See the above section titled "How We Assess the Performance of Our Business," for our definition of Adjusted EBITDA.

	Three Months Ended		Six Months Ended	
	July 29, 2018	July 30, 2017	July 29, 2018	July 30, 2017
<i>(in thousands)</i>				
Net income	\$ 6,452	\$ 4,353	\$ 5,769	\$ 4,768
Depreciation and amortization	2,760	1,728	5,069	3,280
Interest expense	1,234	372	2,055	538
Income tax expense	2,212	2,709	1,980	2,934
EBITDA	\$ 12,658	\$ 9,162	\$ 14,873	\$ 11,520
Non-cash stock based compensation	449	293	858	617
Adjusted EBITDA	\$ 13,107	\$ 9,455	\$ 15,731	\$ 12,137

[Table of Contents](#)

As a result of the factors discussed above in the “Results of Operations” section, Adjusted EBITDA increased \$3.7 million, or 38.6%, to \$13.1 million in the three months ended July 29, 2018 compared to \$9.5 million in the three months ended July 30, 2017. As a percentage of net sales, Adjusted EBITDA increased 80 basis points to 11.8% of net sales in the three months ended July 29, 2018 compared to 11.0% of net sales in the three months ended July 30, 2017.

As a result of the factors discussed above in the “Results of Operations” section, Adjusted EBITDA increased \$3.6 million, or 29.6%, to \$15.7 million in the six months ended July 29, 2018 compared to \$12.1 million in the six months ended July 30, 2017. As a percentage of net sales, Adjusted EBITDA increased 40 basis points to 7.5% of net sales in the six months ended July 29, 2018 compared to 7.1% of net sales in the six months ended July 30, 2017.

Liquidity and Capital Resources

General

Our business relies on cash from operating activities and a credit facility as our primary sources of liquidity. Effective May 17, 2018, we entered into a new credit facility which provides for borrowing of up to \$80.0 million on a revolving line of credit and an additional \$50.0 million delayed draw term loan. The \$80.0 million revolving line of credit matures on May 17, 2023 and we have the option to draw in various amounts on the \$50.0 million term loan through May 17, 2020, with a maturity on May 17, 2023. Our primary cash needs have been for inventory, marketing and advertising, payroll, store leases, capital expenditures associated with opening new stores, infrastructure and information technology. The most significant components of our working capital are cash, inventory, accounts payable and other current liabilities.

We expect to spend approximately \$45.0 million to \$55.0 million in fiscal 2018 on capital expenditures, net of proceeds from finance lease obligations, including a total of approximately \$27.0 million to \$32.0 million for new retail store expansion and remodels. We expect capital expenditures of approximately \$2.0 million and starting inventory of \$0.5 million to open a new store. At July 29, 2018, our net working capital was \$73.9 million, including \$2.4 million of cash. Due to the seasonality of our business, a significant amount of cash from operating activities is generated during the fourth quarter of our fiscal year. During the first three quarters of our fiscal year, we typically are net users of cash in our operating activities as we acquire inventory in anticipation of our peak selling season, which occurs in the fourth quarter of our fiscal year. We also use cash in our investing activities for capital expenditures throughout all four quarters of our fiscal year.

We believe that our cash flow from operating activities and the availability of cash under our revolving line of credit will be sufficient to cover working capital requirements and anticipated capital expenditures and for funding our growth strategy for the foreseeable future.

Cash Flow Analysis

A summary of operating, investing and financing activities is shown in the following table.

	Six Months Ended	
	July 29, 2018	July 30, 2017
<i>(in thousands)</i>		
Net cash used in operating activities	\$ (12,585)	\$ (12,168)
Net cash used in investing activities	(27,325)	(26,617)
Net cash provided by financing activities	36,404	17,188
Decrease in cash and restricted cash	\$ (3,506)	\$ (21,597)

Net Cash used in Operating Activities

Operating activities consist primarily of net income adjusted for non-cash items that include depreciation and amortization, stock-based compensation and the effect of changes in assets and liabilities.

While our cash flows from operations for the six months ended July 29, 2018 is negative, primarily driven by the seasonal nature of our business, we expect cash flows from operations for the full year fiscal 2018 to be positive from normal operating performance and seasonal reductions in working capital during the fourth quarter of our fiscal year, which is consistent with previous full fiscal years.

[Table of Contents](#)

For the six months ended July 29, 2018, net cash used in operating activities was \$12.6 million, which consisted of net income of \$5.8 million, non-cash depreciation and amortization of \$5.1 million and stock based compensation of \$0.9 million, offset by cash used in operating assets and liabilities of \$24.0 million. The cash used in operating assets and liabilities of \$24.0 million primarily consisted of a \$12.1 million increase in inventory, primarily due to our sales increase and building up of inventory for the opening of new retail stores during fiscal 2018 and our peak season, a \$2.3 million increase in prepaid expenses and other current assets due to an increase in estimated expected inventory returns, a \$5.5 million decrease in income tax payable primarily due to timing of payments, and a \$3.3 million decrease in accrued expenses and deferred rent obligations.

For the six months ended July 30, 2017, net cash used in operating activities was \$12.2 million, which consisted of net income of \$4.8 million, non-cash depreciation and amortization of \$3.3 million and stock based compensation of \$0.6 million, offset by cash used in operating assets and liabilities of \$20.4 million. The cash used in operating assets and liabilities of \$20.4 million primarily consisted of a \$12.9 million increase in inventory, primarily due to sales increase and building up of inventory for the opening of new retail stores during fiscal 2017 and our peak season, a \$7.5 million decrease in accrued expenses and deferred rent obligations and a \$4.9 million decrease in income taxes payable primarily due to timing of payments, which was partially offset by an increase in trade accounts payable of \$6.6 million.

Net Cash Used in Investing Activities

Investing activities consist primarily of capital expenditures for growth related to new store openings, information technology and enhancements for our distribution and corporate facilities.

For the six months ended July 29, 2018, net cash used in investing activities was \$27.3 million and was primarily driven by capital expenditures of \$26.8 million for new retail stores and retail store build-out, as well as investments in information technology.

For the six months ended July 30, 2017, net cash used in investing activities was \$26.6 million and was primarily driven by capital expenditures of \$20.1 million for the opening of seven new retail stores and investments in information technology and \$6.5 million increase in other assets primarily related to funds advanced to the Company's developer in connection with building our headquarters (see Note 6 "Variable Interest Entities," of Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q).

Net Cash Provided by Financing Activities

Financing activities consist primarily of borrowings and payments related to our revolving line of credit and other long-term debts, as well as distributions to holders of the noncontrolling interest in our variable interest entity Schlecht Retail Ventures LLC ("SRV"), proceeds from finance lease obligations and capital contributions to SRV.

For the six months ended July 29, 2018, net cash provided by financing activities was \$36.4 million, primarily consisting of proceeds of \$35.0 million, net from our revolving line of credit to fund working capital and capital expenditures and \$1.0 million from finance lease obligations in connection with our build-to-suit lease transactions.

For the six months ended July 30, 2017, net cash provided by financing activities was \$17.2 million, primarily consisting of proceeds of \$11.9 million, net from our revolving line of credit, \$0.8 million from long-term debt, \$2.3 million in change in bank overdraft, \$1.3 million from our finance lease obligations in connection with our build-to-suit lease transactions and \$0.8 million for capital contributions to SRV.

Line of Credit

On September 29, 2017, we entered into a first amendment to the Amended and Restated Loan Agreement dated as of October 7, 2016 (the "Amended and Restated Agreement"), providing for borrowing availability of up to \$60.0 million from September 29, 2017 through July 31, 2019. Effective November 1, 2017, the Company entered into a second amendment to the Amended and Restated Agreement, providing for borrowing availability of up to \$80.0 million from November 1, 2017 through December 31, 2017 and borrowing availability of up to \$60.0 million from January 1, 2018 through July 31, 2019. The Amended and Restated Agreement was scheduled to mature on July 31, 2019, and bore interest, payable monthly, at a rate equal to the adjusted LIBOR rate, as defined in the Amended and Restated Agreement. The Amended and Restated Agreement was secured by essentially all Company assets and required the Company to maintain compliance with certain financial and non-financial covenants, including minimum tangible net worth and a minimum trailing twelve month EBITDA. In addition, the Amended and Restated Agreement did not contain borrowing base limits.

[Table of Contents](#)

Effective May 17, 2018, we entered into a new credit agreement and subsequently terminated our Amended and Restated Agreement. The outstanding balance of \$27.5 million under the Amended and Restated Agreement was paid off with borrowings under the new credit agreement. The new credit agreement is secured by essentially all Company assets and requires that we maintain compliance with certain financial and non-financial covenants, including a trailing twelve month maximum rent adjusted leverage ratio and minimum fixed charge coverage ratio. See Note 3 “Debt and Line of Credit,” included in this Quarterly Report on Form 10-Q for further information.

As of July 29, 2018 and for the six months then ended, the Company was in compliance with all financial and non-financial covenants for all debts discussed above and expects to be in compliance for the remainder of fiscal 2018.

Contractual Obligations

There have been no significant changes to our contractual obligations as described in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018.

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements, except for operating leases.

Critical Accounting Policies and Critical Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the related disclosures of contingent assets and liabilities at the date of the financial statements. We evaluate our accounting policies, estimates, and judgments on an on-going basis. We base our estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions and such differences could be material to the consolidated financial statements.

As of the date of this filing, there were no significant changes to any of the critical accounting policies and estimates described in our 2017 Form 10-K, except as discussed below.

Recently Adopted Accounting Pronouncements

On January 29, 2018, we adopted authoritative guidance related to revenue recognition from contracts with customers using the modified retrospective (cumulative-effect) approach. As such, the comparative prior period information has not been restated and continues to be reported under the accounting standards in effect for those periods. Beginning with the first quarter of fiscal 2018, our financial results reflect adoption of the standard.

On January 29, 2018, we adopted authoritative guidance related to restricted cash, which requires companies to include restricted cash in total cash and cash equivalents on the statement of cash flows. As a result, we no longer disclose the changes in restricted cash on the statement of cash flows and disclose a reconciliation to the total cash and restricted cash balances on the condensed consolidated balance sheets.

On January 29, 2018, we adopted authoritative guidance related to financial instruments, which amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. The most significant impact relates to the accounting for equity instruments. The adoption did not have a material impact on our condensed consolidated financial statements.

See Note 1 “Nature of Operations and Basis of Presentation,” of Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1, of this quarterly report on Form 10-Q for further information regarding recently adopted accounting pronouncements.

Recent Accounting Pronouncements

See Note 12 “Recent Accounting Pronouncements,” of Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1, of this quarterly report on Form 10-Q for information regarding recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the market risks described in our 2017 Form 10-K. See Note 3 “Debt and Line of Credit,” of Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1, of this quarterly report on Form 10-Q, for disclosure on our interest rate related to our line of credit.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Section 13a-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), requires management of an issuer subject to the Exchange Act to evaluate, with the participation of the issuer’s principal executive and principal financial officers, or persons performing similar functions, the effectiveness of the issuer’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act), as of the end of each fiscal quarter. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(d) and 15d-15(d) under the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are subject to certain legal proceedings and claims in the ordinary course of business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, financial condition, operating results or cash flows. We establish reserves for specific legal matters when we determine that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable.

Item 1A. Risk Factors

We operate in a rapidly changing environment that involves a number of risks that may have a material adverse effect on our business, financial condition and results of operations. For a detailed discussion of the risks that affect our business, please refer to the section entitled “Risk Factors” in our 2017 Form 10-K. There have been no material changes to our risk factors as previously disclosed in our Annual Report on Form 10-K, except as discussed below.

We could be required to collect additional sales taxes or be subject to other tax liabilities that may increase the costs our customers would have to pay for our products and could have an adverse effect on our business, financial condition and results of operations.

An increasing number of states have considered or adopted laws that attempt to impose tax collection obligations on out-of-state companies. Additionally, the Supreme Court of the United States recently ruled in *South Dakota v. Wayfair, Inc. et al*, or *Wayfair*, that online sellers can be required to collect sales and use tax despite not having a physical presence in the buyer’s state. In response to *Wayfair*, or otherwise, states or local governments may adopt, or begin to enforce, laws requiring us to calculate, collect and remit taxes on sales in their jurisdictions. A successful assertion by one or more states requiring us to collect taxes where we presently do not do so, or to collect more taxes in a jurisdiction in which we currently do collect some taxes, could result in substantial tax liabilities, including taxes on past sales, as well as penalties and interest. The imposition by state governments or local governments of sales tax collection obligations on out-of-state sellers could also create additional administrative burdens for us and decrease our future sales, which could have an impact on our business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We did not sell any equity securities during the quarter ended July 29, 2018, which were not registered under the Securities Act.

[Table of Contents](#)

Item 6. Exhibits

EXHIBIT INDEX

Exhibit No.	
10.1	Credit Agreement, dated as of May 17, 2018, among Duluth Holdings Inc., as the borrower, BMO Harris Bank N.A., as Administrative Agent, Swingline Lender and L/C Issuer, the Other Lenders Party Thereto, and BMO Capital Markets Corp., as Sole Lead Arranger and Sole Book Runner, incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated May 17, 2018.
10.2	General Security Agreement, dated of May 17, 2018, by and between Duluth Holdings Inc. and BMO Harris Bank N.A., incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K dated May 17, 2018.
10.3	Summary of Outside Director Compensation, incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated June 29, 2018.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities and Exchange Act, as amended.*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended.*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of 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**

* Filed herewith

** 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.

Date: September 6, 2018

DULUTH HOLDINGS INC.
(Registrant)

/s/ DAVID LORETTA

David Loretta

Senior Vice President and Chief Financial Officer

*(On behalf of the Registrant as Principal Financial Officer
and Principal Accounting Officer)*

CERTIFICATIONS

I, Stephanie L. Pugliese, Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Duluth Holdings Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: September 6, 2018

/s/ Stephanie L. Pugliese
Stephanie L. Pugliese
Chief Executive Officer

CERTIFICATIONS

I, David Loretta, Chief Financial Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Duluth Holdings Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: September 6, 2018

/s/ David Loretta
David Loretta
Chief Financial Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Duluth Holdings Inc. (the "Company") for the quarterly period ended July 29, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephanie L. Pugliese, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Name: /s/ Stephanie L. Pugliese
 Stephanie L. Pugliese
Title: **Chief Executive Officer**
Date: **September 6, 2018**

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section. This certification shall not be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Duluth Holdings Inc. (the “Company”) for the quarterly period ended July 29, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David Loretta, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David Loretta

Name: **David Loretta**
Title: **Chief Financial Officer**
Date: **September 6, 2018**

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section. This certification shall not be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.
