

**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 August 4, 2019

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)

**201 East Front Street**  
**Mount Horeb, Wisconsin**  
(Address of principal executive offices)

**53572**  
(Zip Code)

**(608) 424-1544**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class B Common Stock, No Par Value	DLTH	NASDAQ Global Select Market

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, every Interactive Data File required to be submitted 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 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	<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 10, 2019, was 3,364,200.  
The number of shares outstanding of the Registrant's Class B common stock, no par value, as of September 10, 2019, was 29,368,320.

**DULUTH HOLDINGS INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR QUARTER ENDED August 4, 2019**  
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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

<b>ASSETS</b>	<b>August 4, 2019</b>	<b>February 3, 2019</b>
Current Assets:		
Cash	\$ 3,468	\$ 731
Accounts receivable	372	28
Other receivables	5,992	4,611
Inventory, less reserve for excess and obsolete items of \$1,262 and \$2,420, respectively	114,849	97,685
Prepaid expenses & other current assets	12,225	12,640
Prepaid catalog costs	568	2,503
Total current assets	<u>137,474</u>	<u>118,198</u>
Property and equipment, net	136,427	167,109
Operating lease right-of-use assets	115,053	—
Finance lease right-of-use assets	32,872	—
Restricted cash	2,688	2,354
Available-for-sale security	6,239	6,295
Goodwill	402	402
Other intangible asset, net of accumulated amortization of \$290 and \$280, respectively	292	306
Other assets, net	2,648	641
Total assets	<u>\$ 434,095</u>	<u>\$ 295,305</u>

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

**DULUTH HOLDINGS INC**  
**Condensed Consolidated Balance Sheets – Liabilities and Equity**  
**(Unaudited)**  
**(Amounts in thousands)**

	August 4, 2019	February 3, 2019
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$ 36,255	\$ 25,363
Accrued expenses and other current liabilities	23,693	26,530
Income taxes payable	—	218
Current portion of operating lease liabilities	9,825	—
Current portion of finance lease liabilities	1,072	—
Current maturities of long-term debt	525	500
Total current liabilities	71,370	52,611
Long-term debt, less current maturities	28,016	28,283
Finance lease obligations under build-to-suit leases	—	23,034
Operating lease liabilities, less current maturities	101,173	—
Finance lease liabilities, less current maturities	26,208	—
Long-term line of credit	45,000	16,542
Deferred tax liabilities	9,028	9,722
Deferred rent obligations, less current maturities	—	5,003
Total liabilities	280,795	135,195
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 10,000 shares authorized; no shares issued or outstanding as of August 4, 2019 and February 3, 2019	—	—
Common stock (Class A), no par value; 10,000 shares authorized; 3,364 shares issued and outstanding as of August 4, 2019 and February 3, 2019	—	—
Common stock (Class B), no par value; 200,000 shares authorized; 29,388 shares issued and 29,369 shares outstanding as of August 4, 2019 and 29,215 shares issued and 29,210 shares outstanding as of February 3, 2019	—	—
Treasury stock, at cost; 19 and 5 shares as of August 4, 2019 and February 3, 2019, respectively	(405)	(92)
Capital stock	91,075	89,849
Retained earnings	63,032	70,592
Total shareholders' equity of Duluth Holdings Inc.	153,702	160,349
Noncontrolling interest	(402)	(239)
Total shareholders' equity	153,300	160,110
Total liabilities and shareholders' equity	\$ 434,095	\$ 295,305

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	
	August 4, 2019	July 29, 2018	August 4, 2019	July 29, 2018
Net sales	\$ 121,963	\$ 110,653	\$ 236,207	\$ 210,860
Cost of goods sold (excluding depreciation and amortization)	57,159	48,413	110,485	92,680
Gross profit	64,804	62,240	125,722	118,180
Selling, general and administrative expenses	61,069	52,344	132,091	108,541
Operating income (loss)	3,735	9,896	(6,369)	9,639
Interest expense	1,203	1,234	1,631	2,055
Other (loss) income, net	(8)	2	196	165
Income (loss) before income taxes	2,524	8,664	(7,804)	7,749
Income tax expense (benefit)	678	2,212	(2,005)	1,980
Net income (loss)	1,846	6,452	(5,799)	5,769
Less: Net (loss) income attributable to noncontrolling interest	(90)	75	(163)	83
Net income (loss) attributable to controlling interest	\$ 1,936	\$ 6,377	\$ (5,636)	\$ 5,686
<b>Basic earnings (loss) per share (Class A and Class B):</b>				
Weighted average shares of common stock outstanding	32,288	32,065	32,253	32,056
Net income (loss) per share attributable to controlling interest	\$ 0.06	\$ 0.20	\$ (0.17)	\$ 0.18
<b>Diluted earnings (loss) per share (Class A and Class B):</b>				
Weighted average shares and equivalents outstanding	32,399	32,414	32,253	32,439
Net income (loss) per share attributable to controlling interest	\$ 0.06	\$ 0.20	\$ (0.17)	\$ 0.18

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	
	August 4, 2019	July 29, 2018	August 4, 2019	July 29, 2018
Net income (loss)	\$ 1,846	\$ 6,452	\$ (5,799)	\$ 5,769
Other comprehensive income	—	—	—	—
Comprehensive income (loss)	1,846	6,452	(5,799)	5,769
Comprehensive (loss) income attributable to noncontrolling interest	(90)	75	(163)	83
Comprehensive income (loss) attributable to controlling interest	<u>\$ 1,936</u>	<u>\$ 6,377</u>	<u>\$ (5,636)</u>	<u>\$ 5,686</u>

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)**

	Six Months Ended August 4, 2019					
	Capital stock			Retained earnings	Noncontrolling interest in variable interest entity	Total shareholders' equity
	Shares	Amount	Treasury stock			
Balance at February 3, 2019	32,574	\$ 89,849	\$ (92)	\$ 70,592	\$ (239)	\$ 160,110
Cumulative effect from adoption of ASC 842	—	—	—	(1,924)	—	(1,924)
Balance at February 4, 2019	32,574	89,849	(92)	68,668	(239)	158,186
Issuance of common stock	149	134	—	—	—	134
Stock-based compensation	—	433	—	—	—	433
Restricted stock forfeitures	(6)	—	—	—	—	—
Restricted stock surrendered for taxes	(15)	—	(277)	—	—	(277)
Net loss	—	—	—	(7,572)	(73)	(7,645)
Balance at May 5th, 2019	32,703	\$ 90,416	\$ (369)	\$ 61,096	\$ (312)	\$ 150,831
Issuance of common stock	32	146	—	—	—	146
Stock-based compensation	—	513	—	—	—	513
Restricted stock forfeitures	(2)	—	—	—	—	—
Restricted stock surrendered for taxes	—	—	(36)	—	—	(36)
Net income (loss)	—	—	—	1,936	(90)	1,846
Balance at August 4, 2019	32,733	\$ 91,075	\$ (405)	\$ 63,032	\$ (402)	\$ 153,300

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)**

	Six Months Ended July 29, 2018					
	Capital stock		Treasury stock	Retained earnings	Noncontrolling interest in variable interest entity	Total shareholders' equity
	Shares	Amount				
Balance at January 28, 2018	32,462	\$ 88,043	\$ (57)	\$ 48,084	\$ 3,279	\$ 139,349
Cumulative effect from adoption of ASC 606	—	—	—	(648)	—	(648)
Balance at January 29, 2018	32,462	\$ 88,043	\$ (57)	\$ 47,436	\$ 3,279	\$ 138,701
Issuance of common stock	106	—	—	—	—	—
Restricted stock surrendered for taxes	(2)	—	(35)	—	—	(35)
Stock-based compensation	—	409	—	—	—	409
Net (loss) income	—	—	—	(691)	8	(683)
Balance at April 29, 2018	32,566	\$ 88,452	\$ (92)	\$ 46,745	\$ 3,287	\$ 138,392
Issuance of common stock	20	—	—	—	—	—
Stock-based compensation	—	449	—	—	—	449
Net income	—	—	—	6,377	75	6,452
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	
	August 4, 2019	July 29, 2018
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (5,799)	\$ 5,769
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	9,405	5,069
Stock based compensation	1,029	858
Deferred income taxes	(694)	(323)
Changes in operating assets and liabilities:		
Accounts receivable	(344)	6
Other receivables	(1,381)	(63)
Inventory	(17,164)	(12,130)
Prepaid expense & other current assets	1,508	(2,265)
Deferred catalog costs	1,935	(1,483)
Trade accounts payable	10,766	818
Income taxes payable	(218)	(5,544)
Accrued expenses and deferred rent obligations	(7,088)	(3,297)
Net cash used in operating activities	(8,045)	(12,585)
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(13,773)	(26,798)
Capital contributions towards build-to-suit stores	(3,013)	—
Principal receipts from available-for-sale security	56	—
Change in other assets	17	(527)
Net cash used in investing activities	(16,713)	(27,325)
<b>Cash flows from financing activities:</b>		
Proceeds from line of credit	104,871	57,093
Payments on line of credit	(76,413)	(22,093)
Payments on long term debt	(240)	(39)
Payments on finance lease obligations	(273)	(2)
Change in bank overdrafts	—	481
Proceeds from finance lease obligations	—	941
Shares withheld for tax payments on vested restricted shares	(313)	(35)
Other	197	58
Net cash provided by financing activities	27,829	36,404
Increase (decrease) in cash and restricted cash	3,071	(3,506)
Cash and restricted cash at beginning of period	3,085	7,083
Cash and restricted cash at end of period	\$ 6,156	\$ 3,577
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 1,712	\$ 1,925
Income taxes paid	\$ 562	\$ 7,852
<b>Supplemental disclosure of non-cash information:</b>		
Property and equipment acquired under build-to-suit leases	\$ —	\$ 12,907
Unpaid liability to acquire property and equipment	\$ 509	\$ 2,452

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 August 4, 2019, the Company operated 52 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 TRI Holdings, LLC (“TRI”) as a variable interest entity (see Note 6 “Variable Interest Entity” for further information). 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 2019 is a 52-week period and ends on February 2, 2020. Fiscal 2018 was a 53-week period and ended on February 3, 2019. The three and six months of fiscal 2019 and fiscal 2018 represent the Company’s 13 and 26-week periods ended August 4, 2019 and July 29, 2018, respectively.

The accompanying condensed consolidated financial statements as of and for the three and six months ended August 4, 2019 and July 29, 2018 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 August 4, 2019 and July 29, 2018. 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 February 3, 2019.

***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***

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.

***E. 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 February 3, 2019.

***F. Reclassifications***

Certain reclassifications have been made to the 2018 financial statements in order to conform to the 2019 presentation. There were no changes to previously reported shareholders’ equity or net income as a result of the reclassifications.

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

*Recently Adopted Accounting Pronouncements*

On February 4, 2019, the Company adopted Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)* (“ASC 842”) and related amendments. ASC 842 requires lessees to (i) recognize a right-of-use asset and a lease liability that is initially measured at the present value of the remaining lease payments, on the consolidated balance sheets, (ii) recognize a single lease cost, calculated over the lease term on a straight-line basis and (iii) classify lease related cash payments within operating and financing activities.

The Company adopted ASC 842 utilizing the optional transition method, which allows guidance to be initially applied at the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings. The Company elected the package of practical expedients, which allows the Company to forgo reassessing prior conclusions on lease definition, classification and initial direct costs related to existing leases as of the adoption date. The Company elected not to recognize short-term leases on the consolidated balance sheets and all non-lease components, such as common area maintenance, were excluded.

The Company’s existing lease arrangements consist of both operating leases and build-to-suit leases. Under ASC 842, the Company is still required to evaluate whether it is deemed to be the owner of the leased property for accounting purposes during the store construction period, however, the prescriptive rules under ASC 840 have been removed. The Company evaluated its existing build-to-suit leases as of the adoption date and determined that the Company is not the owner of the leased premises during the construction period, which resulted in the derecognition of its build-to-suit assets and liabilities that were previously reported on the Company’s consolidated balance sheets. As of February 4, 2019, substantially all of the previous build-to-suit leases are classified as operating leases.

The impact of the adoption was a \$121.8 million right-of-use asset (“ROU asset”) with an offsetting \$115.5 million lease liability, which is net of \$4.9 million of previously recognized straight-line operating lease adjustments on existing leases and \$11.2 million of unamortized initial direct costs. The lease liabilities at February 4, 2019 reflect remaining lease payments discounted using an incremental borrowing rate based on the remaining lease term (the “Discount”), as an implicit rate was not readily determinable for any of the Company’s existing leases. See Note 2 “Leases,” for further information.

## **2. LEASES**

Effective February 4, 2019, the Company adopted ASC 842, which resulted in a recognition of ROU assets and lease liabilities related to leases on the Company’s consolidated balance sheets. The Company determines if an arrangement is, or contains, a lease at inception. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities reflect the obligation to make lease payments arising from the lease. At any given time during the lease term, the lease liability represents the present value of the remaining lease payments and the ROU asset is measured at the amount of the lease liability, adjusted for pre-paid rent, unamortized initial direct costs and the remaining balance of lease incentives received. Both the lease ROU asset and liability are reduced to zero at the end of the lease.

The Company leases retail space under non-cancelable lease agreements, which expire on various dates through 2036. Substantially all of these arrangements are store leases. Store leases generally have initial lease terms ranging from five to fifteen years with renewal options and rent escalation provisions. At the commencement of a lease, the Company includes only the initial lease term as the option to extend is not reasonably certain. The Company does not record leases with a lease term of 12 months or less on the Company’s consolidated balance sheets.

When calculating the lease liability on a discounted basis, the Company applies its estimated Discount. The Company bases this Discount on a collateralized interest rate as well as publicly available data for instruments with similar characteristics.

In addition to rent payments, leases for retail space contain payments for real estate taxes, insurance costs, common area maintenance, and utilities that are not fixed. The Company accounts for these costs as variable payments and does not include such costs as a lease component.

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

The expense components of the Company's leases reflected on the Company's consolidated statement of operations were as follows:

<b>Consolidated Statement of Operations</b>		<b>Three Months Ended August 4, 2019</b>	<b>Six Months Ended August 4, 2019</b>
<i>(in thousands)</i>			
<b>Finance lease</b>			
Amortization of right-of-use assets	Selling, general and administrative expenses	\$ 548	\$ 626
Interest on lease liabilities	Interest expense	375	434
<b>Total finance lease expense</b>		<b>\$ 923</b>	<b>\$ 1,060</b>
<b>Operating lease expense</b>			
Amortization of build-to-suit leases capital contribution	Selling, general and administrative expenses	265	479
Variable lease expense	Selling, general and administrative expenses	2,040	3,652
<b>Total lease expense</b>		<b>\$ 6,709</b>	<b>\$ 12,350</b>

Other information related to leases were as follows:

	<b>Six Months Ended August 4, 2019</b>
<i>(in thousands)</i>	
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Financing cash flows from finance leases	\$ 273
Operating cash flows from finance leases	\$ 434
Operating cash flows from operating leases	\$ 6,384
<b>Right-of-use assets obtained in exchange for lease liabilities:</b>	
Finance leases	\$ 26,559
Operating leases	\$ 5,939
<b>Weighted-average remaining lease term (in years):</b>	
Finance leases	15
Operating leases	10
<b>Weighted-average discount rate:</b>	
Finance leases	4.5%
Operating leases	4.3%

Future minimum lease payments under the non-cancellable leases are as follows as of August 4, 2019:

<b>Fiscal year</b>	<b>Finance</b>	<b>Operating</b>
<i>(in thousands)</i>		
2019 (remainder of fiscal year)	\$ 1,135	\$ 7,082
2020	2,269	13,994
2021	2,269	13,365
2022	2,269	13,586
2023	2,291	13,772
Thereafter	27,877	77,325
<b>Total future minimum lease payments</b>	<b>\$ 38,110</b>	<b>\$ 139,124</b>
Less – Discount	10,830	28,126
<b>Lease liability</b>	<b>\$ 27,280</b>	<b>\$ 110,998</b>

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

Prior to the adoption of ASC 842, the minimum lease payments under non-cancellable operating leases were as follows as of February 3, 2019:

Fiscal year	Operating Leases		
	Related party	Other	Total
<i>(in thousands)</i>			
2019	\$ 147	\$ 15,598	\$ 15,745
2020	144	16,013	16,157
2021	147	15,327	15,474
2022	149	15,444	15,593
2023	136	15,648	15,784
Thereafter	—	112,098	112,098
<b>Total future minimum lease payments</b>	<b>\$ 723</b>	<b>\$ 190,128</b>	<b>\$ 190,851</b>

Subsequent to the issuance of the May 5, 2019 interim financial statements, the Company concluded that four build-to-suit leases, which commenced during the first quarter of 2019 following the adoption of ASC 842, should have reclassified from operating to finance leases. The reclassification was corrected during the three months ended August 4, 2019. The Company has assessed the impact of the reclassification with the May 5, 2019 interim financial statements and determined the reclassification to be immaterial.

**3. DEBT AND LINE OF CREDIT**

Debt consists of the following:

	August 4, 2019	February 3, 2019
<i>(in thousands)</i>		
TRI Senior Secured Note	\$ 25,041	\$ 25,251
TRI Note	3,500	3,500
Capital lease obligations	—	32
	\$ 28,541	\$ 28,783
Less: current maturities	525	500
Long-term debt	\$ 28,016	\$ 28,283
Line of credit	\$ 45,000	\$ 16,542

**TRI Holdings, LLC**

TRI entered into a senior secured note (“TRI Senior Secured Note”) with an original balance of \$26.7 million. The TRI Senior Secured Note is scheduled to mature on October 15, 2038 and requires installment payments with an interest rate of 4.95%. See Note 6 “Variable Interest Entities” for further information.

TRI entered into a promissory note (“TRI Note”) with an original balance of \$3.5 million. The TRI Note is scheduled to mature in November 2038 and requires annual interest payments at a rate of 3.05%, with a final balloon payment due in November 2038.

While the above notes are consolidated in accordance with ASC Topic 810, *Consolidation*, the Company is not the guarantor nor obligor of these notes.

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

**Line of Credit**

On May 17, 2018, the Company entered into a 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 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 3.8% at August 4, 2019). In addition, outstanding balances under the DDTL require quarterly principal payments with a final balloon payment at maturity.

As of August 4, 2019 and for the six months then ended, the Company was in compliance with all financial and non-financial covenants for all debts discussed above.

**4. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

	August 4, 2019	February 3, 2019
<i>(in thousands)</i>		
Salaries and benefits	\$ 2,365	\$ 2,328
Deferred revenue	6,861	8,493
Freight	998	4,141
Product returns	2,001	2,088
Catalog costs	3	503
Unpaid purchases of property & equipment	509	433
Accrued advertising	5,596	389
Other	5,360	8,155
<b>Total accrued expenses and other current liabilities</b>	<b>\$ 23,693</b>	<b>\$ 26,530</b>

**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 fair value of the Company's available-for-sale security was valued based on a discounted cash flow method (Level 3), which incorporates the U.S. Treasury yield curve, credit information and an estimate of future cash flows. As of August 4, 2019, the carrying value of the Company's available-for-sale security approximates its fair value.

	August 4, 2019			February 3, 2019	
	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	\$ 6,239	\$ —	\$ —	\$ 6,239	\$ 6,295

The following table presents future principal receipts related to the Company's available-for-sale security by contractual maturity as of August 4, 2019. Cost and estimated fair value are equal.

	Estimated Fair Value
<i>(in thousands)</i>	
Within one year	\$ 124
After one year through five years	866
After five years through ten years	1,378
After ten years	3,871
Total	\$ 6,239

**6. VARIABLE INTEREST ENTITY**

Based upon the criteria set forth in ASC 810, *Consolidation*, the Company consolidates variable interest entities ("VIEs") in which it has a controlling financial interest and is therefore deemed the primary beneficiary. A controlling financial interest will have both of the following characteristics: (a) the power to direct the VIE activities that most significantly impact economic performance; and (b) the obligation to absorb the VIE losses and the right to receive benefits that are significant to the VIE. The Company has determined that it was the primary beneficiary of one variable interest entity ("VIE") as of August 4, 2019 and February 3, 2019.

The Company leases the Company's headquarters in Mt. Horeb, Wisconsin from TRI. In conjunction with the lease, the Company invested \$6.3 million in a trust that loaned funds to TRI for the construction of the Company's headquarters. TRI is a Wisconsin limited liability company whose primary purpose and activity is to own this real property. The Company considers itself the primary beneficiary for TRI as the Company has both the power to direct the activities that most significantly impact the entity's economic performance and is expected to receive benefits that are significant to TRI. As the Company is the primary beneficiary, it consolidates TRI and the lease is eliminated in consolidation. The Company does not consolidate the trust as the Company is not the primary beneficiary.

The condensed consolidated balance sheets include the following amounts as a result of the consolidation of TRI as of August 4, 2019 and February 3, 2019:

	August 4, 2019	February 3, 2019
<i>(in thousands)</i>		
Cash	\$ 445	\$ 434
Property and equipment, net	27,488	28,146
Other assets, net	327	—
Total assets	\$ 28,260	\$ 28,580
Other current liabilities	\$ 121	\$ 68
Long-term debt	28,541	28,751
Noncontrolling interest in VIE	(402)	(239)
Total liabilities and shareholders' equity	\$ 28,260	\$ 28,580

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

**7. EARNINGS (LOSS) PER SHARE**

Earnings (loss) per share is computed under the provisions of ASC 260, *Earnings Per Share*. Basic earnings (loss) per share is based on the weighted average number of common shares outstanding for the period. Diluted earnings (loss) 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 (loss) per share calculation is as follows:

	Three Months Ended		Six Months Ended	
	August 4, 2019	July 29, 2018	August 4, 2019	July 29, 2018
<i>(in thousands, except per share data)</i>				
Numerator - net income (loss) attributable to controlling interest	\$ 1,936	\$ 6,377	\$ (5,636)	\$ 5,686
Denominator - weighted average shares (Class A and Class B)				
Basic	32,288	32,065	32,253	32,056
Dilutive shares	111	349	—	383
Diluted	<u>32,399</u>	<u>32,414</u>	<u>32,253</u>	<u>32,439</u>
Income (loss) per share (Class A and Class B)				
Basic	\$ 0.06	\$ 0.20	\$ (0.17)	\$ 0.18
Diluted	\$ 0.06	\$ 0.20	\$ (0.17)	\$ 0.18

The computation of diluted earnings (loss) per share excluded 0.2 million shares of unvested restricted stock for the six months ended August 4, 2019 because their inclusion would be anti-dilutive due to a net loss.

**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 months ended for both August 4, 2019 and July 29, 2018, 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 August 4, 2019 is as follows:

	Shares	Weighted average fair value per share
Outstanding at February 3, 2019	321,657	\$ 14.29
Granted	165,190	17.73
Vested	(61,262)	18.86
Forfeited	(7,858)	19.23
Outstanding at August 4, 2019	<u>417,727</u>	<u>\$ 14.89</u>

At August 4, 2019, the Company had unrecognized compensation expense of \$4.3 million related to the restricted stock awards, which is expected to be recognized over a weighted average period of 2.9 years.



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

**9. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

<i>(in thousands)</i>	August 4, 2019	February 3, 2019
Land and land improvements	\$ 4,486	\$ 4,486
Leasehold improvements	40,161	32,765
Buildings	36,486	71,469
Vehicles	161	161
Warehouse equipment	13,155	13,051
Office equipment and furniture	43,879	36,473
Computer equipment	6,194	5,072
Software	25,669	24,939
	170,191	188,416
Accumulated depreciation and amortization	(43,526)	(34,203)
	126,665	154,213
Construction in progress	9,762	12,896
Property and equipment, net	\$ 136,427	\$ 167,109

**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.

Segment information is presented in the following table:

<i>(in thousands)</i>	Three Months Ended		Six Months Ended	
	August 4, 2019	July 29, 2018	August 4, 2019	July 29, 2018
<b>Net sales</b>				
Direct	\$ 60,267	\$ 60,833	\$ 125,968	\$ 127,045
Retail	61,696	49,820	110,239	83,815
Total net sales	\$ 121,963	\$ 110,653	\$ 236,207	\$ 210,860
<b>Operating income (loss)</b>				
Direct	\$ (4,146)	\$ 1,123	\$ (16,825)	\$ (1,005)
Retail	7,881	8,773	10,456	10,644
Total operating income (loss)	3,735	9,896	(6,369)	9,639
Interest expense	1,203	1,234	1,631	2,055
Other (loss) income, net	(8)	2	196	165
<b>Income (loss) before income taxes</b>	\$ 2,524	\$ 8,664	\$ (7,804)	\$ 7,749

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

Net sales by business is presented in the following table:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>August 4, 2019</u>	<u>July 29, 2018</u>	<u>August 4, 2019</u>	<u>July 29, 2018</u>
<i>(in thousands)</i>				
<b>Net sales</b>				
Men's	\$ 80,090	\$ 75,434	\$ 155,890	\$ 143,354
Women's	35,742	29,625	67,915	56,785
Hard goods/other	6,131	5,594	12,402	10,721
<b>Total net sales</b>	<b>\$ 121,963</b>	<b>\$ 110,653</b>	<b>\$ 236,207</b>	<b>\$ 210,860</b>

Segment total assets is presented in the following table:

	<u>August 4, 2019</u>	<u>February 3, 2019</u>
<i>(in thousands)</i>		
Direct	\$ 221,542	\$ 181,429
Retail	212,553	113,876
<b>Total assets at period end</b>	<b>\$ 434,095</b>	<b>\$ 295,305</b>

**11. CONTRACT ASSETS AND LIABILITIES**

The Company's contract assets primarily consist of the right of return for amounts of inventory to be returned that is expected to be resold and is recorded in Prepaid expenses and other current assets on the Company's consolidated balance sheets. 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 consolidated balance sheets. Upon 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.

Contract assets and liabilities on the Company's consolidated balance sheets are presented in the following table:

	<u>August 4, 2019</u>	<u>February 3, 2019</u>
<i>(in thousands)</i>		
Contract assets	\$ 777	\$ 895
Contract liabilities	\$ 6,930	\$ 8,508

The amount of revenue recognized from our beginning contract liability balance was \$5.1 million in the six months ended August 4, 2019.

**12. 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 August 4, 2019 and July 29, 2018, respectively. The income from TRI was excluded from the calculation of the Company's effective tax rate, as TRI is a limited liability company and not subject to income taxes.

**13. RECENT ACCOUNTING PRONOUNCEMENTS**

During the six months ended August 4, 2019, there have been no new recent accounting pronouncements that are of significance, or potential significance, to the Company.

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

**14. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through the date which these condensed consolidated financial statements were available to be issued and has determined that it does not have any material subsequent events to disclose in these condensed consolidated financial statements.

## 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 February 3, 2019 ("2018 Form 10-K").*

*The three and six months of fiscal 2019 and fiscal 2018 represent our 13 and 26-week periods ended August 4, 2019 and July 29, 2018, 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 2018 Form 10-K and other SEC filings, which factors are incorporated by reference herein. These risks and uncertainties include, but are not limited to, the following: our ability to maintain and enhance a strong brand image; our ability to successfully open new stores; effectively adapting to new challenges associated with our expansion into new geographic markets; generating adequate cash from our existing stores to support our growth; the inability to maintain the performance of a maturing store portfolio; the impact of changes in corporate tax regulations; identifying and responding to new and changing customer preferences; the success of the locations in which our stores are located; our ability to attract and retain customers in the various retail venues and locations in which our stores are located; competing effectively in an environment of intense competition; our ability to adapt to significant changes in sales due to the seasonality of our business; price reductions or inventory shortages resulting from failure to purchase the appropriate amount of inventory in advance of the season in which it will be sold; increases in costs of fuel or other energy, transportation or utility costs and in the costs of labor and employment; failure of our information technology systems to support our current and growing business, before and after our planned upgrades; and other factors that may be disclose in our SEC filings or otherwise. 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 growing lifestyle brand of men's and women's casual wear, workwear and accessories sold exclusively through our own omni-channel platform. The direct segment, consisting of our website and catalogs, offers products nationwide and represented 49.4% and 53.3% of our consolidated net sales for the three and six months ended August 4, 2019, respectively, and 55.0% and 60.3% of our consolidated net sales for the three and six months ended July 29, 2018, 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 August 4, 2019, we operated 52 retail stores and three outlet stores. Net sales for our retail segment represented 50.6% and 46.7% of our consolidated net sales for the three and six months ended August 4, 2019, respectively and 45.0% and 39.7% of our consolidated net sales for the three and six months ended July 29, 2018, respectively.

We offer a comprehensive line of innovative, durable and functional products, such as our Longtail T<sup>®</sup> shirts, Buck Naked<sup>™</sup> underwear, Fire Hose<sup>®</sup> work pants, and No-Yank<sup>®</sup> 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 38 consecutive quarters through August 4, 2019;
- Net sales in fiscal 2019 second quarter increased by 10.2% over the prior year second quarter to \$122.0 million and net sales in the first six months of fiscal 2019 increased by 12.0% over the first six months of the prior year to \$236.2 million;
- Net income of \$1.9 million in fiscal 2019 second quarter compared to the prior year second quarter net income of \$6.4 million and net loss in the first six months of fiscal 2019 of \$5.6 million.
- Adjusted EBITDA of \$9.6 million in fiscal 2019 second quarter compared to the prior year second quarter Adjusted EBITDA of \$13.1 million and adjusted EBITDA in the first six months of fiscal 2019 decreased by 69.9% over the first six months of the prior year to \$4.7 million;
- We opened four new stores in fiscal 2019 second quarter, adding approximately 61,000 of gross square footage; and
- Our retail stores have achieved and are expected to continue to achieve an average payback of less than two years.

We expect that the pace of capital outlays will moderate going forward and into 2020 as we rebalance our business model to focus on driving greater returns on the capital invested and growing our operating earnings and positive free cash flow. We plan to continue opening stores in new markets, but will likely plan for expanding square footage by 30% to 40% less than we have over the last 3 years. We believe the capital deployed for systems and infrastructure will also moderate as much of the investments needed to scale and support our growing business is in place now. As such, the expense associated with these investments is fixed and should allow for greater operating leverage in net earnings.

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, continuing 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.

Our historical sales growth has been accompanied by increased selling, general and administrative expenses. The most significant components of these increases are advertising, marketing, rent/occupancy 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 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.

## 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	
	August 4, 2019	July 29, 2018	August 4, 2019	July 29, 2018
<i>(in thousands)</i>				
Direct net sales	\$ 60,267	\$ 60,833	\$ 125,968	\$ 127,045
Retail net sales	61,696	49,820	110,239	83,815
Net sales	121,963	110,653	236,207	210,860
Cost of goods sold (excluding depreciation and amortization)	57,159	48,413	110,485	92,680
Gross profit	64,804	62,240	125,722	118,180
Selling, general and administrative expenses	61,069	52,344	132,091	108,541
Operating income (loss)	3,735	9,896	(6,369)	9,639
Interest expense	1,203	1,234	1,631	2,055
Other (loss) income, net	(8)	2	196	165
Income (loss) before income taxes	2,524	8,664	(7,804)	7,749
Income tax expense (benefit)	678	2,212	(2,005)	1,980
Net income (loss)	1,846	6,452	(5,799)	5,769
Less: Net (loss) income attributable to noncontrolling interest	(90)	75	(163)	83
Net income (loss) attributable to controlling interest	\$ 1,936	\$ 6,377	\$ (5,636)	\$ 5,686
<b>Percentage of Net sales:</b>				
Direct net sales	49.4 %	55.0 %	53.3 %	60.3 %
Retail net sales	50.6 %	45.0 %	46.7 %	39.7 %
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold (excluding depreciation and amortization)	46.9 %	43.8 %	46.8 %	44.0 %
Gross margin	53.1 %	56.2 %	53.2 %	56.0 %
Selling, general and administrative expenses	50.1 %	47.3 %	55.9 %	51.5 %
Operating income (loss)	3.1 %	8.9 %	(2.7)%	4.6 %
Interest expense	1.0 %	1.1 %	0.7 %	1.0 %
Other (loss) income, net	(0.0)%	0.0 %	0.1 %	0.1 %
Income (loss) before income taxes	2.1 %	7.8 %	(3.3)%	3.7 %
Income tax expense (benefit)	0.6 %	2.0 %	(0.8)%	0.9 %
Net income (loss)	1.5 %	5.8 %	(2.5)%	2.7 %
Less: Net (loss) income attributable to noncontrolling interest	(0.1)%	0.1 %	(0.1)%	- %
Net income (loss) attributable to controlling interest	1.6 %	5.8 %	(2.4)%	2.7 %

### Three Months Ended August 4, 2019 Compared to Three Months Ended July 29, 2018

#### Net Sales

Net sales increased \$11.3 million, or 10.2%, to \$122.0 million in the three months ended August 4, 2019 compared to \$110.7 million in the three months ended July 29, 2018, driven by an increase in the retail segment of \$11.9 million, or 23.8%, with gains across the majority of product categories and in both our men's and women's business, partially offset by a decrease in the direct segment of \$0.6 million, or 0.9%. Our website visits increased 12% in the three months ended August 4, 2019 compared to the three months ended July 29, 2018. The increase in retail net sales was driven by new stores with 55 stores as of August 4, 2019 compared to 39 stores as of July 29, 2018, partially offset by existing stores.

### **Gross Profit**

Gross profit increased \$2.6 million, or 4.1%, to \$64.8 million in the three months ended August 4, 2019 compared to \$62.2 million in the three months ended July 29, 2018. As a percentage of net sales, gross margin decreased 310 basis points to 53.1% of net sales in the three months ended August 4, 2019, compared to 56.2% of net sales in the three months ended July 29, 2018. The decrease in gross margin rate was primarily attributable to a decrease in product margins due to additional global promotions, coupled with recent clearance activity.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased \$8.7 million, or 16.7%, to \$61.1 million in the three months ended August 4, 2019 compared to \$52.3 million in the three months ended July 29, 2018. Selling, general and administrative expenses as a percentage of net sales increased 280 basis points to 50.1% in the three months ended August 4, 2019, compared to 47.3% in the three months ended July 29, 2018. The increase in selling, general and administrative expenses was attributable to an increase of \$0.4 million in advertising and marketing costs, \$1.3 million in selling expenses and \$7.0 million in general and administrative expenses.

As a percentage of net sales, advertising and marketing costs decreased 90 basis points to 13.4% in the three months ended August 4, 2019, compared to 14.3% in the three months ended July 29, 2018. The 90 basis point decrease in advertising and marketing costs as a percentage of net sales was primarily attributable to advertising leverage gained from a higher mix of retail sales.

As a percentage of net sales, selling expenses decreased 30 basis points to 14.4% in the three months ended August 4, 2019, compared to 14.7% in the three months ended July 29, 2018, primarily due to a decrease in shipping expenses due to improved shipping rates, partially offset by an increase in store labor.

As a percentage of net sales, general and administrative expenses increased 400 basis points to 22.3% in the three months ended August 4, 2019, compared to 18.3% in the three months ended July 29, 2018. The 400 basis point increase was primarily attributable to an increase in occupancy and equipment cost due to growth in the number of retail stores, an increase in depreciation expense due to investments in technology and corporate facilities, and an increase in personnel cost due to an increase in headcount to support the growth of the business.

### **Income Tax Expense**

Income tax expense was \$0.7 million in the three months ended August 4, 2019, compared to \$2.2 million in the three months ended July 29, 2018. Our effective tax rate related to controlling interest was 26% for both the three months ended August 4, 2019, and July 29, 2018, respectively.

### **Net Income**

Net income was \$1.9 million, in the three months ended August 4, 2019 compared to \$6.4 million in the three months ended July 29, 2018, primarily due to the factors discussed above.

## **Six Months Ended August 4, 2019 Compared to Six Months Ended July 29, 2018**

### **Net Sales**

Net sales increased \$25.3 million, or 12.0%, to \$236.2 million in the six months ended August 4, 2019 compared to \$210.9 million in the six months ended July 29, 2018, driven by an increase in the retail segment of \$26.4 million, or 31.5%, with gains across the majority of product categories and in both our men's and women's business, partially offset by a decrease in the direct segment of \$1.1 million, or 0.8%. Our website visits increased 13% in the six months ended August 4, 2019 compared to the six months ended July 29, 2018. The increase in retail net sales was primarily attributable to the same factors discussed above for the six months ended August 4, 2019 compared to the six months ended July 29, 2018.

### **Gross Profit**

Gross profit increased \$7.5 million, or 6.4%, to \$125.7 million in the six months ended August 4, 2019 compared to \$118.2 million in the six months ended July 29, 2018. As a percentage of net sales, gross margin decreased 280 basis points to 53.2% of net sales in the six months ended August 4, 2019, compared to 56.0% of net sales in the six months ended July 29, 2018. The decrease in gross margin rate was primarily attributable to a decrease in product margins due to additional clearance and discounts to drive sales during the first half of the year, coupled with a slight decrease in shipping revenues.



**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased \$23.6 million, or 21.7%, to \$132.1 million in the six months ended August 4, 2019 compared to \$108.5 million in the six months ended July 29, 2018. Selling, general and administrative expenses as a percentage of net sales increased 440 basis points to 55.9% in the six months ended August 4, 2019, compared to 51.5% in the six months ended July 29, 2018. The increase in selling, general and administrative expenses was attributable to an increase of \$2.9 million in advertising and marketing costs, \$4.2 million in selling expenses and \$16.5 million in general and administrative expenses.

As a percentage of net sales, advertising and marketing costs decreased 70 basis points to 17.1% in the six months ended August 4, 2019, compared to 17.8% in the six months ended July 29, 2018. The 70 basis point decrease in advertising and marketing costs as a percentage of net sales was primarily attributable to advertising leverage gained from a higher mix of retail sales.

As a percentage of net sales, selling expenses increased 20 basis points to 15.5% in the six months ended August 4, 2019, compared to 15.3% in the six months ended July 29, 2018, 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 sales.

As a percentage of net sales, general and administrative expenses increased 490 basis points to 23.3% in the six months ended August 4, 2019, compared to 18.4% in the six months ended July 29, 2018. The 490 basis point increase was primarily attributable to an increase in occupancy and equipment cost due to growth in the number of retail stores, an increase in depreciation expense due to investments in technology and corporate facilities, and an increase in personnel cost due to an increase in headcount to support the growth of the business.

**Income Tax (Benefit) Expense**

Income tax benefit was \$2.0 million for the six months ended August 4, 2019, compared to income tax expense of \$2.0 million in the six months ended July 29, 2018. Our effective tax rate related to controlling interest was 26% for both the six months ended August 4, 2019 and July 29, 2018, respectively.

**Net (Loss) Income**

Net loss was \$5.6 million, in the six months ended August 4, 2019 compared to net income of \$5.7 million in the six months ended July 29, 2018, 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	
	August 4, 2019	July 29, 2018	August 4, 2019	July 29, 2018
<i>(in thousands)</i>				
Net income (loss)	\$ 1,846	\$ 6,452	\$ (5,799)	\$ 5,769
Depreciation and amortization	5,013	2,760	9,405	5,069
Interest expense	1,203	1,234	1,631	2,055
Amortization of build-to-suit leases				
capital contribution	265	—	479	—
Income tax expense (benefit)	678	2,212	(2,005)	1,980
EBITDA	\$ 9,005	\$ 12,658	\$ 3,711	\$ 14,873
Stock based compensation	555	449	1,029	858
Adjusted EBITDA	\$ 9,560	\$ 13,107	\$ 4,740	\$ 15,731

As a result of the factors discussed above in the “Results of Operations” section, Adjusted EBITDA decreased \$3.5 million to \$9.6 million in the three months ended August 4, 2019 compared to \$13.1 million in the three months ended July 29, 2018. As a percentage of net sales, Adjusted EBITDA decreased 400 basis points to 7.8% of net sales in the three months ended August 4, 2019 compared to 11.8% of net sales in the three months ended July 29, 2018.

As a result of the factors discussed above in the “Results of Operations” section, Adjusted EBITDA decreased \$11.0 million to \$4.7 million in the six months ended August 4, 2019 compared to \$ 15.7 million in the six months ended July 29, 2018. As a percentage of net sales, Adjusted EBITDA decreased 550 basis points to 2.0% of net sales in the six months ended August 4, 2019 compared to 7.5% of net sales in the six months ended July 29, 2018.

## Liquidity and Capital Resources

### General

Our business relies on cash from operating activities and a credit facility as our primary sources of liquidity. On May 17, 2018, we entered into a new credit facility which provides for borrowings of up to \$80.0 million on a revolving line of credit and an additional \$50.0 million in a 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 \$38.0 million to \$42.0 million in fiscal 2019 on capital expenditures, including a total of approximately \$30.0 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 August 4, 2019, our net working capital was \$66.1 million, including \$3.5 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	
	August 4, 2019	July 29, 2018
<i>(in thousands)</i>		
Net cash used in operating activities	\$ (8,045)	\$ (12,585)
Net cash used in investing activities	(16,713)	(27,325)
Net cash provided by financing activities	27,829	36,404
Increase (decrease) in cash and restricted cash	\$ 3,071	\$ (3,506)

### 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 August 4, 2019 is negative, primarily driven by the seasonal nature of our business, we expect cash flows from operations for the full year fiscal 2019 to be positive from operating performance and seasonal reductions in working capital during the fourth quarter of our fiscal year, which is consistent with previous full fiscal years.

For six months ended August 4, 2019, net cash used in operating activities was \$8.0 million, which primarily consisted of net loss of \$5.8 million, non-cash depreciation and amortization of \$9.4 million and stock based compensation of \$1.0 million, offset by cash used in operating assets and liabilities of \$12.0 million. The cash used in operating assets and liabilities of \$12.0 million primarily consisted of a \$17.2 million increase in inventory, primarily due to the increase in the number of retail stores and building of inventory for our peak season, a \$10.8 million increase in trade accounts payable due to timing of payments, a \$7.1 million decrease in accrued expenses and deferred rent obligations, and a \$1.9 million decrease in deferred catalog costs due to a reduction in catalog circulation.

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.

#### ***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 August 4, 2019, net cash used in investing activities was \$16.7 million and was primarily driven by capital expenditures of \$13.8 million for new retail stores and retail store build-out, as well as investments in information technology, and \$3.0 million of capital contributions towards our build-to-suit stores.

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 store build-out, as well as investments in information technology.

#### ***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 proceeds from finance lease obligations and principal payments on long term debt by our consolidated variable interest entity TRI Holdings, LLC (“TRI”).

For the six months ended August 4, 2019, net cash provided by financing activities was \$27.8 million, primarily consisting of proceeds of \$28.5 million, net from our revolving line of credit to fund working capital.

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.

#### ***Line of Credit***

On 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 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,” in the Notes to Condensed Consolidated Financial Statements for further information.

As of August 4, 2019 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 2019.

#### **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 February 3, 2019.

#### **Off-Balance Sheet Arrangements**

We are not a party to any material off-balance sheet arrangements.

#### **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 2018 Form 10-K, except as discussed below.

#### Recently Adopted Accounting Pronouncements

On February 4, 2019, we adopted authoritative guidance related to leases using the optional transition method and elected the package of practical expedients. 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 2019, our financial results reflect adoption of the standard.

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 13 “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 2018 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 August 4, 2019, as a result of the material weakness in our internal control over financial reporting discussed below and in the Company’s Annual Report on Form 10-K, for the year ended February 3, 2019, our disclosure controls and procedures were not effective.

##### *Material Weakness*

As disclosed in our 2018 Form 10-K, management concluded that a material weakness existed in our internal control over financial reporting. Specifically we determined that due to the lack of sufficient resources throughout the year, we did not design and implement effective internal control activities to timely detect and resolve issues resulting from converting to a new order management system, nor did we consistently execute certain account reconciliations and analyses timely during fiscal 2018.

Management has developed certain remediation steps to address the material weakness discussed above and to improve internal control over financial reporting. The Company is taking steps to correctly allocate resources as needed and to further automate and enhance the reconciliation process. The material weakness will not be considered remediated until applicable remedial controls operate for a sufficient period of time and management has concluded that these controls are operating effectively.

Management has concluded that, notwithstanding the material weakness described above, the Company’s consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows as of the date, and for the periods presented, in conformity with U.S. GAAP.

##### *Changes in Internal Control Over Financial Reporting*

There were no other changes 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 have materially affected, or are 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 2018 Form 10-K or other SEC filings. There have been no material changes to our risk factors as previously disclosed in our Annual Report on Form 10-K.

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

We did not sell any equity securities during the quarter ended August 4, 2019, which were not registered under the Securities Act.

**Item 6. Exhibits**

**EXHIBIT INDEX**

Exhibit No.	
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities and Exchange Act, as amended.</a> *
31.2	<a href="#">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.</a> *
32.1	<a href="#">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.</a> *
32.2	<a href="#">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.</a> *
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**

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\* 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 13, 2019

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)*

**/s/ MICHAEL MURPHY**

**Michael Murphy**  
**Corporate Controller**  
*(On behalf of the Registrant as Principal Accounting Officer)*

## CERTIFICATIONS

I, Stephen L. Schlecht, 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 13, 2019

**/s/ Stephen L. Schlecht**

**Stephen L. Schlecht**

**Chief Executive Officer**

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## 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 13, 2019

/s/ David Loretta

**David Loretta**  
**Chief Financial Officer**

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**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 August 4, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen L. Schlecht, 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.

/s/ **Stephen L. Schlecht**

Name: **Stephen L. Schlecht**  
Title: **Chief Executive Officer**  
Date: **September 13, 2019**

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.

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**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 August 4, 2019 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 13, 2019**

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.

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