# 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 October 29, 2017**

**OR**

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

**For the transition period from _____ to ______**

**Commission File Number 001-37641**

# DULUTH HOLDINGS INC.
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Wisconsin**<br>**(State or other jurisdiction of incorporation or organization)** | **39-1564801**<br>**(I.R.S. Employer Identification Number)** |
| **170 Countryside Drive**<br>**P.O. Box 409**<br>**Belleville, Wisconsin**<br>**(Address of principal executive offices)** | **53508**<br>**(Zip Code)** |

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☑ |
| Non-accelerated filer<br>(Do not check if smaller reporting company) | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☑ |

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

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 December 4, 2017, was 3,364,200.
The number of shares outstanding of the Registrant's Class B common stock, no par value, as of December 4, 2017, was 29,097,107.

**DULUTH HOLDINGS INC.**
**QUARTERLY REPORT ON FORM 10-Q**
**FOR QUARTER ENDED October 29, 2017**
**INDEX**

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

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

| | October 29, 2017 | January 29, 2017 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash | $ 958 | $ 24,042 |
| Accounts receivable | 62 | 45 |
| Other receivables | 1,669 | 349 |
| Inventory, less reserve for excess and obsolete items of $2,899 and $1,242, respectively | 129,475 | 70,368 |
| Prepaid expenses | 8,820 | 4,860 |
| Deferred catalog costs | 4,431 | 1,582 |
| Total current assets | 145,415 | 101,246 |
| Property and equipment, net | 98,151 | 52,432 |
| Restricted cash | 2,169 | 1,435 |
| Available-for-sale security | 6,323 | — |
| Goodwill | 402 | 402 |
| Other assets, net | 487 | 452 |
| Total assets | $ 252,947 | $ 155,967 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Trade accounts payable | $ 30,082 | $ 9,330 |
| Accrued expenses and other current liabilities | 25,676 | 19,822 |
| Income taxes payable | — | 5,225 |
| Bank overdrafts | 2,930 | — |
| Current maturities of long-term debt | 84 | 742 |
| Total current liabilities | 58,772 | 35,119 |
| Long-term line of credit | 50,101 | — |
| Finance lease obligations under build-to-suit leases | 18,484 | 3,349 |
| Long-term debt, less current maturities | 1,445 | 35 |
| Deferred rent obligations, less current maturities | 3,305 | 2,109 |
| Deferred tax liabilities | 1,507 | 1,567 |
| Total liabilities | 133,614 | 42,179 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, no par value; 10,000 shares authorized; no shares issued or outstanding as of October 29, 2017 and January 29, 2017 | — | — |
| Common stock (Class A), no par value; 10,000 shares authorized; 3,364 shares issued and outstanding as of October 29, 2017 and January 29, 2017 | — | — |
| Common stock (Class B), no par value; 200,000 shares authorized; 29,100 shares issued and 29,097 shares outstanding as of October 29, 2017 and 29,012 shares issued and outstanding as of January 29, 2017 | — | — |
| Treasury stock, at cost; 3 and 0 shares as of October 29, 2017 and January 29, 2017, respectively | (57) | — |
| Capital stock | 87,632 | 86,446 |
| Retained earnings | 28,556 | 24,733 |
| Total shareholders' equity of Duluth Holdings Inc. | 116,131 | 111,179 |
| Noncontrolling interest | 3,202 | 2,609 |
| Total shareholders' equity | 119,333 | 113,788 |
| Total liabilities and shareholders' equity | $ 252,947 | $ 155,967 |

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 | | Nine Months Ended | |
|---|---|---|---|---|
| | October 29, 2017 | October 30, 2016 | October 29, 2017 | October 30, 2016 |
| Net sales | $ 83,729 | $ 67,008 | $ 253,642 | $ 201,463 |
| Cost of goods sold (excluding depreciation and amortization) | 36,302 | 28,260 | 108,649 | 84,102 |
| Gross profit | 47,427 | 38,748 | 144,993 | 117,361 |
| Selling, general and administrative expenses | 48,039 | 37,929 | 137,467 | 105,215 |
| Operating (loss) income | (612) | 819 | 7,526 | 12,146 |
| Interest expense | 661 | 33 | 1,199 | 108 |
| Other income, net | 73 | 33 | 175 | 163 |
| (Loss) income before income taxes | (1,200) | 819 | 6,502 | 12,201 |
| Income tax (benefit) expense | (454) | 305 | 2,480 | 4,691 |
| Net (loss) income | (746) | 514 | 4,022 | 7,510 |
| Less: Net income attributable to noncontrolling interest | 70 | 52 | 199 | 188 |
| Net (loss) income attributable to controlling interest | $ (816) | $ 462 | $ 3,823 | $ 7,322 |
| **Basic earnings per share (Class A and Class B):** | | | | |
| Weighted average shares of common stock outstanding | 31,861 | 31,520 | 31,837 | 31,520 |
| Net (loss) income per share attributable to controlling interest | $ (0.03) | $ 0.01 | $ 0.12 | $ 0.23 |
| **Diluted earnings per share (Class A and Class B):** | | | | |
| Weighted average shares and equivalents outstanding | 31,861 | 32,294 | 32,297 | 32,286 |
| Net (loss) income per share attributable to controlling interest | $ (0.03) | $ 0.01 | $ 0.12 | $ 0.23 |

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

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 29, 2017 | October 30, 2016 | October 29, 2017 | October 30, 2016 |
| Net (loss) income | $ (746) | $ 514 | $ 4,022 | $ 7,510 |
| Other comprehensive income: | | | | |
| Change in value of interest rate swap agreement | — | 15 | — | 27 |
| Comprehensive (loss) income | (746) | 529 | 4,022 | 7,537 |
| Comprehensive income attributable to noncontrolling interest | 70 | 52 | 199 | 188 |
| Comprehensive (loss) income attributable to controlling interest | $ (816) | $ 477 | $ 3,823 | $ 7,349 |

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

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

| | Capital stock | | | | Noncontrolling interest in | Total |
|---|---|---|---|---|---|---|
| | Shares | Amount | Treasury stock | Retained earnings | variable interest entity | shareholders' equity |
| Balance at January 29, 2017 | 32,376 | $ 86,446 | $ — | $ 24,733 | $ 2,609 | $ 113,788 |
| Issuance of common stock | 109 | — | — | — | — | — |
| Restricted stock forfeitures | (21) | — | — | — | — | — |
| Amortization of stock-based compensation | — | 1,186 | — | — | — | 1,186 |
| Restricted stock surrendered for taxes | (3) | — | (57) | — | — | (57) |
| Capital contributions | — | — | — | — | 794 | 794 |
| Distributions | — | — | — | — | (400) | (400) |
| Net income | — | — | — | 3,823 | 199 | 4,022 |
| Balance at October 29, 2017 | 32,461 | $ 87,632 | $ (57) | $ 28,556 | $ 3,202 | $ 119,333 |

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)**

| | Nine Months Ended | |
|---|---|---|
| | October 29, 2017 | October 30, 2016 |
| **Cash flows from operating activities:** | | |
| Net income | $ 4,022 | $ 7,510 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 5,104 | 3,215 |
| Amortization of stock-based compensation | 1,186 | 969 |
| Deferred income taxes | (60) | 151 |
| Loss on disposal of property and equipment | — | 3 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (17) | (10) |
| Other receivables | (1,320) | (3,007) |
| Inventory | (57,020) | (40,891) |
| Prepaid expense | (3,136) | 181 |
| Deferred catalog costs | (1,006) | 485 |
| Trade accounts payable | 18,665 | 6,713 |
| Income taxes payable | (5,225) | (1,308) |
| Accrued expenses and deferred rent obligations | 3,850 | (794) |
| Net cash used in operating activities | (34,957) | (26,783) |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (37,501) | (21,026) |
| Purchase of available-for-sale security | (6,323) | — |
| Change in restricted cash | (734) | (1,367) |
| Purchases of other assets | (85) | (80) |
| Net cash used in investing activities | (44,643) | (22,473) |
| **Cash flows from financing activities:** | | |
| Proceeds from line of credit | 76,476 | 18,156 |
| Payments on line of credit | (26,375) | (4,947) |
| Proceeds from long term debt | 800 | — |
| Payments on long term debt | (34) | (4,216) |
| Payments on capital lease obligations | (14) | (14) |
| Change in bank overdrafts | 2,930 | 2,055 |
| Distributions to shareholders | — | (192) |
| Distributions to holders of noncontrolling interest in variable interest entity | (400) | (30) |
| Proceeds from finance lease obligations | 2,358 | — |
| Capital contributions to variable interest entity | 794 | 744 |
| Shares withheld for tax payments on vested restricted shares | (57) | — |
| Other | 38 | — |
| Net cash provided by financing activities | 56,516 | 11,556 |
| Decrease in cash | (23,084) | (37,700) |
| Cash at beginning of period | 24,042 | 37,873 |
| Cash at end of period | $ 958 | $ 173 |
| **Supplemental disclosure of cash flow information** | | |
| Interest paid | $ 947 | $ 116 |
| Income taxes paid | $ 8,950 | $ 7,929 |
| **Supplemental disclosure of non-cash information** | | |
| Property and equipment acquired under build-to-suit leases | $ 12,739 | $ 1,957 |
| Unpaid liability to acquire property and equipment | $ 4,144 | $ 3,922 |

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 October 29, 2017, the Company operated 23 retail stores and three outlet stores across the Midwestern, Eastern and Western United States. 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 accompanying condensed consolidated financial statements include the accounts of the parent, Duluth Holdings Inc., and its wholly-owned subsidiary, Duluth Trading Company, LLC. Effective October 3, 2016, Duluth Trading Company, LLC was dissolved and no longer consolidated, which did not impact the Company's consolidated financial statements. The Company also consolidates Schlecht Retail Ventures LLC ("SRV") as a variable interest entity (see Note 5 "Variable Interest Entity"). All intercompany balances and transactions have been eliminated.

The Company's fiscal year ends on the Sunday nearest to January 31 of the following year. Fiscal 2017 is a 52-week period and ends on January 28, 2018. Fiscal 2016 was a 52-week period and ended on January 29, 2017. The three and nine months of fiscal 2017 and fiscal 2016 represent the Company's 13-week and 39-week periods ended October 29, 2017 and October 30, 2016, respectively.

The accompanying condensed consolidated financial statements as of and for the three and nine months ended October 29, 2017 and October 30, 2016 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 nine months ended October 29, 2017 and October 30, 2016. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's annual report on Form 10-K for the fiscal year ended January 29, 2017.

### *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. Build-to-Suit Lease*

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

As of October 29, 2017, the Company capitalized $27.5 million in property and equipment and $0.2 million in accumulated depreciation and recorded an $18.5 million non-current liability related to build-to-suit transactions in which the Company is considered the owner for accounting purposes. As of January 29, 2017, the Company capitalized $6.6 million in property and equipment and $0.01 million in accumulated depreciation and recorded a $3.3 million non-current liability related to build-to-suit transactions in which the Company is considered the owner for accounting purposes.

## 2. DEBT AND LINE OF CREDIT

Debt consists of the following:

| *(in thousands)* | October 29, 2017 | January 29, 2017 |
|---|---|---|
| SRV Mortgage Term A Note | $ 700 | $ 727 |
| SRV Mortgage Term B Note | 793 | — |
| Line of credit | 50,101 | — |
| Capitalized lease obligations | 36 | 50 |
| | $ 51,630 | $ 777 |
| Less: current maturities | (84) | (742) |
| Long-term debt | $ 51,546 | $ 35 |

***Schlecht Retail Ventures LLC***

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

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

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

***Line of Credit***

On September 29, 2017, the Company entered into a first amendment to the Amended and Restated Loan Agreement dated as of October 7, 2016 (the "Amended and Restated Agreement"), providing for borrowing availability of up to $60.0 million from September 29, 2017 through July 31, 2019. Effective November 1, 2017, the Company entered into a second amendment to the Amended and Restated Agreement, providing for borrowing availability of up to $80.0 million from November 1, 2017 through December 31, 2017 and borrowing availability of up to $60.0 million from January 1, 2018 through July 31, 2019. The Amended and Restated Agreement matures on July 31, 2019, and bears interest, payable monthly, at a rate equal to the adjusted LIBOR rate, as defined in the Amended and Restated Agreement (effective rate of 2.5% at October 29, 2017). The Amended and Restated Agreement is secured by essentially all Company assets and requires the Company to maintain compliance with certain financial and non-financial covenants, including minimum tangible net worth and a minimum trailing twelve month EBITDA. In addition, the Amended and Restated Agreement does not contain borrowing base limits.

As of October 29, 2017 and for the nine months then ended, the Company was in compliance with all financial and non-financial covenants for all debts discussed above.

## 3. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

| *(in thousands)* | October 29, 2017 | January 29, 2017 |
|---|---|---|
| Salaries and benefits | $ 1,645 | $ 3,885 |
| Deferred revenue | 6,395 | 5,590 |
| Freight | 1,539 | 1,574 |
| Product returns | 642 | 1,088 |
| Catalog costs | 2,399 | 556 |
| Unpaid purchases of property & equipment | 4,144 | 3,485 |
| Accrued advertising | 4,634 | 1,060 |
| Other | 4,278 | 2,584 |
| Total accrued expenses and other current liabilities | $ 25,676 | $ 19,822 |

## 4. 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.

The carrying value of the Company's available-for-sale security was valued based on a recent purchase in inactive market (Level 3).

| | October 29, 2017 | | | | January 29, 2017 |
|---|---|---|---|---|---|
| *(in thousands)* | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Estimated Fair Value |
| Level 3 security: | | | | | |
| Corporate trust | $ 6,323 | $ — | $ — | $ 6,323 | $ — |

The following table presents future receipts related to the Company's available-for-sale security by contractual maturity as of October 29, 2017. Cost and estimated fair value are equal.

| *(in thousands)* | Estimated Fair Value |
|---|---|
| Within one year | $ — |
| After one year through five years | 719 |
| After five years through ten years | 1,181 |
| After ten years | 4,423 |
| Total | $ 6,323 |

## 5. VARIABLE INTEREST ENTITY

Based upon the criteria set forth in ASC 810, *Consolidation*, the Company has determined that it was the primary beneficiary of one variable interest entity ("VIE") as of October 29, 2017 and January 29, 2017, as the Company absorbs significant economics of the entity and has the power to direct the activities that are considered most significant to the entity.

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

The condensed consolidated balance sheets include the following amounts as a result of the consolidation of SRV as of October 29, 2017 and January 29, 2017:

| *(in thousands)* | October 29, 2017 | January 29, 2017 |
|---|---|---|
| Cash | $ 656 | $ 139 |
| Other receivables | 20 | 9 |
| Property and equipment, net | 4,102 | 3,248 |
| Other assets, net | 14 | 5 |
| Total assets | $ 4,792 | $ 3,401 |
| | | |
| Other current liabilities | $ 177 | $ 792 |
| Long-term debt | 1,413 | — |
| Noncontrolling interest in VIE | 3,202 | 2,609 |
| Total liabilities and shareholders' equity | $ 4,792 | $ 3,401 |

On August 18, 2017, the Company entered into a lease agreement with TRI Holdings, LLC ("TRI"), the developer of the Company's future headquarters in Mt. Horeb, Wisconsin.  The Company expects to take occupancy of the future headquarters on November 1, 2018. The Company determined it had a variable interest in TRI, however, the Company does not consolidate TRI, as the Company is not the primary beneficiary.

During the construction phase of the Company's future headquarters, the Company is considered the owner for accounting purposes, as noted in footnote one, under build-to-suit lease. As of October 29, 2017, the Company capitalized $8.5 million in property & equipment and recorded $8.5 million non-current liability related to build-to-suit transactions, which are included in the balances disclosed under footnote one.

In conjunction with the headquarters lease, the Company invested $6.3 million in a trust (see Note 4 Investment) that funded the mortgage to TRI for the construction of the Company's future headquarters. The Company does not consolidate the trust as the Company is not the primary beneficiary.

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

## 6. EARNINGS PER SHARE

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *(in thousands, except per share data)* | October 29, 2017 | October 30, 2016 | October 29, 2017 | October 30, 2016 |
| Numerator - net (loss) income attributable to controlling interest | $ (816) | $ 462 | $ 3,823 | $ 7,322 |
| Denominator - weighted average shares (Class A and Class B) | | | | |
| Basic | 31,861 | 31,520 | 31,837 | 31,520 |
| Dilutive shares | — | 774 | 460 | 766 |
| Diluted | 31,861 | 32,294 | 32,297 | 32,286 |
| (Loss) earnings per share (Class A and Class B) | | | | |
| Basic | $ (0.03) | $ 0.01 | $ 0.12 | $ 0.23 |
| Diluted | $ (0.03) | $ 0.01 | $ 0.12 | $ 0.23 |

## 7. 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 during the three and nine months ended October 29, 2017 was $0.6 million and $1.2 million, respectively, and during the three and nine months ended October 30, 2016 was $0.4 million and $1.0 million, 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 nine months ended October 29, 2017 is as follows:

| | Shares | Weighted average fair value per share |
|---|---|---|
| Outstanding at January 29, 2017 | 794,712 | $ 4.34 |
| Granted | 109,735 | 19.56 |
| Vested | (311,933) | 2.71 |
| Forfeited | (21,294) | 22.31 |
| Outstanding at October 29, 2017 | 571,220 | $ 6.76 |

At October 29, 2017, the Company had unrecognized compensation expense of $2.5 million related to the restricted stock awards, which is expected to be recognized over a weighted average period of 1.8 years.

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

## 8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| *(in thousands)* | October 29, 2017 | January 29, 2017 |
|---|---|---|
| Land and land improvements | $ 3,055 | $ 2,986 |
| Leasehold improvements | 19,938 | 12,752 |
| Buildings | 26,882 | 16,178 |
| Vehicles | 177 | 177 |
| Warehouse equipment | 5,789 | 3,939 |
| Office equipment and furniture | 19,102 | 11,125 |
| Computer equipment | 3,300 | 2,509 |
| Software | 7,219 | 6,659 |
| | 85,462 | 56,325 |
| Accumulated depreciation and amortization | (20,581) | (15,529) |
| | 64,881 | 40,796 |
| Construction in progress | 33,270 | 11,636 |
| Property and equipment, net | $ 98,151 | $ 52,432 |

## 9. 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 by product is not presented because providing the information is impracticable. Net sales outside of the United States were insignificant. Variable allocations of assets are not made for segment reporting. The Company does not have any assets outside of the United States.

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

Segment information is presented in the following tables:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *(in thousands)* | October 29, 2017 | October 30, 2016 | October 29, 2017 | October 30, 2016 |
| **Net sales** | | | | |
| Direct | $ 54,146 | $ 52,271 | $ 175,588 | $ 166,437 |
| Retail | 29,583 | 14,737 | 78,054 | 35,026 |
| Total net sales | $ 83,729 | $ 67,008 | $ 253,642 | $ 201,463 |
| **Operating (loss) income** | | | | |
| Direct | $ (2,738) | $ (84) | $ 230 | $ 8,694 |
| Retail | 2,126 | 903 | 7,296 | 3,452 |
| Total operating (loss) income | (612) | 819 | 7,526 | 12,146 |
| Interest expense | 661 | 33 | 1,199 | 108 |
| Other income, net | 73 | 33 | 175 | 163 |
| **(Loss) income before income taxes** | $ (1,200) | $ 819 | $ 6,502 | $ 12,201 |

Segment total assets

| *(in thousands)* | October 29, 2017 | January 29, 2017 |
|---|---|---|
| Direct | $ 168,865 | $ 115,239 |
| Retail | 84,082 | 40,728 |
| Total assets at period end | $ 252,947 | $ 155,967 |

## 10. 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 36% and 39% for the three and nine months ended October 29, 2017, respectively, and 40% and 39% for the three and nine months ended October 30, 2016, respectively. The income from SRV was excluded from the calculation of the Company’s effective tax rate, as SRV is an “S” corporation and not subject to income taxes.

## 11. RECENT ACCOUNTING PRONOUNCEMENTS

*Recently Adopted Accounting Pronouncements*

*Simplifying the Measurement of Inventory*

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, *Simplifying the Measurement of Inventory (Topic 330)* (“ASU 2015-11”), which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined as the “estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation.” ASU 2015-11 eliminates the guidance that entities consider replacement cost or net realizable value less an approximately normal profit margin in the subsequent measurement of inventory when cost is determined on a first-in, first-out or average cost basis. The provisions of ASU 2015-11 are effective for public entities with fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company adopted ASU 2015-11 as of January 30, 2017, the first day of the Company’s fiscal year 2017, and there was no significant impact to the Company’s consolidated financial statements.

*Improvements to Employee Share-Based Payment Accounting*

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Compensation – Stock Compensation* (Topic 718): *Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"), which is intended to improve the accounting for share-based payment transactions. ASU 2016-09 changes certain aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; and (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. The provisions of ASU 2016-09 are effective for public entities with fiscal years beginning after December 15, 2016, and interim periods within those years, early adoption is permitted. The Company adopted ASU 2016-09 as of May 1, 2016 and there was no significant impact to the Company's consolidated financial statements.

*Balance Sheet Classification of Deferred Taxes*

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, *Balance Sheet Classification of Deferred Taxes* (Topic 740) ("ASU 2015-17"), which requires the classification of all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. In addition, an allocation of valuation allowances between current and noncurrent deferred tax assets is not required, because the allowances will be classified as noncurrent. The provisions of ASU 2015-17 are effective for public entities with fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company adopted ASU 2015-17 as of January 31, 2016 and has reported deferred tax assets and liabilities as noncurrent on the balance sheet.

*Recently Issued Accounting Pronouncements Not Yet Adopted*

*Revenue from Contracts with Customers*

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*. ASU 2014-09 requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new revenue recognition model requires identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price to performance obligations and recognizing the revenue upon satisfaction of the performance obligations. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and change in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. On July 9, 2015, the FASB deferred the effective date of ASU 2014-09 for one year. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017. Accordingly, the Company will adopt ASU 2014-09 on January 29, 2018, the first day of the Company's first quarter for the fiscal year ending February 3, 2019, the Company's fiscal year 2018. The Company expects to adopt ASU 2014-09 retrospectively with the cumulative effect of initially applying the update recognized at the date of the adoption along with additional disclosures. The Company's revenue is primarily generated from the sale of finished goods to customers and those sales predominately contain a single performance obligation, revenue is recognized at the point of sale for the retail segment or when the products have been delivered to the customer for the direct segment. The Company's review is ongoing as it specifically relates to sales returns and gift cards, and the Company has not yet identified any material changes in the timing of revenue recognition. The Company continues to evaluate the new disclosure requirements of ASU 2014-09 on its consolidated financial statements.

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

*Leases*

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases* (Topic 842) ("ASU 2016-02"), which requires lessees to recognize most leases on the balance sheets (right-of-use asset and lease liability), but recognize expenses on the income statements in a manner that is similar to the current lease standard. The provisions of ASU 2016-02 are effective for public entities with fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The Company expects to early adopt ASU 2016-02 on January 29, 2018, the first day of the Company's first quarter for the fiscal year ending February 3, 2019, the Company's fiscal year 2018. The Company conducts its retail operations through leased stores and therefore, the Company expects the adoption of ASU 2016-02 to have a significant impact on its consolidated financial statements.

*Statement of Cash Flows*

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, *Statement of Cash Flows* (Topic 230*): Restricted Cash* ("ASU 2016-18"), which requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. ASU 2016-18 is effective for public entities with fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The Company expects to adopt ASU 2016-18 on January 29, 2018, the first day of the Company's first quarter for the fiscal year ending February 3, 2019, the Company's fiscal year 2018. The Company is evaluating the level of impact of adopting ASU 2016-18 will have on the Company's 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 1of this Quarterly Report on Form 10-Q and with our audited financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended January 29, 2017 ("2016 Form 10-K").*

*The three and nine months of fiscal 2017 and fiscal 2016 represent our 13 and 39-week periods ended October 29, 2017 and October 30, 2016, 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. and its subsidiary on a consolidated basis.*

### 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 2016 Form 10-K, which factors are incorporated by reference herein. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. We qualify all of our forward-looking statements by these cautionary statements.

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

### Overview

We are a rapidly growing lifestyle brand of men's and women's casual wear, workwear and accessories sold exclusively through our own direct and retail channels. The direct segment, consisting of our website and catalogs, offers products nationwide and represented 64.7% and 69.2% of our consolidated net sales for the three and nine months ended October 29, 2017, respectively, and 78.0% and 82.6% of our consolidated net sales for the three and nine months ended October 30, 2016, 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 October 29, 2017, we operated 23 retail stores and three outlet stores. Net sales for our retail segment represented 35.3% and 30.8% of consolidated net sales for the three and nine months ended October 29, 2017, and 22.0% and 17.4% of consolidated net sales for the three and nine months ended October 30, 2016, respectively.

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

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

A summary of our financial results is as follows:

- Net sales have increased year-over-year for 31 consecutive quarters through October 29, 2017;
- Net sales in fiscal 2017 third quarter increased by 25.0% over the prior year third quarter to $83.7 million and net sales in the fiscal 2017 nine months increased by 25.9% over the prior year nine months to $253.6 million;

- Net loss of $0.8 million in fiscal 2017 third quarter compared to the prior year third quarter net income of $0.5 million and net income in the fiscal 2017 nine months decreased by 47.8% over the prior year nine months to $3.8 million;
- Adjusted EBITDA in fiscal 2017 third quarter decreased by 24.9% over the prior year third quarter to $1.9 million and adjusted EBITDA in the fiscal 2017 nine months decreased by 15.2% over the prior year nine months to $14.0 million; and
- Our retail stores have achieved and are expected to have an average payback of less than two years.

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

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

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

**How We Assess the Performance of Our Business**

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

***Net Sales***

Net sales reflect our sale of merchandise plus shipping and handling revenue collected from our customers, less returns and discounts. Direct sales are recognized upon customer receipt of the product, while 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.

***Comparable Store Sales***

Comparable store sales are generally calculated based upon retail stores that were open at least twelve full fiscal months as of the end of the reporting period. Our outlet stores are not included in the comparable store sales calculations.

Comparable store sales allow us to evaluate how our retail store base is performing by measuring the change in period over-period net sales in stores that have been open for twelve fiscal months or more. Some of our competitors and other retailers calculate comparable store sales differently than we do; as a result, our comparable store sales may not be comparable to similar data made available by other companies. We have excluded comparable store sales data from this Form 10-Q due to the limited number of comparable retail stores as of October 29, 2017.

***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. 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 and payroll costs. While we expect these expenses to increase as we continue to open new stores, increase brand awareness and grow our organization to support our growing business, we believe these expenses will decrease as a percentage of sales over time.

***Adjusted EBITDA***

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

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

### 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 | | Nine Months Ended | |
|---|---|---|---|---|
| | October 29, 2017 | October 30, 2016 | October 29, 2017 | October 30, 2016 |
| *(in thousands)* | | | | |
| Direct net sales | $ 54,146 | $ 52,271 | $ 175,588 | $ 166,437 |
| Retail net sales | 29,583 | 14,737 | 78,054 | 35,026 |
| Net sales | 83,729 | 67,008 | 253,642 | 201,463 |
| Cost of goods sold (excluding depreciation and amortization) | 36,302 | 28,260 | 108,649 | 84,102 |
| Gross profit | 47,427 | 38,748 | 144,993 | 117,361 |
| Selling, general and administrative expenses | 48,039 | 37,929 | 137,467 | 105,215 |
| Operating (loss) income | (612) | 819 | 7,526 | 12,146 |
| Interest expense | 661 | 33 | 1,199 | 108 |
| Other income, net | 73 | 33 | 175 | 163 |
| (Loss) income before income taxes | (1,200) | 819 | 6,502 | 12,201 |
| Income tax (benefit) expense | (454) | 305 | 2,480 | 4,691 |
| Net (loss) income | (746) | 514 | 4,022 | 7,510 |
| Less: Net income attributable to noncontrolling interest | 70 | 52 | 199 | 188 |
| Net (loss) income attributable to controlling interest | $ (816) | $ 462 | $ 3,823 | $ 7,322 |
| **Percentage of Net sales:** | | | | |
| Direct net sales | 64.7 % | 78.0 % | 69.2 % | 82.6 % |
| Retail net sales | 35.3 % | 22.0 % | 30.8 % | 17.4 % |
| Net sales | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Cost of goods sold (excluding depreciation and amortization) | 43.4 % | 42.2 % | 42.8 % | 41.7 % |
| Gross profit | 56.6 % | 57.8 % | 57.2 % | 58.3 % |
| Selling, general and administrative expenses | 57.4 % | 56.6 % | 54.2 % | 52.2 % |
| Operating (loss) income | (0.7)% | 1.2 % | 3.0 % | 6.0 % |
| Interest expense | 0.8 % | 0.0 % | 0.5 % | 0.1 % |
| Other income, net | 0.1 % | 0.0 % | 0.1 % | 0.1 % |
| (Loss) income before income taxes | (1.4)% | 1.2 % | 2.6 % | 6.1 % |
| Income tax (benefit) expense | (0.5)% | 0.5 % | 1.0 % | 2.3 % |
| Net (loss) income | (0.9)% | 0.8 % | 1.6 % | 3.7 % |
| Less: Net income attributable to noncontrolling interest | 0.1 % | 0.1 % | 0.1 % | 0.1 % |
| Net (loss) income attributable to controlling interest | (1.0)% | 0.7 % | 1.5 % | 3.6 % |

### Three Months Ended October 29, 2017 Compared to Three Months Ended October 30, 2016

#### *Net Sales*

Net sales increased $16.7 million, or 25.0%, to $83.7 million in the three months ended October 29, 2017 compared to $67.0 million in the three months ended October 30, 2016, driven by gains in both direct and retail segments of $1.9 million, or 3.6%, and $14.8 million, or 100.7%, respectively, with gains across virtually all product categories and in both men’s and women’s business. Our website visits increased 3.7% in the three months ended October 29, 2017 compared to the three months ended October 30, 2016. The increase in retail net sales was primarily due to having 12 more stores during the three months ended October 29, 2017 as compared to the three months ended October 30, 2016.

***Gross Profit***

Gross profit increased $8.7 million, or 22.4%, to $47.4 million in the three months ended October 29, 2017 compared to $38.7 million in the three months ended October 30, 2016. As a percentage of net sales, gross margin decreased 120 basis points to 56.6% of net sales in the three months ended October 29, 2017, compared to 57.8% of net sales in the three months ended October 30, 2016. The decrease in gross margin rate was primarily attributable to a continuing decline in shipping revenues, coupled with an increase in freight cost related to transporting inventory from our Belleville distribution center to our retail stores due to geographic expansion, which was partially offset by an increase in product margins.

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

Selling, general and administrative expenses increased $10.1 million, or 26.7%, to $48.0 million in the three months ended October 29, 2017 compared to $37.9 million in the three months ended October 30, 2016. Selling, general and administrative expenses as a percentage of net sales increased 80 basis points to 57.4% in the three months ended October 29, 2017, compared to 56.6% in the three months ended October 30, 2016. The increase in selling, general and administrative expenses was attributable to an increase of $2.3 million in advertising and marketing costs, $3.0 million in selling expenses and $4.8 million in general and administrative expenses.

As a percentage of net sales, advertising and marketing costs decreased 160 basis points to 20.2% in the three months ended October 29, 2017, compared to 21.8% in the three months ended October 30, 2016. The 160 basis point decrease in advertising and marketing costs as a percentage of net sales was primarily attributable to a decrease of 140 basis points in digital advertising and a decrease of 130 basis points in catalog costs due to leverage gained from increase in retail net sales as discussed above, which was partially offset by an increase of 90 basis points in television and retail store advertising.

As a percentage of net sales, selling expenses increased 60 basis points to 15.8% in the three months ended October 29, 2017, compared to 15.2% in the three months ended October 30, 2016, primarily due to an increase of 110 basis points in customer service due to our growth in retail, which was partially offset by a decrease of 60 basis points in shipping expenses attributable to the leverage gained from an increase in the proportion of retail net sales.

As a percentage of net sales, general and administrative expenses increased 170 basis points to 21.4% in the three months ended October 29, 2017, compared to 19.7% in the three months ended October 30, 2016. The 170 basis point increase was primarily attributable to an increase of 70 basis points in occupancy and equipment cost due to growth in retail, an increase of 70 basis points in personnel expenses primarily due to an expense in connection with the retirement of a senior management employee and an increase of 30 basis points in depreciation.

***Interest Expense***

Interest expense was $0.7 million in the three months ended October 29, 2017, compared to $0.03 million in the three months ended October 30, 2016. The increase in interest expense was primarily attributable to our build-to-suit retail stores and an increase in borrowings on our revolving line of credit.

***Income Tax (Benefit) Expense***

Income tax benefit was $0.5 million in the three months ended October 29, 2017, compared to income tax expense of $0.3 million in the three months ended October 30, 2016. The decrease was primarily attributable to a net loss in comparison to a net income in the prior year three months ended October 30, 2016. Our effective tax rate related to controlling interest was 36% and 40%, for the three months ended October 29, 2017 and October 30, 2016, respectively.

***Net (Loss) Income***

Net loss was $0.8 million, in the three months ended October 29, 2017 compared to a net income of $0.5 million in the three months ended October 30, 2016, primarily due to the factors discussed above.

**Nine Months Ended October 29, 2017 Compared to Nine Months Ended October 30, 2016**

***Net Sales***

Net sales increased $52.2 million, or 25.9%, to $253.6 million in the nine months ended October 29, 2017 compared to $201.5 million in the nine months ended October 30, 2016, driven by gains in both direct and retail segments of $9.2 million, or 5.5%, and $43.0 million, or 122.8%, respectively, with gains across all product categories. Our website visits increased 13.2%

in the nine months ended October 29, 2017 compared to the nine months ended October 30, 2016. The increase in retail net sales was primarily attributable to the same factors discussed above for the three months ended October 29, 2017 compared to the three months ended October 30, 2016.

***Gross Profit***

Gross profit increased $27.6 million, or 23.5%, to $145.0 million in the nine months ended October 29, 2017 compared to $117.4 million in the nine months ended October 30, 2016. As a percentage of net sales, gross margin decreased 110 basis points to 57.2% of net sales in the nine months ended October 29, 2017, compared to 58.3% of net sales in the nine months ended October 30, 2016. The decrease in gross margin rate was primarily due to the same factors discussed above for the three months ended July 30, 2017 compared to the three months ended July 31, 2016, which was partially offset by an increase in product margins.

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

Selling, general and administrative expenses increased $32.3 million, or 30.7%, to $137.5 million in the nine months ended October 29, 2017 compared to $105.2 million in the nine months ended October 30, 2016. Selling, general and administrative expenses as a percentage of net sales increased 200 basis points to 54.2% in the nine months ended October 29, 2017, compared to 52.2% in the nine months ended October 30, 2016. The increase in selling, general and administrative expenses was attributable to an increase of $9.5 million in advertising and marketing costs, $9.3 million in selling expenses and $13.5 million in general and administrative expenses.

As a percentage of net sales, advertising and marketing costs decreased 70 basis points to 20.9% in the nine months ended October 29, 2017, compared to 21.6% in the nine months ended October 30, 2016. The 70 basis point decrease in advertising and marketing costs as a percentage of net sales was primarily attributable to a decrease of 120 basis points in catalog costs and a decrease of 40 basis points in digital advertising, partially offset by an increase of 80 basis points in television advertising.

As a percentage of net sales, selling expenses increased 80 basis points to 14.8% in the nine months ended October 29, 2017, compared to 14.0% in the nine months ended October 30, 2016, primarily due to an increase of 130 basis points in customer service due to growth in retail, offset by a decrease of 50 basis points in shipping expenses attributable to the leverage gained from an increase in the proportion of retail net sales.

As a percentage of net sales, general and administrative expenses increased 190 basis points to 18.5% in the nine months ended October 29, 2017, compared to 16.6% in the nine months ended October 30, 2016. The 190 basis point increase was primarily attributable to an increase of 120 basis points in occupancy and equipment costs due to retail growth and an increase of 40 basis points in depreciation.

***Interest Expense***

Interest expense was $1.2 million in the nine months ended October 29, 2017, compared to $0.1 million in the nine months ended July 31, 2016. The increase in interest expense was due to the same factors discussed above for the three months ended October 29, 2017 compared to the three months ended October 30, 2016.

***Income Tax Expense***

Income tax expense was $2.5 million in the nine months ended October 29, 2017, compared to $4.7 million in the nine months ended October 30, 2016. Our effective tax rate related to controlling interest was 39%, for both the nine months ended October 29, 2017 and October 30, 2016.

***Net Income***

Net income decreased $3.5 million, or 47.8%, to $3.8 million in the nine months ended October 29, 2017, compared to $7.3 million in the nine months ended October 30, 2016, 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-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 | | Nine Months Ended | |
|---|---|---|---|---|
| | October 29, 2017 | October 30, 2016 | October 29, 2017 | October 30, 2016 |
| *(in thousands)* | | | | |
| Net (loss) income | $ (746) | $ 514 | $ 4,022 | $ 7,510 |
| Depreciation and amortization | 1,824 | 1,264 | 5,104 | 3,215 |
| Interest expense | 661 | 33 | 1,199 | 108 |
| Income tax (benefit) expense | (454) | 305 | 2,480 | 4,691 |
| EBITDA | $ 1,285 | $ 2,116 | $ 12,805 | $ 15,524 |
| Non-cash stock based compensation | 569 | 354 | 1,186 | 969 |
| Adjusted EBITDA | $ 1,854 | $ 2,470 | $ 13,991 | $ 16,493 |

As a result of the factors discussed above in the "Results of Operations" section, Adjusted EBITDA decreased $0.6 million, or 24.9%, to $1.9 million in the three months ended October 29, 2017 compared to $2.5 million in the three months ended October 30, 2016. As a percentage of net sales, Adjusted EBITDA decreased 150 basis points to 2.2% of net sales in the three months ended October 29, 2017 compared to 3.7% of net sales in the three months ended October 30, 2016.

As a result of the factors discussed above in the "Results of Operations" section, Adjusted EBITDA decreased $2.5 million, or 15.2%, to $14.0 million in the nine months ended October 29, 2017 compared to $16.5 million in the nine months ended October 30, 2016. As a percentage of net sales, Adjusted EBITDA decreased 270 basis points to 5.5% of net sales in the nine months ended October 29, 2017 compared to 8.2% of net sales in the nine months ended October 30, 2016.

**Liquidity and Capital Resources**

***General***

Our business relies on cash from operating activities, as well as cash on hand and a revolving line of credit as our primary sources of liquidity, which was increased effective November 1, 2017, to $80.0 million through December 31, 2017 and then to $60.0 million from January 1, 2018 through July 31, 2019. 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 $42.0 million to $44.0 million in fiscal 2017 on capital expenditures, net of proceeds from finance lease obligations, including a total of approximately $31.0 million to $33.0 million for new retail store expansion and remodels. We expect capital expenditures of approximately $2.0 million and starting inventory of $0.6 million to open a new store. At October 29, 2017, our net working capital was $86.6 million, including $1.0 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 balance as of October 29, 2017, combined with 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.

| | Nine Months Ended | |
|---|---|---|
| | October 29, 2017 | October 30, 2016 |
| *(in thousands)* | | |
| Net cash used in operating activities | $ (34,957) | $ (26,783) |
| Net cash used in investing activities | (44,643) | (22,473) |
| Net cash provided by financing activities | 56,516 | 11,556 |
| Decrease in cash | $ (23,084) | $ (37,700) |

***Net Cash used in Operating Activities***

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

While our cash flows from operations for the nine months ended October 29, 2017 is negative, primarily driven by the seasonal nature of our business, we expect cash flows from operations for the full year fiscal 2017 to be positive from normal operating performance and seasonal reductions in working capital during the fourth quarter of our fiscal year, which is consistent with previous full fiscal years.

For the nine months ended October 29, 2017, net cash used in operating activities was $35.0 million, which consisted of net income of $4.0 million, non-cash depreciation and amortization of $5.1 million and stock based compensation of $1.2 million, offset by cash used in operating assets and liabilities of $45.2 million. The cash used in operating assets and liabilities of $45.2 million primarily consisted of $57.0 million increase in inventory, primarily due to the increase in the number of our retail stores and building up our inventory for the peak holiday season, which was partially offset by an increase in trade accounts payable of $18.7 million primarily due to timing of payments.

For the nine months ended October 30, 2016, net cash used in operating activities was $26.8 million, which primarily consisted of net income of $7.5 million, non-cash depreciation and amortization of $3.2 million and stock based compensation of $1.0 million, offset by cash used in operating assets and liabilities of $38.6 million. The cash used in operating assets and liabilities of $38.6 million primarily consisted of $40.9 million increase in inventory, due to building up of inventory for our peak season, coupled with the increase in the number of our retail stores during fiscal 2016, and $3.0 million increase in other receivables primarily due to refunds for excess income tax payments, which was partially offset by a $6.7 million increase in trade accounts payable, primarily due to seasonality and timing of payments.

***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, coupled with changes in restricted cash, which is related to our retail store leasing agreements.

For the nine months ended October 29, 2017, net cash used in investing activities was $44.6 million and was primarily driven by capital expenditures of $37.5 million for the opening of ten new retail stores and investments in information technology, $6.3 million purchase of available-for-sale security, and a change in restricted cash of $0.7 million.

For the nine months ended October 30, 2016, net cash used in investing activities was $22.5 million and was primarily driven by capital expenditures of $21.0 million for the expansion of our Belleville distribution center, the opening of five new retail stores, and 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 distributions to the individuals and entities that were our shareholders prior to our IPO and holders of noncontrolling interest in variable interest entity, proceeds from finance lease obligations and capital contributions to Schlecht Retail Ventures LLC.

For the nine months ended October 29, 2017, net cash provided by financing activities was $56.5 million, primarily consisting of proceeds of $50.1 million, net from our revolving line of credit, $0.8 million from long-term debt, $2.9 million in change in bank overdraft, $2.4 million from finance lease obligations in connection with our build-to-suit lease transactions and $0.8 million for capital contributions to SRV.

For the nine months ended October 30, 2016, net cash provided by financing activities was $11.6 million, primarily consisting of proceeds of $13.2 million, net from our revolving line of credit, $2.1 million in change in bank overdraft, and $0.7 million for capital contributions to SRV, offset by uses of $4.2 million for payments on long-term debt.

***Line of Credit***

On September 29, 2017, we entered into a first amendment to the Amended and Restated Loan Agreement dated as of October 7, 2016 (the "Amended and Restated Agreement"), providing for borrowing availability of up to $60.0 million from September 29, 2017 through July 31, 2019. Effective November 1, 2017, we entered into a second amendment to the Amended and Restated Agreement, providing for borrowing availability of up to $80.0 million from November 1, 2017 through December 31, 2017 and borrowing availability of up to $60.0 million from January 1, 2018 through July 31, 2019. The Amended and Restated Agreement matures on July 31, 2019, and bears interest, payable monthly, at a rate equal to the adjusted LIBOR rate, as defined in the Amended and Restated Agreement (effective rate of 2.5% at October 29, 2017). The Amended and Restated Agreement is secured by essentially all Company assets and requires that we maintain compliance with certain financial and non-financial covenants, including minimum tangible net worth and a minimum trailing twelve month EBITDA. In addition, the Amended and Restated Agreement does not contain borrowing base limits. As of October 29, 2017 and for the nine months then ended, we were in compliance with all financial and non-financial covenants, and we expect to be in compliance with all financial and non-financial covenants for the remainder of fiscal 2017.

**Contractual Obligations**

On August 18, 2017, we entered into a lease agreement for the construction of our headquarters in Mt. Horeb, Wisconsin (the "HQ Lease"). The HQ Lease is for an initial term of 30 years and is expected to begin on November 1, 2018, with annual lease payments of $1.8 million, increasing 2.0% each year through the first 20 years, then beginning in year 21, the annual lease payments reset to $1.3 million, increasing 2.0% each year until the end of the lease term, with a renewal option to extend for up to two terms of ten years each. The construction completion date of our headquarters is expected on or before November 1, 2018.

Except as discussed above, there have been no significant changes to our contractual obligations as described in our 2016 Form 10-K.

**Off-Balance Sheet Arrangements**

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

**Critical Accounting Policies and Critical Accounting Estimates**

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

As of the date of this filing, there were no significant changes to any of the critical accounting policies and estimates described in our 2016 Form 10-K.

**Recently Issued Accounting Pronouncements**

***Revenue from Contracts with Customers***

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*. ASU 2014-09 requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new revenue recognition model requires identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price to performance obligations and recognizing the revenue upon satisfaction of the performance obligations. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and change in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. On July 9, 2015, the FASB deferred the effective date of ASU 2014-09 for one year. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017. Accordingly, we will adopt ASU 2014-09 on January 29, 2018, the first day of our first quarter for the fiscal year ending February 3, 2019, our fiscal year 2018. We expect to adopt ASU 2014-09 retrospectively with the cumulative effect of initially applying the update recognized at the date of the adoption along with additional disclosures. Our revenue is primarily generated from the sale of finished goods to customers and those sales predominately contain a single performance obligation, revenue is recognized at the point of sale for our retail segment or when the products have been delivered to the customer for our direct segment. Our review is ongoing as it specifically relates to sales returns and gift cards, and we not yet identified any material changes in the timing of revenue recognition. We continue to evaluate the new disclosure requirements of ASU 2014-09 on our consolidated financial statements.

***Simplifying the Measurement of Inventory***

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, *Simplifying the Measurement of Inventory (Topic 330)* ("ASU 2015-11"), which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation." ASU 2015-11 eliminates the guidance that entities consider replacement cost or net realizable value less an approximately normal profit margin in the subsequent measurement of inventory when cost is determined on a first-in, first-out or average cost basis. The provisions of ASU 2015-11 are effective for public entities with fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. We adopted ASU 2015-11 as of January 30, 2017, the first day of our fiscal year 2017 and there was no significant impact to our consolidated financial statements.

***Balance Sheet Classification of Deferred Taxes***

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, *Balance Sheet Classification of Deferred Taxes (Topic 740)* ("ASU 2015-17"), which requires the classification of all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. In addition, an allocation of valuation allowances between current and noncurrent deferred tax assets is not required, because the allowances will be classified as noncurrent. The provisions of ASU 2015-17 are effective for public entities with fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. We adopted ASU 2015-17 as of January 31, 2016 and have reported deferred tax assets and liabilities as noncurrent on the consolidated balance sheets.

***Leases***

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases* (Topic 842) ("ASU 2016-02"), which requires lessees to recognize most leases on the balance sheets, but recognize expenses on the income statements in a manner which is similar to the current lease standard. The provisions of ASU 2016-02 are effective for public entities with fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. We expect to early adopt ASU 2016-02 on January 29, 2018, the first day of our first quarter for the fiscal year ending February 3, 2019, our fiscal year 2018. We conduct our retail operations through leased stores and therefore, we expect the adoption of ASU 2016-02 to have a significant impact on our consolidated financial statements.

***Improvements to Employee Share-Based Payment Accounting***

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Compensation – Stock Compensation* (Topic 718): *Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"), which is intended to improve the accounting for share-based payment transactions. ASU 2016-09 changes certain aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; and (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. The provisions of ASU 2016-09 are effective for public entities with fiscal years beginning after December 15, 2016, and interim periods within those years, early adoption is permitted. We adopted ASU 2016-09 as of May 1, 2016 and there was no significant impact to our consolidated financial statements.

***Statement of Cash Flows***

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, *Statement of Cash Flows* (Topic 230*): Restricted Cash* ("ASU 2016-18"), which requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. ASU 2016-18 is effective for public entities with fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. We expect to adopt ASU 2016-18 on January 29, 2018, the first day of our first quarter for the fiscal year ending February 3, 2019, our fiscal year 2018. We are evaluating the level of impact of adopting ASU 2016-18 will have on our consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no significant changes in the market risks described in our 2016 Form 10-K. See Note 2 "Debt and Line of Credit," of Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1, of this quarterly report on Form 10-Q, for disclosure on our interest rate related to our line of credit.

**Item 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

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

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

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

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

We operate in a rapidly changing environment that involves a number of risks that may have a material adverse effect on our business, financial condition and results of operations. For a detailed discussion of the risks that affect our business, please refer to the section entitled "Risk Factors" in our 2016 Form 10-K. 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 October 29, 2017, which were not registered under the Securities Act.

The following table contains information of shares acquired from employees in lieu of amounts required to satisfy minimum tax withholding requirements upon the vesting of the employees' restricted stock during the quarter ended October 29, 2017.

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Approximate dollar value of shares that may yet to be purchased under the plans or programs |
|---|---|---|---|---|
| July 31 - August 27, 2017 | — | $ — | — | $ — |
| August 28 - October 1, 2017 | 2,890 | 19.75 | — | — |
| October 2 - October 29, 2017 | — | — | — | — |
| Total | 2,890 | $ 19.75 | — | $ — |

## Item 6. Exhibits

Please refer to the Exhibit Index.

**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: December 7, 2017

DULUTH HOLDINGS INC.
(Registrant)

**/s/ DAVID LORETTA**

**David Loretta**
***Senior Vice President and Chief Financial Officer***
***(On behalf of the Registrant as Principal Financial Officer and Principal Accounting Officer)***

**EXHIBIT INDEX**

| Exhibit No. | |
|---|---|
| 10.1 | Amended and Restated Loan Agreement, dated October 7, 2016, among BMO Harris Bank N.A. (f/k/a Harris N.A.) and Duluth Holdings Inc., as amended by the First Amendment to the Amended and Restated Loan Agreement dated September 9, 2017, incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K dated November 1, 2017. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities and Exchange Act, as amended.* |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended.* |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |
| 101.INS | XBRL Instance Document** |
| 101.SCH | XBRL Taxonomy Extension Schema Document** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document** |
| 101.DEF | XBRL Taxonomy Extension Definition Document** |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document** |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document** |

* Filed herewith

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

**Exhibit 31.1**

**CERTIFICATIONS**

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

1. I have reviewed this Quarterly Report on Form 10-Q of Duluth Holdings Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: December 7, 2017

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

**Exhibit 31.2**

**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: December 7, 2017

**/s/ David Loretta**

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

**Exhibit 32.1**

**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 October 29, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Stephanie L. Pugliese, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

**/s/ Stephanie L. Pugliese**

| | |
|---|---|
| Name: | **Stephanie L. Pugliese** |
| Title: | **Chief Executive Officer** |
| Date: | **December 7, 2017** |

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

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

In connection with the Quarterly Report on Form 10-Q of Duluth Holdings Inc. (the “Company”) for the quarterly period ended October 29, 2017 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: | **December 7, 2017** |

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.