

**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 28, 2018

OR

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

For the transition period from _____ to _____

Commission File Number 001-37641

DULUTH HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of
incorporation or organization)

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

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

53572
(Zip Code)

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

The number of shares outstanding of the Registrant's Class A common stock, no par value, as of December 5, 2018, was 3,364,200.
The number of shares outstanding of the Registrant's Class B common stock, no par value, as of December 5, 2018, was 29,214,676.

DULUTH HOLDINGS INC.
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED October 28, 2018
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	<u>October 28, 2018</u>	<u>January 28, 2018</u>
Current Assets:		
Cash	\$ 2,500	\$ 2,865
Accounts receivable	339	52
Other receivables	2,827	273
Inventory, less reserve for excess and obsolete items of \$2,972 and \$1,866, respectively	131,448	89,548
Prepaid expenses & other current assets	11,975	7,642
Deferred catalog costs	1,137	1,446
Total current assets	<u>150,226</u>	<u>101,826</u>
Property and equipment, net	165,885	109,705
Restricted cash	693	4,218
Available-for-sale security	6,323	6,323
Goodwill	402	402
Other assets, net	988	628
Total assets	<u>\$ 324,517</u>	<u>\$ 223,102</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 34,200	\$ 17,320
Accrued expenses and other current liabilities	30,715	25,261
Income taxes payable	—	7,631
Current maturities of capital lease obligations	165	4
Current maturities of long-term debt	80	80
Total current liabilities	<u>65,160</u>	<u>50,296</u>
Long-term line of credit	65,000	—
Capitalized lease obligations, less current maturities	27,578	31
Finance lease obligations under build-to-suit leases	17,330	26,578
Deferred rent obligations, less current maturities	3,892	3,355
Deferred tax liabilities	1,573	2,100
Long-term debt, less current maturities	1,333	1,393
Total liabilities	<u>181,866</u>	<u>83,753</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 10,000 shares authorized; no shares issued or outstanding as of October 28, 2018 and January 28, 2018	—	—
Common stock (Class A), no par value; 10,000 shares authorized; 3,364 shares issued and outstanding as of October 28, 2018 and January 28, 2018	—	—
Common stock (Class B), no par value; 200,000 shares authorized; 29,228 shares issued and 29,223 shares outstanding as of October 28, 2018 and 29,101 shares issued and 29,098 shares outstanding as of January 28, 2018	—	—
Treasury stock, at cost; 5 and 3 shares as of October 28, 2018 and January 28, 2018, respectively	(92)	(57)
Capital stock	89,335	88,043
Retained earnings	49,972	48,084
Total shareholders' equity of Duluth Holdings Inc.	<u>139,215</u>	<u>136,070</u>
Noncontrolling interest	3,436	3,279
Total shareholders' equity	<u>142,651</u>	<u>139,349</u>
Total liabilities and shareholders' equity	<u>\$ 324,517</u>	<u>\$ 223,102</u>

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 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
Net sales	\$ 106,701	\$ 83,729	\$ 317,561	\$ 253,642
Cost of goods sold (excluding depreciation and amortization)	45,730	36,302	138,410	108,649
Gross profit	60,971	47,427	179,151	144,993
Selling, general and administrative expenses	63,534	48,039	172,075	137,467
Operating (loss) income	(2,563)	(612)	7,076	7,526
Interest expense	1,583	661	3,638	1,199
Other income, net	3	73	168	175
(Loss) income before income taxes	(4,143)	(1,200)	3,606	6,502
Income tax (benefit) expense	(1,067)	(454)	913	2,480
Net (loss) income	(3,076)	(746)	2,693	4,022
Less: Net income attributable to noncontrolling interest	74	70	157	199
Net (loss) income attributable to controlling interest	\$ (3,150)	\$ (816)	\$ 2,536	\$ 3,823
Basic earnings per share (Class A and Class B):				
Weighted average shares of common stock outstanding	32,098	31,861	32,065	31,837
Net (loss) income per share attributable to controlling interest	\$ (0.10)	\$ (0.03)	\$ 0.08	\$ 0.12
Diluted earnings per share (Class A and Class B):				
Weighted average shares and equivalents outstanding	32,098	31,861	32,402	32,297
Net (loss) income per share attributable to controlling interest	\$ (0.10)	\$ (0.03)	\$ 0.08	\$ 0.12

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

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

	Three Months Ended		Nine Months Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
Net (loss) income	\$ (3,076)	\$ (746)	\$ 2,693	\$ 4,022
Other comprehensive income	—	—	—	—
Comprehensive (loss) income	(3,076)	(746)	2,693	4,022
Comprehensive income attributable to noncontrolling interest	74	70	157	199
Comprehensive (loss) income attributable to controlling interest	\$ (3,150)	\$ (816)	\$ 2,536	\$ 3,823

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)

	Nine-Months Ended October 28, 2018					
	Capital stock		Treasury stock	Retained earnings	Noncontrolling interest in variable interest entity	Total shareholders' equity
	Shares	Amount				
Balance at January 28, 2018	32,462	\$ 88,043	\$ (57)	\$ 48,084	\$ 3,279	\$ 139,349
Cumulative effect from adoption of ASC 606 (Footnote 1)	—	—	—	(648)	—	(648)
Balance at January 29, 2018	32,462	\$ 88,043	\$ (57)	\$ 47,436	\$ 3,279	\$ 138,701
Issuance of common stock	106	—	—	—	—	—
Amortization of stock-based compensation	—	409	—	—	—	409
Restricted stock surrendered for taxes	(2)	—	(35)	—	—	(35)
Net (loss) income	—	—	—	(691)	8	(683)
Balance at April 29, 2018	32,566	\$ 88,452	\$ (92)	\$ 46,745	\$ 3,287	\$ 138,392
Issuance of common stock	20	—	—	—	—	—
Amortization of stock-based compensation	—	449	—	—	—	449
Net income	—	—	—	6,377	75	6,452
Balance at July 29, 2018	32,586	\$ 88,901	\$ (92)	\$ 53,122	\$ 3,362	\$ 145,293
Issuance of common stock	3	—	—	—	—	—
Restricted stock forfeitures	(2)	—	—	—	—	—
Amortization of stock-based compensation	—	434	—	—	—	434
Net (loss) income	—	—	—	(3,150)	74	(3,076)
Balance at October 28, 2018	32,587	\$ 89,335	\$ (92)	\$ 49,972	\$ 3,436	\$ 142,651

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)

	Nine-Months Ended October 29, 2017					
	Capital stock		Treasury stock	Retained earnings	Noncontrolling	Total shareholders' equity
	Shares	Amount			variable interest entity	
Balance at January 29, 2017	32,376	\$ 86,446	\$ —	\$ 24,733	\$ 2,609	\$ 113,788
Issuance of common stock	73	—	—	—	—	—
Restricted stock forfeitures	(7)	—	—	—	—	—
Amortization of stock-based compensation	—	324	—	—	—	324
Capital contributions	—	—	—	—	269	269
Net income	—	—	—	355	60	415
Balance at April 30, 2017	32,442	\$ 86,770	\$ —	\$ 25,088	\$ 2,938	\$ 114,796
Issuance of common stock	29	—	—	—	—	—
Restricted stock forfeitures	(1)	—	—	—	—	—
Amortization of stock-based compensation	—	293	—	—	—	293
Capital contributions	—	—	—	—	525	525
Net income	—	—	—	4,284	69	4,353
Balance at July 30, 2017	32,470	\$ 87,063	\$ —	\$ 29,372	\$ 3,532	\$ 119,967
Issuance of common stock	7	—	—	—	—	—
Restricted stock forfeitures	(13)	—	—	—	—	—
Amortization of stock-based compensation	—	569	—	—	—	569
Restricted stock surrendered for taxes	(3)	—	(57)	—	—	(57)
Distributions	—	—	—	—	(400)	(400)
Net (loss) income	—	—	—	(816)	70	(746)
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 28, 2018	October 29, 2017
Cash flows from operating activities:		
Net income	\$ 2,693	\$ 4,022
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	8,187	5,104
Stock based compensation	1,305	1,186
Deferred income taxes	(150)	(60)
Changes in operating assets and liabilities:		
Accounts receivable	(287)	(17)
Other receivables	(2,554)	(1,320)
Inventory	(44,776)	(57,020)
Prepaid expense & other current assets	(4,951)	(3,136)
Deferred catalog costs	(1,416)	(1,006)
Trade accounts payable	19,126	18,665
Income taxes payable	(7,780)	(5,225)
Accrued expenses and deferred rent obligations	7,101	3,850
Net cash used in operating activities	(23,502)	(34,957)
Cash flows from investing activities:		
Purchases of property and equipment	(45,878)	(37,501)
Change in other assets	(439)	(6,323)
Purchases of other assets	—	(85)
Net cash used in investing activities	(46,317)	(43,909)
Cash flows from financing activities:		
Proceeds from line of credit	100,982	76,476
Payments on line of credit	(35,982)	(26,375)
Proceeds from long term debt	—	800
Payments on long term debt	(60)	(34)
Payments on capital lease obligations	(4)	(14)
Change in bank overdrafts	—	2,930
Distributions to holders of noncontrolling interest in variable interest entity	—	(400)
Proceeds from finance lease obligations	941	2,358
Capital contributions to variable interest entity	—	794
Shares withheld for tax payments on vested restricted shares	(35)	(57)
Other	87	38
Net cash provided by financing activities	65,929	56,516
Decrease in cash and restricted cash	(3,890)	(22,350)
Cash and restricted cash at beginning of period	7,083	25,477
Cash and restricted cash at end of period	\$ 3,193	\$ 3,127
Supplemental disclosure of cash flow information:		
Interest paid	\$ 3,362	\$ 947
Income taxes paid	\$ 10,055	\$ 8,950
Supplemental disclosure of non-cash information:		
Property and equipment acquired through capital lease	\$ 27,711	\$ —
Property and equipment acquired under build-to-suit leases	\$ 3,583	\$ 12,739
Unpaid liability to acquire property and equipment	\$ 3,001	\$ 4,144

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 28, 2018, the Company operated 40 retail stores and three outlet stores. The Company’s products are marketed under the Duluth Trading brand, with the majority of products being exclusively developed and sold as Duluth Trading branded merchandise.

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

B. Basis of Presentation

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

The Company’s fiscal year ends on the Sunday nearest to January 31 of the following year. Fiscal 2018 is a 53-week period and ends on February 3, 2019. Fiscal 2017 was a 52-week period and ended on January 28, 2018. The three and nine months of fiscal 2018 and fiscal 2017 represent the Company’s 13 and 39-week periods ended October 28, 2018 and October 29, 2017, respectively.

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

C. Seasonality of Business

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

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

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

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

	<u>October 28, 2018</u>
<i>(in thousands)</i>	
Cash	\$ 2,500
Restricted cash	693
Total cash and restricted cash shown in the condensed consolidated statement of cash flows	<u>\$ 3,193</u>

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

E. Build-to-Suit Lease

The Company may at times be involved in the construction of stores to be leased by the Company and, depending on the extent to which the Company is involved, the Company may be deemed the owner of the leased premises for accounting purposes during the store construction period. For leases of property of which the Company is deemed to be the owner 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 28, 2018, the Company capitalized \$33.1 million in property and equipment and \$0.8 million in accumulated depreciation and recorded a \$17.3 million non-current liability related to build-to-suit transactions in which the Company is considered the owner for accounting purposes. As of January 28, 2018, the Company capitalized \$36.5 million in property and equipment and \$0.3 million in accumulated depreciation and recorded a \$26.6 million non-current liability related to build-to-suit transactions in which the Company is considered the owner for accounting purposes.

F. Significant Accounting Policies

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

Recently Adopted Accounting Pronouncements

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

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

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

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

G. Reclassifications

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

	<u>October 29, 2017</u>
<i>(in thousands)</i>	
Net cash used in investing activities:	
As previously reported	\$ (44,643)
Reclassification based on adoption of ASC 230	734
As reclassified	\$ (43,909)

2. REVENUES

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

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

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

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

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

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

The following tables present the effects of the adoption of ASC 606 on the Company's condensed consolidated balance sheets as of October 28, 2018 and the Company's condensed consolidated statements of operations for the three and nine months ended October 28, 2018:

	October 28, 2018		
	As Reported	Adjustments due to ASC 606	Balances without Adoption of ASC 606
<i>(in thousands)</i>			
Inventory, net	\$ 131,448	\$ 1,998	\$ 133,446
Prepaid expenses & other current assets	11,975	(396)	11,579
Deferred catalog costs	1,137	91	1,228
Total current assets	150,226	1,693	151,919
Total assets	324,517	1,693	326,210
Accrued expenses and other current liabilities	30,715	3,501	34,216
Total current liabilities	65,160	3,501	68,661
Deferred tax liabilities	1,573	(470)	1,103
Total liabilities	181,866	3,031	184,897
Total shareholders' equity	142,651	(1,338)	141,313
Total liabilities and shareholders' equity	324,517	1,693	326,210

	October 28, 2018					
	Three Months Ended			Nine Months Ended		
	As Reported	Adjustments due to ASC 606	Balances without Adoption of ASC 606	As Reported	Adjustments due to ASC 606	Balances without Adoption of ASC 606
<i>(in thousands)</i>						
Net sales	\$ 106,701	\$ (2,097)	\$ 104,604	\$ 317,561	\$ (3,711)	\$ 313,850
Cost of goods sold (excluding depreciation and amortization)	45,730	(1,212)	44,518	138,410	(2,117)	136,293
Gross profit	60,971	(885)	60,086	179,151	(1,594)	177,557
Selling, general and administrative expenses	63,534	(139)	63,395	172,075	1,090	173,165
Operating (loss) income	(2,563)	(746)	(3,309)	7,076	(2,684)	4,392
Interest expense	1,583	—	1,583	3,638	—	3,638
Other income, net	3	—	3	168	—	168
(Loss) income before income taxes	(4,143)	(746)	(4,889)	3,606	(2,684)	922
Income tax (benefit) expense	(1,067)	(194)	(1,261)	913	(698)	215
Net (loss) income	(3,076)	(552)	(3,628)	2,693	(1,986)	707
Less: Net income attributable to noncontrolling interest	74	—	74	157	—	157
Net (loss) income attributable to controlling interest	\$ (3,150)	\$ (552)	\$ (3,702)	\$ 2,536	\$ (1,986)	\$ 550

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

3. DEBT AND LINE OF CREDIT

Debt consists of the following:

	October 28, 2018	January 28, 2018
<i>(in thousands)</i>		
SRV Mortgage Term A Note	\$ 660	\$ 690
SRV Mortgage Term B Note	753	783
	\$ 1,413	\$ 1,473
Less: current maturities	80	80
Long-term debt	\$ 1,333	\$ 1,393
Line of credit	\$ 65,000	\$ —

Schlecht Retail Ventures LLC

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

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

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

Line of Credit

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

Effective May 17, 2018, the Company terminated its Amended and Restated Agreement and entered into a new credit agreement (the “Credit Agreement”) which provides for borrowing availability of up to \$80.0 million in revolving credit (the “Revolver”), and borrowing availability of up to \$50.0 million in a delayed draw term loan (“DDTL”), for a total credit facility of \$130.0 million. The \$80.0 million revolving credit matures on May 17, 2023. The \$50.0 million DDTL is available to draw upon in differing amounts through May 17, 2020, and matures on May 17, 2023. The outstanding balance of \$27.5 million under the Amended and Restated Agreement was paid off with borrowings under the Credit Agreement. The Credit Agreement is secured by essentially all Company assets and requires the Company to maintain compliance with certain financial and non-financial covenants, including a maximum rent adjusted leverage ratio and a minimum fixed charge coverage ratio as defined in the Credit Agreement. At the Company’s option, the interest rate applicable to the Revolver or DDTL will be a floating rate equal to: (i) the base rate plus a margin of 25 to 100 basis points (“bps”), based upon the Company’s rent adjusted leverage ratio, or (ii) a fixed rate for a one-, two-, three- or six-month interest period equal to LIBOR for such interest period plus a margin of 125 to 200 bps, based upon the Company’s rent adjusted leverage ratio (effective rate of 3.8% at October 28, 2018). In addition, outstanding balances under the DDTL require quarterly principal payments with a final balloon payment at maturity.

As of October 28, 2018 and for the nine months then ended, the Company was in compliance with all financial and non-financial covenants for all debts discussed above.

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

4. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

<i>(in thousands)</i>	<u>October 28, 2018</u>	<u>January 28, 2018</u>
Salaries and benefits	\$ 2,750	\$ 5,370
Deferred revenue	4,860	7,285
Freight	2,446	4,062
Product returns	1,354	1,080
Catalog costs	479	839
Unpaid purchases of property & equipment	3,001	2,028
Accrued advertising	8,834	1,011
Other	6,991	3,586
Total accrued expenses and other current liabilities	\$ 30,715	\$ 25,261

5. INVESTMENT

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

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

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

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

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

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

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

The following table presents future principal receipts related to the Company's available-for-sale security by contractual maturity as of October 28, 2018. Cost and estimated fair value are equal.

	Estimated Fair Value
<i>(in thousands)</i>	
Within one year	\$ 113
After one year through five years	801
After five years through ten years	1,291
After ten years	4,118
Total	\$ 6,323

6. VARIABLE INTEREST ENTITY

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

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

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

	October 28, 2018	January 28, 2018
<i>(in thousands)</i>		
Cash	\$ 754	\$ 655
Other receivables	20	10
Property and equipment, net	4,088	4,114
Other assets, net	12	53
Total assets	\$ 4,874	\$ 4,832
Other current liabilities	\$ 105	\$ 160
Long-term debt	1,333	1,393
Noncontrolling interest in VIE	3,436	3,279
Total liabilities and shareholders' equity	\$ 4,874	\$ 4,832

On August 18, 2017, the Company entered into a lease agreement with TRI Holdings, LLC ("TRI"), the developer of the Company's headquarters in Mt. Horeb, Wisconsin. The Company took occupancy of the newly constructed headquarters on October 15, 2018. The Company's headquarters lease is recorded as a capitalized lease on the Company's Condensed Consolidated Balance Sheets. In conjunction with the lease, the Company invested \$6.3 million in a trust (see Note 5 "Investment") that loaned funds to TRI for the construction of the Company's future headquarters.

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

7. EARNINGS PER SHARE

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

	Three Months Ended		Nine Months Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
<i>(in thousands, except per share data)</i>				
Numerator - net (loss) income attributable to controlling interest	\$ (3,150)	\$ (816)	\$ 2,536	\$ 3,823
Denominator - weighted average shares (Class A and Class B)				
Basic	32,098	31,861	32,065	31,837
Dilutive shares	—	—	337	460
Diluted	32,098	31,861	32,402	32,297
(Loss) earnings per share (Class A and Class B)				
Basic	\$ (0.10)	\$ (0.03)	\$ 0.08	\$ 0.12
Diluted	\$ (0.10)	\$ (0.03)	\$ 0.08	\$ 0.12

The computation of dilutive earnings per share for the three months ended October 28, 2018 and October 29, 2017, excluded 0.3 million and 0.4 million shares of unvested restricted stock, respectively, because their inclusion would be anti-dilutive due to a net loss.

8. STOCK-BASED COMPENSATION

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

Total stock compensation expense associated with restricted stock recognized by the Company was \$0.4 million and \$1.3 million for the three and nine months ended October 28, 2018, respectively, and \$0.6 million and \$1.2 million for the three and nine months ended October 29, 2017, respectively. The Company's total stock compensation expense is included in selling, general and administrative expenses on the Condensed Consolidated Statements of Operations.

A summary of the activity in the Company's unvested restricted stock during the nine months ended October 28, 2018 is as follows:

	Shares	Weighted average fair value per share
Outstanding at January 28, 2018	536,471	\$ 7.60
Granted	128,501	18.33
Vested	(200,604)	5.18
Forfeited	(1,531)	19.61
Outstanding at October 28, 2018	462,837	\$ 11.27

At October 28, 2018, the Company had unrecognized compensation expense of \$3.2 million related to the restricted stock awards, which is expected to be recognized over a weighted average period of 2.3 years.

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

9. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>(in thousands)</i>	<u>October 28, 2018</u>	<u>January 28, 2018</u>
Land and land improvements	\$ 3,055	\$ 3,055
Leasehold improvements	30,166	20,985
Buildings	73,943	33,906
Vehicles	161	177
Warehouse equipment	11,293	5,850
Office equipment and furniture	33,929	22,161
Computer equipment	4,700	3,573
Software	19,237	7,540
	<u>176,484</u>	<u>97,247</u>
Accumulated depreciation and amortization	<u>(30,799)</u>	<u>(22,739)</u>
	145,685	74,508
Construction in progress	20,200	35,197
Property and equipment, net	<u>\$ 165,885</u>	<u>\$ 109,705</u>

10. SEGMENT REPORTING

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

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

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

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

Segment information is presented in the following table:

	Three Months Ended		Nine Months Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
Net sales				
Direct	\$ 59,827	\$ 54,146	\$ 186,872	\$ 175,588
Retail	46,874	29,583	130,689	78,054
Total net sales	<u>\$ 106,701</u>	<u>\$ 83,729</u>	<u>\$ 317,561</u>	<u>\$ 253,642</u>
Operating (loss) income				
Direct	\$ (8,357)	\$ (2,738)	\$ (9,362)	\$ 230
Retail	5,794	2,126	16,438	7,296
Total operating (loss) income	(2,563)	(612)	7,076	7,526
Interest expense	1,583	661	3,638	1,199
Other income, net	3	73	168	175
(Loss) income before income taxes	<u>\$ (4,143)</u>	<u>\$ (1,200)</u>	<u>\$ 3,606</u>	<u>\$ 6,502</u>

Net sales by business is presented in the following table:

	Three Months Ended		Nine Months Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
Net sales				
Men's	\$ 72,789	\$ 58,186	\$ 216,143	\$ 176,692
Women's	28,459	21,068	85,244	63,431
Hard goods/other	5,453	4,475	16,174	13,519
Total net sales	<u>\$ 106,701</u>	<u>\$ 83,729</u>	<u>\$ 317,561</u>	<u>\$ 253,642</u>

Segment total assets is presented in the following table:

	October 28, 2018	January 28, 2018
<i>(in thousands)</i>		
Direct	\$ 225,636	\$ 133,866
Retail	98,881	89,236
Total assets at period end	<u>\$ 324,517</u>	<u>\$ 223,102</u>

11. INCOME TAXES

The provision for income taxes for the interim period is based on an estimate of the annual effective tax rate adjusted to reflect the impact of discrete items. Management judgment is required in projecting ordinary income to estimate the Company's annual effective tax rate. The effective tax rate related to controlling interest was 25% and 27% for the three and nine months ended October 28, 2018, respectively and 36% and 39% for the three and nine months ended October 29, 2017, respectively. The decrease in the Company's effective tax rate was primarily due to U.S. tax reform, which was effective January 1, 2018. The income from SRV was excluded from the calculation of the Company's effective tax rate, as SRV is a limited liability company and not subject to income taxes.

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

12. RECENT ACCOUNTING PRONOUNCEMENTS

Leases

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases* (Topic 842) (“ASU 2016-02”), which requires lessees to recognize most leases on the balance sheets (right-of-use asset and lease liability), but recognize expenses on the income statements in a manner that is similar to the current lease standard. The provisions of ASU 2016-02 are effective for public entities with fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The Company will adopt ASU 2016-02 on February 4, 2019, the first day of the Company’s first quarter for the fiscal year ending February 2, 2020, the Company’s fiscal year 2019. In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*. Prior to ASU 2018-11, a modified retrospective transition was required for financing or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements. ASU 2018-11 allows entities an additional transition method to the existing requirements whereby an entity could adopt ASU 2016-02 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without adjustment to the financial statements for periods prior to adoption. The Company is currently evaluating the adoption methods and has not decided on an adoption method. The Company has identified that new systems, processes and controls are required to adopt ASU 2016-02 and is in the process of implementing a new lease management system to assist in the application of the new standard. The Company is currently evaluating the full effect that adoption of ASU 2016-02 will have on its financial condition, results of operations and disclosures. The Company conducts its retail operations through leased stores and therefore, upon adoption, the Company expects to have an increase in assets and liabilities on its consolidated financial statements, due to recording of right-to-use assets and the corresponding lease liabilities, which is expected to be material.

13. SUBSEQUENT EVENTS

Management of the Company evaluated its October 28, 2018 unaudited condensed consolidated financial statements for subsequent events through December 7, 2018, the date the financial statements were available to be issued. Management is not aware of any subsequent events which would require recognition or additional disclosure in the financial statements.

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

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

The three and nine months of fiscal 2018 and fiscal 2017 represent our 13 and 39-week periods ended October 28, 2018 and October 29, 2017, respectively.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. All statements other than statements of historical or current facts included in this Quarterly Report on Form 10-Q are forward-looking statements. Forward looking statements refer to our current expectations and projections relating to our financial condition, results of operations, plans, objectives, strategies, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "anticipate," "could," "estimate," "expect," "project," "plan," "potential," "intend," "believe," "may," "might," "will," "objective," "should," "would," "can have," "likely," and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected earnings, revenue, costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties, including the risks and uncertainties described under Part I, Item 1A "Risk Factors," in our 2017 Form 10-K and other SEC filings, which factors are incorporated by reference herein. These risks and uncertainties include, but are not limited to, the following: our ability to maintain and enhance a strong brand image; our ability to successfully open new stores; effectively adapting to new challenges associated with our expansion into new geographic markets; generating adequate cash from our existing stores to support our growth; the impact of changes in corporate tax regulations; identifying and responding to new and changing customer preferences; the success of the locations in which our stores are located; our ability to attract and retain customers in the various retail venues and locations in which our stores are located; competing effectively in an environment of intense competition; our ability to adapt to significant changes in sales due to the seasonality of our business; price reductions or inventory shortages resulting from failure to purchase the appropriate amount of inventory in advance of the season in which it will be sold; increases in costs of fuel or other energy, transportation or utility costs and in the costs of labor and employment; failure of our information technology systems to support our current and growing business, before and after our planned upgrades; and other factors that may be disclose in our SEC filings or otherwise. Moreover, we operate in an evolving environment, new risk factors and uncertainties emerge from time to time and it is not possible for management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. We qualify all of our forward-looking statements by these cautionary statements.

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

Overview

We are a 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 56.1% and 58.8% of our consolidated net sales for the three and nine months ended October 28, 2018, respectively, and 64.7% and 69.2% of our consolidated net sales for the three and nine months ended October 29, 2017, respectively. In 2010, we added retail to our omni-channel platform with the opening of our first store. Since then, we have expanded our retail presence, and as of October 28, 2018, we operated 40 retail stores and three outlet stores. Net sales for our retail segment represented 43.9% and 41.2% of our consolidated net sales for the three and nine months ended October 28, 2018 and 35.3% and 30.8% of consolidated net sales for the three and nine months ended October 29, 2017, respectively.

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

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

A summary of our financial results is as follows:

- Net sales have increased year-over-year for 35 consecutive quarters through October 28, 2018;
- Net sales in fiscal 2018 third quarter increased by 27.4% over the prior year third quarter to \$106.7 million and net sales in the first nine months of fiscal 2018 increased by 25.2% over the first nine months of the prior year to \$317.6 million;
- Net loss of \$3.2 million in fiscal 2018 third quarter compared to the prior year third quarter net loss of \$0.8 million and net income in the first nine months of fiscal 2018 decreased by 33.7% over the first nine months of the prior year to \$2.5 million;
- Adjusted EBITDA in fiscal 2018 third quarter decreased by 45.8% over the prior year third quarter to \$1.0 million and adjusted EBITDA in the first nine months of fiscal 2018 increased by 19.6% over the first nine months of the prior year to \$16.7 million;
- We opened four new stores in fiscal 2018 third quarter and 12 new stores in the first nine months of fiscal 2018, adding approximately 211,000 of gross square footage in fiscal 2018; and
- Our retail stores have achieved and are expected to continue to achieve an average payback of less than two years.

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

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

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

How We Assess the Performance of Our Business

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

Net Sales

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

Gross Profit

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

Selling, General and Administrative Expenses

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

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

Adjusted EBITDA

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

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

Results of Operations

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

	Three Months Ended		Nine Months Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
<i>(in thousands)</i>				
Direct net sales	\$ 59,827	\$ 54,146	\$ 186,872	\$ 175,588
Retail net sales	46,874	29,583	130,689	78,054
Net sales	106,701	83,729	317,561	253,642
Cost of goods sold (excluding depreciation and amortization)	45,730	36,302	138,410	108,649
Gross profit	60,971	47,427	179,151	144,993
Selling, general and administrative expenses	63,534	48,039	172,075	137,467
Operating (loss) income	(2,563)	(612)	7,076	7,526
Interest expense	1,583	661	3,638	1,199
Other income, net	3	73	168	175
(Loss) income before income taxes	(4,143)	(1,200)	3,606	6,502
Income tax (benefit) expense	(1,067)	(454)	913	2,480
Net (loss) income	(3,076)	(746)	2,693	4,022
Less: Net income attributable to noncontrolling interest	74	70	157	199
Net (loss) income attributable to controlling interest	\$ (3,150)	\$ (816)	\$ 2,536	\$ 3,823
Percentage of Net sales:				
Direct net sales	56.1 %	64.7 %	58.8 %	69.2 %
Retail net sales	43.9 %	35.3 %	41.2 %	30.8 %
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold (excluding depreciation and amortization)	42.9 %	43.4 %	43.6 %	42.8 %
Gross profit	57.1 %	56.6 %	56.4 %	57.2 %
Selling, general and administrative expenses	59.5 %	57.4 %	54.2 %	54.2 %
Operating (loss) income	(2.4)%	(0.7)%	2.2 %	3.0 %
Interest expense	1.5 %	0.8 %	1.1 %	0.5 %
Other income, net	0.0 %	0.1 %	0.1 %	0.1 %
(Loss) income before income taxes	(3.9)%	(1.4)%	1.1 %	2.6 %
Income tax (benefit) expense	(1.0)%	(0.5)%	0.3 %	1.0 %
Net (loss) income	(2.9)%	(0.9)%	0.8 %	1.6 %
Less: Net income attributable to noncontrolling interest	0.1 %	0.1 %	0.0 %	0.1 %
Net (loss) income attributable to controlling interest	(3.0)%	(1.0)%	0.8 %	1.5 %

Three Months Ended October 28, 2018 Compared to Three Months Ended October 29, 2017

Net Sales

Net sales increased \$23.0 million, or 27.4%, to \$106.7 million in the three months ended October 28, 2018 compared to \$83.7 million in the three months ended October 29, 2017, driven by gains in both direct and retail segments of \$5.7 million, or 10.5%, and \$17.3 million, or 58.4%, respectively, with gains across virtually all product categories and in both the men's and women's businesses. Our website visits increased 26% in the three months ended October 28, 2018 compared to the three months ended October 29, 2017. The increase in retail net sales was primarily due to having 43 stores in the three months ended October 28, 2018 as compared to 26 stores in the three months ended October 29, 2017.

Gross Profit

Gross profit increased \$13.5 million, or 28.6%, to \$61.0 million in the three months ended October 28, 2018 compared to \$47.4 million in the three months ended October 29, 2017. As a percentage of net sales, gross margin increased 50 basis points to 57.1% of net sales in the three months ended October 28, 2018, compared to 56.6% of net sales in the three months ended October 29, 2017. The increase in gross margin rate was primarily attributable to an increase in product margin, partially offset by a decline in shipping revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$15.5 million, or 32.3%, to \$63.5 million in the three months ended October 28, 2018 compared to \$48.0 million in the three months ended October 29, 2017. Selling, general and administrative expenses as a percentage of net sales increased 210 basis points to 59.5% in the three months ended October 28, 2018, compared to 57.4% in the three months ended October 29, 2017. The increase in selling, general and administrative expenses was attributable to an increase of \$4.9 million in advertising and marketing costs, \$4.4 million in selling expenses and \$6.2 million in general and administrative expenses.

As a percentage of net sales, advertising and marketing costs increased 20 basis points to 20.4% in the three months ended October 28, 2018, compared to 20.2% in the three months ended October 29, 2017. The 20 basis point increase in advertising and marketing costs as a percentage of net sales was primarily attributable to an increase of 140 basis point in television advertising due to an earlier start in Women's television advertising as compared to the prior year quarter, offset by a decrease of 140 basis points in catalog costs due to a planned decrease in catalog spend as a percentage of net sales.

As a percentage of net sales, selling expenses increased 70 basis points to 16.5% in the three months ended October 28, 2018, compared to 15.8% in the three months ended October 29, 2017, primarily due to an increase in customer service due to our growth in retail, partially offset by a decrease in shipping expenses due to leverage from an increase in the proportion of retail net sales.

As a percentage of net sales, general and administrative expenses increased 120 basis points to 22.6% in the three months ended October 28, 2018, compared to 21.4% in the three months ended October 29, 2017. The 120 basis point increase was primarily attributable to an increase in information technology support and outside services, and an increase in depreciation as a result of more stores.

Segment Operating (Loss) Income

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

Direct segment operating loss was \$8.4 million in the three months ended October 28, 2018 compared to \$2.7 million in the three months ended October 29, 2017. Direct segment operating loss as a percentage of direct net sales decreased 890 basis points to (14.0)% in the three months ended October 28, 2018 compared to (5.1)% in the three months ended October 29, 2017. The 890 basis point decrease was primarily due to an increase of 100 basis points in direct gross margins, coupled with an increase in selling expenses of 200 basis points due to increased distribution costs, an increase of 330 basis points in general and administrative expenses due to an increase in consulting fees and outside services to support the growth of our direct business, and an increase of 460 basis points in advertising and marketing costs primarily due to an increase in television advertising as discussed above.

Retail segment operating income increased \$3.7 million to \$5.8 million in the three months ended October 28, 2018 compared to \$2.1 million in the three months ended October 29, 2017. Retail segment operating income as a percentage of retail net sales increased 520 basis points to 12.4% in the three months ended October 28, 2018 compared to 7.2% in the three months ended October 29, 2017. The 520 basis point increase was due to a decrease of 530 basis points in selling, general and administrative expenses due to leverage gained from higher retail net sales offset by a decrease of 10 basis points in retail gross margins.

Interest Expense

Interest expense was \$1.6 million in the three months ended October 28, 2018, compared to \$0.7 million in the three months ended October 29, 2017. The increase in interest expense was primarily attributable to the addition of our headquarters building, coupled with a higher outstanding debt balance during the quarter as compared to the prior year.

Income Tax Benefit

Income tax benefit was \$1.1 million in the three months ended October 28, 2018, compared to \$0.5 million in the three months ended October 29, 2017. Our effective tax rate related to controlling interest was 25% for the three months ended October 28, 2018, compared to 36% for the three months ended October 29, 2017, respectively. The decrease in our effective tax rate was primarily due to the U.S. tax reform, which was effective January 1, 2018.

Net Loss

Net loss was \$3.2 million, in the three months ended October 28, 2018 compared to \$0.8 million in the three months ended October 29, 2017, primarily due to the factors discussed above.

Nine Months Ended October 28, 2018 Compared to Nine Months Ended October 29, 2017

Net Sales

Net sales increased \$63.9 million, or 25.2%, to \$317.6 million in the nine months ended October 28, 2018 compared to \$253.6 million in the nine months ended October 29, 2017, driven by gains in both direct and retail segments of \$11.3 million, or 6.4%, and \$52.6 million, or 67.4%, respectively, with gains across virtually all product categories and in both the men's and women's businesses. Our website visits increased 18% in the nine months ended October 28, 2018 compared to the nine months ended October 29, 2017. The increase in retail net sales was primarily attributable to the same factors discussed above for the three months ended October 28, 2018 compared to the three months ended October 29, 2017.

Gross Profit

Gross profit increased \$34.2 million, or 23.6%, to \$179.2 million in the nine months ended October 28, 2018 compared to \$145.0 million in the nine months ended October 29, 2017. As a percentage of net sales, gross margin decreased 80 basis points to 56.4% of net sales in the nine months ended October 28, 2018, compared to 57.2% of net sales in the nine months ended October 29, 2017. The decrease in gross margin rate was primarily attributable to the continued decline in shipping revenue and an increase in freight cost related to transporting inventory to our retail stores due to geographic expansion.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$34.6 million, or 25.2%, to \$172.1 million in the nine months ended October 28, 2018 compared to \$137.5 million in the nine months ended October 29, 2017. Selling, general and administrative expenses as a percentage of net sales remained flat at 54.2% in both the nine months ended October 28, 2018 and the nine months ended October 29, 2017. Within selling, general and administrative there was an increase of \$6.3 million in advertising and marketing costs, \$12.4 million in selling expenses and \$15.9 million in general and administrative expenses.

As a percentage of net sales, advertising and marketing costs decreased 220 basis points to 18.7% in the nine months ended October 28, 2018, compared to 20.9% in the nine months ended October 29, 2017. The 220 basis point decrease in advertising and marketing costs as a percentage of net sales was primarily attributable to a decrease of 200 basis points in catalog costs due to the adoption of the new revenue standard which provides for catalog costs to be expensed upon customer receipt and a planned decrease in catalog spend as a percentage of net sales, coupled with advertising leverage gained from a higher mix of retail sales as compared to the nine months ended October 29, 2017.

As a percentage of net sales, selling expenses increased 90 basis points to 15.7% in the nine months ended October 28, 2018, compared to 14.8% in the nine months ended October 29, 2017, primarily due to an increase in customer service due to our growth in retail, partially offset by a decrease in shipping expenses attributable to the leverage gained from an increase in the proportion of retail net sales.

As a percentage of net sales, general and administrative expenses increased 130 basis points to 19.8% in the nine months ended October 28, 2018, compared to 18.5% in the nine months ended October 29, 2017. The 130 basis point increase was primarily attributable to the same factors discussed above for the three months ended October 28, 2018 compared to the three months ended October 29, 2017.

Segment Operating (Loss) Income

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

Direct segment operating loss was \$9.4 million in the nine months ended October 28, 2018 compared to operating income of \$0.2 million in the nine months ended October 29, 2017. Direct segment (loss) income as a percentage of direct net sales decreased 510 basis points to (5.0)% in the nine months ended October 28, 2018 compared to 0.1% in the nine months ended October 29, 2017. The 510 basis point decline was primarily due to a decline of 70 basis points in direct gross margins, coupled with an increase in selling, general and administrative expenses of 440 basis points was primarily attributable to the same factors discussed nine months ended October 28, 2018 compared to the nine months ended October 29, 2017.

Retail segment operating income increased \$9.1 million to \$16.4 million in the nine months ended October 28, 2018 compared to \$7.3 million in nine months ended October 29, 2017. Retail segment operating income as a percentage of retail net sales increased 330 basis points to 12.6% in the nine months ended October 28, 2018 compared to 9.3% in the nine months ended October 29, 2017. The 330 basis point increase was primarily due to a decrease in selling, general and administrative expenses of 370 basis points attributable to the same factors discussed above for the nine months ended October 28, 2018 compared to the nine months ended October 29, 2017 offset by a decline of 40 basis points in retail gross margins.

Interest Expense

Interest expense was \$3.6 million in the nine months ended October 28, 2018, compared to \$1.2 million in the nine months ended October 29, 2017. The increase in interest expense was primarily attributable to the addition of our headquarters building, an increase in our build-to-suit retail stores, and a higher outstanding debt balance during the quarter as compared to the prior year.

Income Tax Expense

Income tax expense was \$0.9 million in the nine months ended October 28, 2018, compared to income tax expense of \$2.5 million in the nine months ended October 29, 2017. Our effective tax rate related to controlling interest was 27% for the nine months ended October 28, 2018 compared to 39%, for the nine months ended October 29, 2017, respectively.

Net Income

Net income decreased \$1.3 million, or 33.7% to \$2.5 million, in the nine months ended October 28, 2018 compared to net income of \$3.8 million in the nine months ended October 29, 2017, primarily due to the factors discussed above.

Reconciliation of Net Income to EBITDA and EBITDA to Adjusted EBITDA

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

	Three Months Ended		Nine Months Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
Net (loss) income	\$ (3,076)	\$ (746)	\$ 2,693	\$ 4,022
Depreciation and amortization	3,118	1,824	8,187	5,104
Interest expense	1,583	661	3,638	1,199
Income tax (benefit) expense	(1,067)	(454)	913	2,480
EBITDA	\$ 558	\$ 1,285	\$ 15,431	\$ 12,805
Non-cash stock based compensation	447	569	1,305	1,186
Adjusted EBITDA	\$ 1,005	\$ 1,854	\$ 16,736	\$ 13,991

As a result of the factors discussed above in the “Results of Operations” section, Adjusted EBITDA decreased \$0.8 million, or 45.8%, to \$1.0 million in the three months ended October 28, 2018 compared to \$1.9 million in the three months ended October 29, 2017. As a percentage of net sales, Adjusted EBITDA decreased 130 basis points to 0.9% of net sales in the three months ended October 28, 2018 compared to 2.2% of net sales in the three months ended October 29, 2017.

As a result of the factors discussed above in the “Results of Operations” section, Adjusted EBITDA increased \$2.7 million, or 19.6%, to \$16.7 million in the nine months ended October 28, 2018 compared to \$14.0 million in the nine months ended October 29, 2017. As a percentage of net sales, Adjusted EBITDA decreased 20 basis points to 5.3% of net sales in the nine months ended October 28, 2018 compared to 5.5% of net sales in the nine months ended October 29, 2017.

Liquidity and Capital Resources

General

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

We expect to spend approximately \$50.0 million to \$55.0 million in fiscal 2018 on capital expenditures, net of proceeds from finance lease obligations, including a total of approximately \$27.0 million to \$32.0 million for new retail store expansion and remodels. We expect capital expenditures of approximately \$2.0 million and starting inventory of \$0.5 million to open a new store. At October 28, 2018, our net working capital was \$85.1 million, including \$2.5 million of cash. Due to the seasonality of our business, a significant amount of cash from operating activities is generated during the fourth quarter of our fiscal year. During the first three quarters of our fiscal year, we typically are net users of cash in our operating activities as we acquire inventory in anticipation of our peak selling season, which occurs in the fourth quarter of our fiscal year. We also use cash in our investing activities for capital expenditures throughout all four quarters of our fiscal year.

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

Cash Flow Analysis

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

	Nine Months Ended	
	October 28, 2018	October 29, 2017
(in thousands)		
Net cash used in operating activities	\$ (23,502)	\$ (34,957)
Net cash used in investing activities	(46,317)	(43,909)
Net cash provided by financing activities	65,929	56,516
Decrease in cash and restricted cash	\$ (3,890)	\$ (22,350)

Net Cash used in Operating Activities

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

While our cash flows from operations for the nine months ended October 28, 2018 is negative, primarily driven by the seasonal nature of our business, we expect cash flows from operations for the full year fiscal 2018 to be positive from normal operating performance and seasonal reductions in working capital during the fourth quarter of our fiscal year, which is consistent with previous full fiscal years.

For nine months ended October 28, 2018, net cash used in operating activities was \$23.5 million, which consisted of net income of \$2.7 million, non-cash depreciation and amortization of \$8.2 million and stock based compensation of \$1.3 million, offset by cash used in operating assets and liabilities of \$35.5 million. The cash used in operating assets and liabilities of \$35.5 million primarily consisted of a \$44.8 million increase in inventory, primarily due to our sales increase and inventory for the opening of new retail stores during fiscal 2018 and our peak season, which was partially offset by an increase of \$19.1 in trade accounts payable primarily due to timing of payments and an increase of \$7.1 in accrued expenses and deferred rent obligations.

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 a \$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.

Net Cash Used in Investing Activities

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

For the nine months ended October 28, 2018, net cash used in investing activities was \$46.3 million and was primarily driven by capital expenditures of \$45.9 million for new retail stores and retail store build-out, as well as investments in information technology.

For the nine months ended October 29, 2017, net cash used in investing activities was \$43.9 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 and a \$6.3 million purchase of an available-for-sale security.

Net Cash Provided by Financing Activities

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

For the nine months ended October 28, 2018, net cash provided by financing activities was \$65.9 million, primarily consisting of proceeds of \$65.0 million, net from our revolving line of credit to fund working capital and capital expenditures and \$1.0 million from finance lease obligations in connection with our build-to-suit lease transactions.

For the 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 our finance lease obligations in connection with our build-to-suit lease transactions and \$0.8 million for capital contributions to SRV.

Line of Credit

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

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

As of October 28, 2018 and for the nine months then ended, the Company was in compliance with all financial and non-financial covenants for all debts discussed above and expects to be in compliance for the remainder of fiscal 2018.

Contractual Obligations

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

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Critical Accounting Estimates

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

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

Recently Adopted Accounting Pronouncements

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

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

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

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

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

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

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

We did not sell any equity securities during the quarter ended October 28, 2018, which were not registered under the Securities Act.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit No.	
10.1	Form of First Amendment dated October 15, 2018 to Employment Agreement between Duluth Holdings Inc. and Al Dittrich dated August 5, 2015. *
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities and Exchange Act, as amended. *
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended. *
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**

* Filed herewith

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

SIGNATURES

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

Date: December 7, 2018

DULUTH HOLDINGS INC.
(Registrant)

/s/ DAVID LORETTA

David Loretta

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

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT No. 1 (this “Amendment”) is made and entered into this 15th day of October 2018, by and between Duluth Holdings Inc. (the “Company”), and Al Dittrich (the “Employee”), amending that certain Employment Agreement by and between the Company and Employee, dated as of August 5, 2015 (the “Employment Agreement”). Capitalized terms used herein and not otherwise defined shall have the same meaning given to such terms in the Employment Agreement.

RECITALS:

A. The Company and Employee have entered into the Employment Agreement; and

B. The Company and Employee desire to amend the Employment Agreement as provided in this Amendment to reflect Mr. Dittrich’s promotion to the position of Senior Vice President and Chief Operating Officer of the Company.

NOW, THEREFORE, in consideration of the promises and the mutual promises and obligations set forth herein, the Company and Employee do hereby agree as follows:

1. Amendment to Employment Agreement.

- a. All references in the Employment Agreement to “Senior Vice President of Omnichannel Customer Experiences and Operations” shall be deleted and replaced with “Senior Vice President and Chief Operating Officer.”

2. Miscellaneous.

This Amendment shall be governed by and construed in accordance with the substantive and procedural laws of the State of Wisconsin. This Amendment may be executed in counterparts, including by facsimile or portable document format (.pdf) signature, each of which shall be deemed an original, and all counterparts so executed shall constitute one agreement binding on all of the parties hereto notwithstanding that all of the parties may not be a signatory to the same counterpart. Except as amended and/or modified by this Amendment, the Employment Agreement is hereby ratified and confirmed and all other terms of the Employment Agreement shall remain in full force and effect, unaltered and unchanged by this Amendment.

[Signatures Follow Next Page.]

IN WITNESS WHEREOF, the Company and Employee have executed this Amendment as of the date first above-written.

COMPANY:

Duluth Holdings Inc.

By: _____
Name: Stephanie Pugliese
Title: President and Chief Executive Officer

EMPLOYEE:

Al Dittrich

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, 2018

/s/ Stephanie L. Pugliese

Stephanie L. Pugliese
Chief Executive Officer

CERTIFICATIONS

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

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

Date: December 7, 2018

/s/ David Loretta

David Loretta
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Duluth Holdings Inc. (the "Company") for the quarterly period ended October 28, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephanie L. Pugliese, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

/s/ **Stephanie L. Pugliese**

Name: **Stephanie L. Pugliese**
Title: **Chief Executive Officer**
Date: **December 7, 2018**

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

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

In connection with the Quarterly Report on Form 10-Q of Duluth Holdings Inc. (the "Company") for the quarterly period ended October 28, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Loretta, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

/s/ David Loretta

Name: **David Loretta**
Title: **Chief Financial Officer**
Date: **December 7, 2018**

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