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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

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**FORM 10-Q**

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(Mark One)

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

**For the quarterly period ended November 3, 2018**

**OR**

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

**Commission File Number: 01-34219**

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**DESTINATION XL GROUP, INC.**

**(Exact Name of Registrant as Specified in its Charter)**

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**555 Turnpike Street**  
**Canton, MA**  
(Address of principal executive offices)

**04-2623104**  
(I.R.S. Employer  
Identification No.)

**02021**  
(Zip Code)

**Registrant's telephone number, including area code: (781) 828-9300**

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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 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   
As of November 16, 2018, the registrant had 49,478,819 shares of common stock, \$0.01 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION  
Item 1. Financial Statements.

DESTINATION XL GROUP, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)  
(Unaudited)

	November 3, 2018 (Fiscal 2018)	February 3, 2018 (Fiscal 2017)
<b>ASSETS</b>		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 6,376	\$ 5,362
Accounts receivable	1,438	3,046
Inventories	116,371	103,332
Prepaid expenses and other current assets	11,275	9,927
Total current assets	<u>135,460</u>	<u>121,667</u>
Property and equipment, net of accumulated depreciation and amortization	98,286	111,032
<i>Other assets:</i>		
Intangible assets	1,573	1,821
Other assets	5,716	5,885
Total assets	<u>\$ 241,035</u>	<u>\$ 240,405</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<i>Current liabilities:</i>		
Current portion of long-term debt	\$ -	\$ 1,392
Current portion of deferred gain on sale-leaseback	1,465	1,465
Accounts payable	29,717	33,987
Accrued expenses and other current liabilities	26,854	25,585
Borrowings under credit facility	57,290	47,385
Total current liabilities	<u>115,326</u>	<u>109,814</u>
<i>Long-term liabilities:</i>		
Long-term debt, net of current portion	14,743	10,669
Deferred rent and lease incentives	32,938	35,718
Deferred gain on sale-leaseback, net of current portion	9,159	10,258
Other long-term liabilities	3,238	3,960
Total long-term liabilities	<u>60,078</u>	<u>60,605</u>
Commitments and contingencies		
<i>Stockholders' equity:</i>		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value, 100,000,000 shares authorized, 62,209,305 and 61,485,882 shares issued at November 3, 2018 and February 3, 2018, respectively	622	615
Additional paid-in capital	309,338	307,557
Treasury stock at cost, 12,755,873 shares at November 3, 2018 and February 3, 2018	(92,658)	(92,658)
Accumulated deficit	(145,585)	(139,285)
Accumulated other comprehensive loss	(6,086)	(6,243)
Total stockholders' equity	<u>65,631</u>	<u>69,986</u>
Total liabilities and stockholders' equity	<u>\$ 241,035</u>	<u>\$ 240,405</u>

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

DESTINATION XL GROUP, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)  
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	November 3, 2018 (Fiscal 2018)	October 28, 2017 (Fiscal 2017)	November 3, 2018 (Fiscal 2018)	October 28, 2017 (Fiscal 2017)
Sales	\$ 107,069	\$ 103,700	\$ 342,606	\$ 332,454
Cost of goods sold including occupancy costs	60,009	58,887	188,333	183,136
Gross profit	47,060	44,813	154,273	149,318
<b>Expenses:</b>				
Selling, general and administrative	40,436	41,968	133,631	137,204
Corporate restructuring and CEO transition costs	692	—	2,452	—
Impairment of assets	—	—	—	1,718
Depreciation and amortization	7,161	7,680	21,867	23,337
Total expenses	48,289	49,648	157,950	162,259
Operating loss	(1,229)	(4,835)	(3,677)	(12,941)
Interest expense, net	(798)	(871)	(2,642)	(2,497)
Loss before provision (benefit) for income taxes	(2,027)	(5,706)	(6,319)	(15,438)
Provision (benefit) for income taxes	(22)	-	(19)	64
Net loss	<u>\$ (2,005)</u>	<u>\$ (5,706)</u>	<u>\$ (6,300)</u>	<u>\$ (15,502)</u>
Net loss per share - basic and diluted	\$ (0.04)	\$ (0.12)	\$ (0.13)	\$ (0.32)
<b>Weighted-average number of common shares outstanding:</b>				
Basic	49,352	48,607	49,068	48,966
Diluted	49,352	48,607	49,068	48,966

*The accompanying notes are an integral part of the consolidated financial statements.*

DESTINATION XL GROUP, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(In thousands)  
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	November 3, 2018 (Fiscal 2018)	October 28, 2017 (Fiscal 2017)	November 3, 2018 (Fiscal 2018)	October 28, 2017 (Fiscal 2017)
Net loss	\$ (2,005)	\$ (5,706)	\$ (6,300)	\$ (15,502)
<b>Other comprehensive income before taxes:</b>				
Foreign currency translation	(7)	(52)	(246)	164
Pension plans	165	210	495	631
Other comprehensive income before taxes	158	158	249	795
Tax provision related to items of other comprehensive income	(45)	—	(92)	—
Other comprehensive income, net of tax	113	158	157	795
Comprehensive loss	<u>\$ (1,892)</u>	<u>\$ (5,548)</u>	<u>\$ (6,143)</u>	<u>\$ (14,707)</u>

*The accompanying notes are an integral part of the consolidated financial statements.*

DESTINATION XL GROUP, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(In thousands)  
(Unaudited)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amounts		Shares	Amounts			
Balance at February 3, 2018	61,486	\$ 615	\$307,557	(12,755)	\$(92,658)	\$ (139,285)	\$ (6,243)	\$ 69,986
Board of Directors compensation	146	1	448					449
Stock compensation expense			1,094					1,094
Restricted stock units (RSUs) granted for achievement of performance-based compensation, reclassified from liability to equity (Note 4)			381					381
Issuance of common stock upon RSUs release	627	6	(6)					—
Shares withheld for taxes related to net share settlement of RSUs	(54)	—	(136)					(136)
Cancellation of restricted stock, net of issuances	(3)	—	—					—
Deferred stock vested	7	—	—					—
Accumulated other comprehensive income (loss):								
Pension plan, net of taxes							367	367
Foreign currency, net of taxes							(210)	(210)
Net loss						(6,300)		(6,300)
Balance at November 3, 2018	<u>62,209</u>	<u>\$ 622</u>	<u>\$309,338</u>	<u>(12,755)</u>	<u>\$(92,658)</u>	<u>\$ (145,585)</u>	<u>\$ (6,086)</u>	<u>\$ 65,631</u>

*The accompanying notes are an integral part of the consolidated financial statements.*

DESTINATION XL GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

	For the Nine Months Ended	
	November 3, 2018 (Fiscal 2018)	October 28, 2017 (Fiscal 2017)
<b>Cash flows from operating activities:</b>		
Net loss	\$ (6,300)	\$ (15,502)
<b>Adjustments to reconcile net loss to net cash (used for) provided by operating activities:</b>		
Amortization of deferred gain on sale-leaseback	(1,099)	(1,099)
Amortization of deferred debt issuance costs	136	206
Write-off of deferred debt issuance costs	186	—
Depreciation and amortization	21,867	23,337
Impairment of assets	—	1,718
Stock compensation expense	1,094	1,306
Board of Directors stock compensation	449	421
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	1,608	2,882
Inventories	(13,039)	(2,432)
Prepaid expenses and other current assets	(1,348)	(2,930)
Other assets	169	(151)
Accounts payable	(4,270)	1,492
Deferred rent and lease incentives	(2,780)	654
Accrued expenses and other liabilities	2,054	(4,654)
Net cash (used for) provided by operating activities	<u>(1,273)</u>	<u>5,248</u>
<b>Cash flows from investing activities:</b>		
Additions to property and equipment, net	<u>(9,842)</u>	<u>(18,429)</u>
Net cash used for investing activities	<u>(9,842)</u>	<u>(18,429)</u>
<b>Cash flows from financing activities:</b>		
Repurchase of common stock	—	(4,681)
Costs associated with new credit facility	(553)	—
Proceeds from the issuance of long-term debt	15,000	—
Principal payments on long-term debt	(12,251)	(5,930)
Net borrowings under credit facility	10,069	24,011
Tax withholdings paid related to net share settlements of RSUs	(136)	-
Net cash provided by financing activities	<u>12,129</u>	<u>13,400</u>
Net increase in cash and cash equivalents	1,014	219
<b>Cash and cash equivalents:</b>		
Beginning of period	5,362	5,572
End of period	<u>\$ 6,376</u>	<u>\$ 5,791</u>

*The accompanying notes are an integral part of the consolidated financial statements.*

**DESTINATION XL GROUP, INC.**  
**Notes to Consolidated Financial Statements**

**1. Basis of Presentation**

In the opinion of management of Destination XL Group, Inc., a Delaware corporation (formerly known as Casual Male Retail Group, Inc. and, collectively with its subsidiaries, referred to as the “Company”), the accompanying unaudited consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial statements. These financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with the notes to the Company’s audited consolidated financial statements for the fiscal year ended February 3, 2018 included in the Company’s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 23, 2018.

The information set forth in these statements may be subject to normal year-end adjustments. The information reflects all adjustments that, in the opinion of management, are necessary to present fairly the Company’s results of operations, financial position and cash flows for the periods indicated. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company’s business historically has been seasonal in nature, and the results of the interim periods presented are not necessarily indicative of the results to be expected for the full year.

The Company’s fiscal year is a 52- or 53- week period ending on the Saturday closest to January 31. Fiscal 2018 is a 52-week period ending on February 2, 2019 and fiscal 2017 was a 53-week period ended on February 3, 2018.

***Segment Information***

The Company reports its operations as one reportable segment, Big & Tall Men’s Apparel, which consists of two principal operating segments: its retail business and its direct business. The Company considers its operating segments to be similar in terms of economic characteristics, production processes and operations, and has therefore aggregated them into a single reporting segment, consistent with its omni-channel business approach.

***Reclassification***

In the second quarter of fiscal 2017, the Company incurred an impairment charge of \$1.7 million for the write-off of certain store assets. This amount was previously included in “Depreciation and Amortization” in the Consolidated Statements of Operations for the first nine months of fiscal 2017 but was reclassified to “Impairment of Assets” in the Consolidated Statement of Operations for the fiscal year ended February 3, 2018. The prior year comparison in the Consolidated Statements of Operations for the first nine months of fiscal 2018 reflect this reclassification.

For the first nine months of fiscal 2018, the Company has reclassified \$190,228 in costs, incurred in the first quarter of fiscal 2018, to “Corporate Restructuring and CEO Transition Costs.” These costs were initially reported in “Selling, General and Administrative” expenses for the first quarter and first six months of fiscal 2018.

***Intangibles***

At November 3, 2018, the “Casual Male” trademark had a carrying value of \$0.1 million and is considered a definite-lived asset. The Company is amortizing the remaining carrying value on an accelerated basis, consistent with projected cash flows through fiscal 2018, its estimated remaining useful life.

The Company’s “Rochester” trademark is considered an indefinite-lived intangible asset and has a carrying value of \$1.5 million. During the nine months ended November 3, 2018, no event or circumstance occurred which would cause a reduction in the fair value of the Company’s reporting units, requiring interim testing of the Company’s “Rochester” trademark.

***Fair Value of Financial Instruments***

ASC Topic 825, Financial Instruments, requires disclosure of the fair value of certain financial instruments. ASC Topic 820, “Fair Value Measurements and Disclosures,” defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements.

The valuation techniques utilized are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

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

Level 2 – Observable inputs other than Level 1 prices 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 related 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 assets or liabilities.

The Company utilizes observable market inputs (quoted market prices) when measuring fair value whenever possible.

The fair value of long-term debt is classified within Level 2 of the valuation hierarchy. At November 3, 2018, the fair value approximated the carrying amount based upon terms available to the Company for borrowings with similar arrangements and remaining maturities.

The fair value of indefinite-lived assets, which consists of the Company's "Rochester" trademark, is measured on a non-recurring basis in connection with the Company's annual impairment test. The fair value of the trademark is determined using a projected discounted cash flow analysis based on unobservable inputs and is classified within Level 3 of the valuation hierarchy. See *Intangibles* above.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and short-term borrowings approximate fair value because of the short maturity of these instruments.

### ***Accumulated Other Comprehensive Income (Loss) - ("AOCI")***

Other comprehensive income (loss) includes amounts related to foreign currency and pension plans and is reported in the Consolidated Statements of Comprehensive Income (Loss). Other comprehensive income (loss) and reclassifications from AOCI for the three and nine months ended November 3, 2018 and October 28, 2017, respectively, were as follows:

	November 3, 2018			October 28, 2017		
	Pension Plans	Foreign Currency	Total	Pension Plans	Foreign Currency	Total
<i>(in thousands)</i>						
<i>For the three months ended:</i>						
Balance at beginning of the quarter	\$ (5,595)	\$ (604)	\$ (6,199)	\$ (4,816)	\$ (565)	\$ (5,381)
Other comprehensive income (loss) before reclassifications, net of taxes	58	(9)	49	43	(52)	(9)
Amounts reclassified from accumulated other comprehensive income, net of taxes <sup>(1)</sup>	64	—	64	167	—	167
Other comprehensive income (loss) for the period	122	(9)	113	210	(52)	158
Balance at end of quarter	<u>\$ (5,473)</u>	<u>\$ (613)</u>	<u>\$ (6,086)</u>	<u>\$ (4,606)</u>	<u>\$ (617)</u>	<u>\$ (5,223)</u>
<i>(in thousands)</i>						
<i>For the nine months ended:</i>						
Balance at beginning of fiscal year	\$ (5,840)	\$ (403)	\$ (6,243)	\$ (5,237)	\$ (781)	\$ (6,018)
Other comprehensive income (loss) before reclassifications, net of taxes	173	(210)	(37)	128	164	292
Amounts reclassified from accumulated other comprehensive income, net of taxes <sup>(1)</sup>	194	—	194	503	—	503
Other comprehensive income (loss) for the period	367	(210)	157	631	164	795
Balance at end of quarter	<u>\$ (5,473)</u>	<u>\$ (613)</u>	<u>\$ (6,086)</u>	<u>\$ (4,606)</u>	<u>\$ (617)</u>	<u>\$ (5,223)</u>



- (1) Includes the amortization of the unrecognized loss on pension plans, which was charged to “Selling, General and Administrative” Expense on the Consolidated Statements of Operations for all periods presented. The amortization of the unrecognized loss, before tax, was \$87,000 and \$264,000 for the three and nine months ended November 3, 2018, respectively, and \$167,000 and \$503,000 for the three and nine months ended October 28, 2017, respectively. The tax effect for the three and nine months ended November 3, 2018 was \$23,000 and \$70,000, respectively. There was no tax effect for the three and nine months ended October 28, 2017.

### ***Stock-Based Compensation***

All share-based payments, including grants of employee stock options and restricted stock, are recognized as an expense in the Consolidated Statements of Operations based on their fair values and vesting periods. The fair value of stock options is determined using the Black-Scholes valuation model and requires the input of subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (the “expected term”), the estimated volatility of the Company’s common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements (“forfeitures”). The Company reviews its valuation assumptions at each grant date and, as a result, is likely to change its valuation assumptions used to value employee stock-based awards granted in future periods. The values derived from using the Black-Scholes model are recognized as an expense over the vesting period, net of estimated forfeitures. The estimation of stock-based awards that will ultimately vest requires significant judgment. Actual results and future changes in estimates may differ from the Company’s current estimates.

### ***Impairment of Long-Lived Assets***

The Company reviews its long-lived assets for events or changes in circumstances that might indicate the carrying amount of the assets may not be recoverable. The Company assesses the recoverability of the assets by determining whether the carrying value of such assets over their respective remaining lives can be recovered through projected undiscounted future cash flows. The amount of impairment, if any, is measured based on projected discounted future cash flows using a discount rate reflecting the Company’s average cost of funds.

There was no material impairment of long-lived assets in the third quarter and first nine months of fiscal 2018. In the second quarter of fiscal 2017, the Company recorded an impairment charge of \$1.7 million related to the write-down of property and equipment, which is included in the results for the first nine months of fiscal 2017.

### ***Recently Adopted Accounting Pronouncements***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the accounting guidance on revenue recognition. The amendments in this ASU are intended to provide a framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements. This ASU sets forth a five-step model for determining when and how revenue is recognized. Under the model, an entity is required to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. To assess the impact of ASU 2014-09, the Company reviewed its current accounting policies and practices, identified all material revenue streams, assessed the impact of the ASU on its material revenue streams and identified potential differences with current policies and practices. The Company adopted this standard on February 4, 2018, with no material impact on the Company’s Consolidated Financial Statements, using the modified retrospective approach. Further disclosures related to the adoption of this standard are provided below in Note 2, *Revenue Recognition*.

In March 2016, the FASB issued ASU 2016-04, “*Liabilities—Extinguishments of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products*,” which amends exempting gift cards and other prepaid stored-value products from the guidance on extinguishing financial liabilities. Rather, they will be subject to breakage accounting consistent with the new revenue guidance in Topic 606. However, the exemption only applies to breakage liabilities that are not subject to unclaimed property laws or that are attached to segregated bank accounts (e.g., consumer debit cards). The Company adopted this pronouncement as of February 4, 2018. The adoption of this standard did not have a material impact on the Company’s Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*,” which reduces the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230. The Company adopted this pronouncement as of February 4, 2018. The adoption of this standard did not have a material impact on the Company’s Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-16, “*Income Taxes (Topic 740): Intra-Entity Transfer of Assets Other Than Inventory*,” which reduces the existing diversity in practice in how income tax consequences of an intra-entity transfer of an asset other than inventory should be recognized. The amendments in ASU 2016-16 require an entity to recognize such income tax consequences when the intra-entity transfer occurs rather than waiting until such time as the asset has been sold to an outside party. The Company adopted

this pronouncement as of February 4, 2018. The adoption of this standard did not have a material impact on the Company's Consolidated Financial Statements.

In May 2017, the FASB issued ASU 2017-09, "*Compensation—Stock Compensation (Topic 718)*" which provides clarity in order to reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The Company adopted this pronouncement as of February 4, 2018. The adoption of this standard did not have a material impact on the Company's Consolidated Financial Statements.

#### **Recently Issued Accounting Pronouncements**

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*." This ASU is a comprehensive new leases standard that amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. It will require lessees to recognize lease assets and lease liabilities for most leases, including those leases previously classified as operating leases under current GAAP. The ASU retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. 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 the provisions of 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. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted.

The Company will adopt the standard in the first quarter of fiscal 2019 by not restating comparative periods and recognizing a cumulative-effect adjustment to the opening balance sheet of retained earnings in accordance with ASU 2018-11. The Company has implemented its leasing software solution to enable compliance with accounting and disclosure requirements. The Company is continuing to identify necessary changes to its business processes and controls to support adoption of the new standard. While we are still in the process of quantifying the impact, we expect the adoption of the new standard to result in a material gross-up of our Consolidated Balance Sheets as a result of recognizing lease liabilities and right of use assets, which will be subject to long-lived asset impairment testing under ASC 360. The Company does not expect the adoption of the new standard to have a material impact on its results of operations or liquidity. The Company plans to elect the lessee non-lease component separation practical expedient, which permits the Company to not separate non-lease components from the lease components to which they relate. The Company expects to make an accounting policy election that will keep certain leases with a term of 12 months or less off the balance sheet and result in recognizing those lease payments on a straight-line basis over the lease term. As the Company's leases do not provide an implicit rate, it plans to use its incremental borrowing rate based on information available at commencement date to determine the present value of future payments.

In February 2018, the FASB issued ASU 2018-02, "*Income Statement—Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*." The amendments in this update allow a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this update also require certain disclosures about stranded tax effects. The amendments in this update are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact this pronouncement will have on its Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*." This guidance modifies the disclosure requirements on fair value measurements in Topic 820 by removing disclosures regarding transfers between Level 1 and Level 2 of the fair value hierarchy, by modifying the measurement uncertainty disclosure, and by requiring additional disclosures for Level 3 fair value measurements, among others. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact this pronouncement will have on its Consolidated Financial Statements.

No other new accounting pronouncements, issued or effective during the first nine months of fiscal 2018, have had or are expected to have a significant impact on the Company's Consolidated Financial Statements.

## 2. Revenue Recognition

On February 4, 2018, the Company adopted *Revenue from Contracts with Customers* ("ASC 606") using the modified retrospective approach for all contracts not completed as of the date of adoption. Results for the reporting periods beginning on February 4, 2018 are presented under ASC 606, while prior period amounts continue to be reported in accordance with accounting under ASC 605, *Revenue Recognition*. There was no material impact to the Company's Consolidated Financial Statements as a result of adopting ASC 606.

The Company operates as a retailer of big & tall men's apparel, which includes both retail stores and a direct business. Revenue is recognized by the operating segment that initiates a customer's order. Store sales are defined as sales that originate and are fulfilled directly at the store level. Direct sales are defined as sales that originate online, including those initiated online at the store level. Generally, all revenues are recognized when control of the promised goods is transferred to customers, in an amount that reflects the consideration in exchange for those goods. Sales tax collected from customers and remitted to taxing authorities is excluded from revenue and is included as part of accrued expenses on the Consolidated Balance Sheets.

Revenue from the Company's retail store operations is recorded upon purchase of merchandise by customers, net of an allowance for sales returns, which is estimated based upon historical experience.

Revenue from the Company's direct operations is recognized at the time a customer order is delivered, net of an allowance for sales returns, which is estimated based upon historical experience.

*Unredeemed Loyalty Coupons.* The Company offers a free loyalty program to its customers for which points accumulate based on the purchase of merchandise. Over 90% of the Company's customers participate in the loyalty program. Under ASC 606, these loyalty points provide the customer with a material right and a distinct performance obligation with revenue deferred and recognized when the points are expected to redeem or expire. The cycle of earning and redeeming loyalty points is generally under one year in duration. The loyalty accrual, net of breakage, was \$1.2 million and \$0.6 million at November 3, 2018 and February 3, 2018, respectively.

*Unredeemed Gift Cards, Gift Certificates, and Credit Vouchers.* Upon issuance of a gift card, gift certificate, or credit voucher, a liability is established for its cash value. The liability is relieved and net sales are recorded upon redemption by the customer. Based on historical redemption patterns, the Company can reasonably estimate the amount of gift cards, gift certificates, and credit vouchers for which redemption is remote, which is referred to as "breakage". Breakage is recognized over two years in proportion to historical redemption trends and is recorded as sales in the Consolidated Statements of Operations. The gift card liability, net of breakage, was \$1.2 million and \$2.2 million at November 3, 2018 and February 3, 2018, respectively.

*Shipping.* Shipping and handling costs are accounted for as fulfillment costs and are included in cost of sales for all periods presented. Amounts related to shipping and handling that are billed to customers are recorded in sales, and the related costs are recorded in cost of goods sold, including occupancy costs, in the Consolidated Statements of Operations.

### Disaggregation of Revenue

As noted above under *Segment Information* in Note 1, the Company's business consists of one reportable segment. Substantially all of the Company's revenue is generated from its retail store operations and its direct business. Accordingly, we have determined that the following sales channels depict the nature, amount, timing, and uncertainty of how revenue and cash flows are affected by economic factors:

<i>(in thousands)</i>	For the Three Months Ended				For the Nine Months Ended			
	November 3, 2018		October 28, 2017		November 3, 2018		October 28, 2017	
Retail sales	\$ 85,478	79.8%	\$ 82,804	79.8%	\$ 272,834	79.6%	\$ 265,739	79.9%
Direct sales	21,591	20.2%	20,896	20.2%	69,772	20.4%	66,715	20.1%
Total sales	<u>\$ 107,069</u>		<u>\$ 103,700</u>		<u>\$ 342,606</u>		<u>\$ 332,454</u>	

## 3. Debt

### **Credit Agreement with Bank of America, N.A.**

On May 24, 2018, the Company entered into the Seventh Amended and Restated Credit Agreement with Bank of America, N.A., as agent, providing for a secured \$140.0 million credit facility (the "New Credit Facility"). The New Credit Facility replaced the Company's existing credit facility with Bank of America.

The New Credit Facility continues to provide maximum committed borrowings of \$125.0 million in revolver loans, with the ability, pursuant to an accordion feature, to increase the New Credit Facility by an additional \$50.0 million upon the request of the Company

and the agreement of the lender(s) participating in the increase (the “Revolving Facility”). There were no changes to the sublimit of \$20.0 million for commercial and standby letter of credits or the sublimit of up to \$15.0 million for swingline loans. The Company’s ability to borrow under the New Credit Facility (the “Loan Cap”) is determined using an availability formula based on eligible assets. The New Credit Facility requires the Company to maintain a minimum consolidated fixed charge coverage ratio of 1.0:1.0 if its excess availability under the New Credit Facility fails to be equal to or greater than the greater of 10% of the Loan Cap and \$7.5 million. The maturity date of the New Credit Facility was extended from October 29, 2019 to May 24, 2023. The Company’s obligations under the New Credit Facility are secured by a lien on substantially all of its assets.

The New Credit Facility includes a new \$15.0 million “first in, last out” (FILO) term facility (the “FILO Facility”), which is discussed below under long-term debt.

Borrowings made pursuant to the Revolving Facility will bear interest, calculated under either the Federal Funds rate or the LIBOR rate, at a rate equal to the following: (a) the Federal Funds rate plus a varying percentage based on the Company’s excess availability, of either 0.25% or 0.50%, or (b) the LIBOR rate (the Company being able to select interest periods of 1 week, 1 month, 2 months, 3 months or 6 months) plus a varying percentage based on the Company’s excess availability, of either 1.25% or 1.50%.

At November 3, 2018, the Company had outstanding borrowings under the Revolving Facility of \$57.7 million, before unamortized debt issuance costs of \$0.4 million. Outstanding standby letters of credit were \$2.9 million and outstanding documentary letters of credit were \$2.3 million. Unused excess availability at November 3, 2018 was \$45.4 million. Average monthly borrowings outstanding under the previous credit facility and new Revolving Facility during the first nine months of fiscal 2018 were \$56.3 million, resulting in an average unused excess availability of approximately \$33.6 million.

The Company is also subject to an unused line fee of 0.25%. In connection with the New Credit Facility, the Company wrote-off \$0.1 million of unamortized debt issuance costs. At November 3, 2018, the Company’s prime-based interest rate was 5.50%. At November 3, 2018, the Company had approximately \$52.0 million of its outstanding borrowings in LIBOR-based contracts with an interest rate of 3.50%. The LIBOR-based contracts expired on November 7, 2018. When a LIBOR-based borrowing expires, the borrowings revert back to prime-based borrowings unless the Company enters into a new LIBOR-based borrowing arrangement.

The fair value of the amount outstanding under the Revolving Facility at November 3, 2018 approximated the carrying value.

### Long-Term Debt

Components of long-term debt are as follows:

<i>(in thousands)</i>	November 3, 2018	February 3, 2018
FILO loan	\$ 15,000	\$ —
Equipment financing notes	—	501
Term loan, due 2019	—	11,750
Less: unamortized debt issuance costs	(257)	(190)
Total long-term debt	14,743	12,061
Less: current portion of long-term debt	—	1,392
Long-term debt, net of current portion	<u>\$ 14,743</u>	<u>\$ 10,669</u>

### FILO Loan

The total borrowing capacity under the FILO Facility is based on a borrowing base, generally defined as a specified percentage of the value of eligible accounts, including certain trade names, that step down over time, plus a specified percentage of the value of eligible inventory that steps down over time. There can be no voluntary prepayments on the FILO Facility during the first year. After its one-year anniversary, the FILO Facility can be repaid, in whole or in part, subject to certain payment conditions.

Borrowings made under the FILO Facility will bear interest, calculated under either the Federal Funds rate or the LIBOR rate, at a rate equal to the following: (a) the Federal Funds rate plus a varying percentage based on the Company’s excess availability, of either 1.75% or 2.00% or (b) the LIBOR rate (the Company being able to select interest periods of 1 week, 1 month, 2 months, 3 months or 6 months) plus a varying percentage based on the Company’s excess availability, of either 2.75% or 3.00%. At November 3, 2018, the outstanding balance of \$15.0 million was in a 2-month LIBOR-based contract with an interest rate of 5.07%. The LIBOR-based contract will expire on December 9, 2018. When a LIBOR-based borrowing expires, the Company can enter into a new LIBOR-based borrowing arrangement.

#### Equipment Financing Loans

Pursuant to a Master Loan and Security Agreement with Banc of America Leasing & Capital, LLC, dated July 20, 2007 and amended on September 30, 2013 (the "Master Agreement"), the Company entered into twelve equipment security notes between September 2013 and June 2014 (in aggregate, the "Notes"), whereby the Company borrowed an aggregate of \$26.4 million. The Notes were for a term of 48 months and accrued interest at fixed rates ranging from 3.07% to 3.50%.

The Company repaid, in full, without penalty, the remaining outstanding balance on the Notes during the second quarter of fiscal 2018.

#### Term Loan

On October 30, 2014, the Company entered into a term loan agreement with respect to a new \$15.0 million senior secured term loan facility with Wells Fargo Bank, National Association as administrative and collateral agent (the "Term Loan Facility"). The effective date of the Term Loan Facility was October 29, 2014 (the "Effective Date"). In connection with the New Credit Facility, discussed above, on May 24, 2018 this Term Loan Facility was repaid in full, without penalty. In connection with the repayment, the Company wrote-off approximately \$0.1 million in unamortized debt issuance costs associated with this Term Loan Facility.

Interest on the Term Loan Facility was at a rate per annum equal to the greater of (a) 1.00% and (b) the one month LIBOR rate, plus 6.50%.

#### **4. Long-Term Incentive Plans**

The following is a summary of the Company's Long-Term Incentive Plans. All equity awards granted under long-term incentive plans are issued from the Company's stockholder-approved 2016 Incentive Compensation Plan. See Note 5, *Stock-Based Compensation*.

##### 2-Year Performance Periods

Under the Company's First Amended and Restated Long Term Incentive Plan ("LTIP"), for fiscal 2016 and fiscal 2017 the Compensation Committee established performance targets which cover a two-year performance period (each a "Performance Period"), thereby creating overlapping Performance Periods. Each participant in the plan is entitled to receive an award based on that participant's "Target Cash Value" which is defined as the participant's annual base salary (on the participant's effective date) multiplied by his or her LTIP percentage, which was 100% for the Company's Chief Executive Officer, 70% for senior executives and 25% for other participants in the plan. Effective October 22, 2018, the LTIP percentage for its vice president managing director level was increased from 25% to 50%. Because of the overlapping two-year Performance Periods, the Target Cash Value for any award is based on one year of annual salary. All awards granted under both the 2016-2017 LTIP and 2017-2018 LTIP were in restricted stock units (RSUs).

For each participant, 50% of the Target Cash Value is subject to time-based vesting and 50% is subject to performance-based vesting. The time-vested portion of the award vests in two installments with 50% of the time-vested portion vesting on April 1 following the fiscal year end which marks the end of the applicable Performance Period and 50% vesting on April 1 the succeeding year. The performance-based vesting is subject to the achievement of the performance target(s) for the applicable Performance Period. Awards for any achievement of performance targets would not be granted until the performance targets are achieved and would then be subject to additional vesting through August 31 following the end of the applicable Performance Period.

For the 2016-2017 Performance Period, the Company achieved 54.4% of its "DXL Comparable Store Marginal Cash-Over-Cash Return" target, defined as the aggregate of each comparable DXL store's four-wall cash flow for fiscal 2017 divided by the aggregate capital investment, net of any tenant allowance, for each comparable DXL store. The minimum threshold for the EBITDA target was not achieved. EBITDA is defined as earnings before interest, taxes, depreciation and amortization. Accordingly, subsequent to the end of fiscal 2017, in the first quarter of fiscal 2018, the Compensation Committee of the Board of Directors approved a 27.2% payout resulting in awards totaling \$0.5 million, with a grant date of April 2, 2018. On that date, the Company granted 265,749 RSUs, which vested on August 31, 2018.

On April 2, 2018, in conjunction with the grant of the RSUs, the Company reclassified \$0.4 million of the liability accrual from "Accrued expenses and other current liabilities" to "Additional paid-in capital." See the Consolidated Statement of Changes in Stockholders' Equity.

For the 2017-2018 Performance Period, the Compensation Committee established two performance targets under the LTIP (the “2017-2018 LTIP”), as follows:

- Total Company Comparable Sales measured based on a two-year stack, which is the sum of the Total Company Comparable Sales for fiscal 2017 and fiscal 2018 (weighted 50%).
- Modified ROIC, which is defined as Operating Income divided by Invested Capital (Total Debt plus Stockholders’ Equity) (weighted 50%).

Assuming that the Company achieves the performance target at target levels and all time-vested awards vest, the compensation expense associated with the 2017-2018 LTIP is estimated to be approximately \$4.0 million. Approximately half of the compensation expense relates to the time-vested RSUs, which is being expensed over thirty-six months, based on the respective vesting dates. Through the end of the first nine months of fiscal 2018, no accrual has been made for performance awards under the 2017-2018 LTIP.

### 3-Year Performance Period

In June 2018, the Company amended its LTIP by executing the Second Amended and Restated LTIP, as further amended in October 2018 (the “Amended LTIP”), which among other things, extends the performance period for awards to three years, beginning with grants in fiscal 2018. For each participant, 50% of the Target Cash Value is subject to time-based vesting and 50% is subject to performance-based vesting. The time-vested portion of the award vests in four installments with the first 25% vesting on the later of April 1 following the grant date or one-year from the date of grant. Each of the remaining three tranches will vest on April 1, 2020, April 1, 2021 and April 1, 2022. The performance-based vesting is subject to the achievement of the performance target(s) for the applicable Performance Period. Awards for any achievement of performance targets would not be granted until the performance targets are achieved and would then be subject to additional vesting through August 31 following the end of the applicable Performance Period.

On October 24, 2018, the Compensation Committee established two performance targets for the 2018-2020 Performance Period under the Amended LTIP (the “2018-2020 LTIP”) as follows:

- Three-Year Average Adjusted EBITDA Margin (weighted 75%).
- Three-Year Relative Total Shareholder Return of the Company as compared to its 2018 disclosed peer group (weighted 25%). The three-year relative total shareholder return will be calculated as the percentage change in the 30-day trailing volume weighted average closing stock price at February 2, 2018 and January 29, 2021, adjusted for any dividends received. An award at target will be earned if the Company’s performance falls within the second quartile among its peer group, with an award payout at maximum for the top quartile, an award payout at threshold for the third quartile and no payout if the Company’s results are in the fourth quartile.

Assuming that the Company achieves the performance target at target levels and all time-vested awards vest, the compensation expense associated with the 2018-2020 LTIP is estimated to be approximately \$4.1 million. Approximately half of the compensation expense relates to the time-vested RSUs, which is being expensed straight-line over forty-one months. Through the end of the first nine months of fiscal 2018, no accrual has been made for performance awards under the 2018-2020 LTIP.

### **5. Stock-Based Compensation**

The Company has one active stock-based compensation plan: the 2016 Incentive Compensation Plan (the “2016 Plan”). The initial share reserve under the 2016 Plan was 5,725,538 shares of our common stock. A grant of a stock option award or stock appreciation right will reduce the outstanding reserve on a one-for-one basis, meaning one share for every share granted. A grant of a full-value award, including, but not limited to, restricted stock, restricted stock units and deferred stock, will reduce the outstanding reserve by a fixed ratio of 1.9 shares for every share granted. At November 3, 2018, the Company had 4,576,630 shares available under the 2016 Plan.

In accordance with the terms of the 2016 Plan, any shares outstanding under the previous 2006 Incentive Compensation Plan (the “2006 Plan”) at August 4, 2016 that subsequently terminate, expire or are canceled for any reason without having been exercised or paid are added back and become available for issuance under the 2016 Plan, with stock options being added back on a one-for-one basis and full-value awards being added back on a 1 to 1.9 basis. At November 3, 2018, there are 804,782 stock options and 128,408 full-value awards that remain outstanding under the 2006 Plan.

The 2016 Plan is administered by the Compensation Committee. The Compensation Committee is authorized to make all determinations with respect to amounts and conditions covering awards. Options are not granted at a price less than fair value on the date of the grant. Except with respect to 5% of the shares available for awards under the 2016 Plan, no award will become exercisable unless such award has been outstanding for a minimum period of one year from its date of grant.

The following tables summarize the share activity and stock option activity for the Company's 2006 Plan and 2016 Plan, on a combined basis, for the first nine months of fiscal 2018:

	Restricted shares	Restricted stock units (1)	Deferred shares (2)	Fully-vested shares (3)	Total number of shares	Weighted-average grant-date fair value (4)
<b>Shares</b>						
Outstanding non-vested shares at beginning of year	36,666	1,048,552	115,457	—	1,200,675	\$ 3.43
Shares granted	30,000	1,050,650	82,289	105,645	1,268,584	\$ 2.48
Shares vested/issued	(3,333)	(627,220)	(7,708)	(105,645)	(743,906)	\$ 2.98
Shares canceled	(33,333)	(91,747)	—	—	(125,080)	\$ 2.84
Outstanding non-vested shares at end of quarter	30,000	1,380,235	190,038	—	1,600,273	\$ 2.93

- (1) RSUs were primarily granted in connection with the partial achievement of performance targets under the 2016-2017 LTIP and time-based awards under the 2018-2020 LTIP, see Note 4, *Long-Term Incentive Plans*. As a result of net share settlement, of the 627,220 RSUs which vested during the first nine months of fiscal 2018, only 573,094 shares of common stock were issued.
- (2) The 82,289 shares of deferred stock, with a fair value of \$162,984, represent compensation to certain directors in lieu of cash, in accordance with their irrevocable elections. The shares of deferred stock will vest three years from the date of grant or at separation of service, based on the irrevocable election of each director.
- (3) During the first nine months of fiscal 2018, the Company granted 105,645 shares of stock, with a fair value of approximately \$204,475, to certain directors as compensation in lieu of cash, in accordance with their irrevocable elections. Directors are required to elect 50% of their quarterly retainer in equity. Any shares in excess of the minimum required election are issued from the Company's Third Amended and Restated Non-Employee Director Compensation Plan ("Non-Employee Director Compensation Plan").
- (4) The fair value of a restricted share, deferred share and fully-vested share is equal to the Company's closing stock price on the day immediately preceding the date of grant.

	Number of shares	Weighted-average exercise price per option	Weighted-average remaining contractual term	Aggregate intrinsic value
<b>Stock Options</b>				
Outstanding options at beginning of year	1,195,910	\$ 4.80		\$ 21,750
Options granted	153,888	\$ 2.48		—
Options expired and canceled	(366,626)	\$ 4.73		2,000
Options exercised	—	—		—
Outstanding options at end of quarter	983,172	\$ 4.49	5.1 years	\$ 144,396
Options exercisable at end of quarter	829,284	\$ 4.87	4.3 years	\$ 26,308

### Valuation Assumptions

For the first nine months of fiscal 2018, the Company granted 153,888 stock options, 30,000 shares of restricted stock, 1,050,650 RSUs and 82,289 shares of deferred stock. For the first nine months of fiscal 2017, the Company granted 30,000 stock options, 484,558 shares of restricted stock, 804,701 RSUs and 74,968 shares of deferred stock.

Unless otherwise specified by the Compensation Committee, RSUs, restricted stock and deferred stock are valued using the closing price of the Company's common stock on the day immediately preceding the date of grant.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used for grants for the first nine months of fiscal 2018 and fiscal 2017, respectively:

	For the nine months ended	
	November 3, 2018	October 28, 2017
Expected volatility	48.9% - 57.1%	49.9%
Risk-free interest rate	2.55% - 2.63%	1.44%
Expected life	3.0 - 4.5 yrs.	3.0 yrs
Dividend rate	-	—

### Non-Employee Director Compensation Plan

The Company granted 40,309 shares of common stock, with a fair value of approximately \$81,081, to certain of its non-employee directors as compensation in lieu of cash in the first nine months of fiscal 2018.

### Stock Compensation Expense

The Company recognized total stock-based compensation expense of \$1.1 million and \$1.3 million for the first nine months of fiscal 2018 and fiscal 2017, respectively. The total compensation cost related to time-vested stock options, restricted stock and RSU awards not yet recognized as of November 3, 2018 was approximately \$2.9 million, net of estimated forfeitures, which will be expensed over a weighted average remaining life of 34 months.

## 6. Earnings per Share

The following table provides a reconciliation of the number of shares outstanding for basic and diluted earnings per share:

	For the three months ended		For the nine months ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
<i>(in thousands)</i>				
Common stock outstanding:				
Basic weighted average common shares outstanding	49,352	48,607	49,068	48,966
Common stock equivalents – stock options and restricted stock (1)	—	—	—	—
Diluted weighted average common shares outstanding	49,352	48,607	49,068	48,966

- (1) Common stock equivalents of 581 shares and 92 shares for the three months ended November 3, 2018 and October 28, 2017, respectively, and 494 shares and 67 shares for the nine months ended November 3, 2018 and October 28, 2017, respectively, were excluded due to the net loss.

The following potential common stock equivalents were excluded from the computation of diluted earnings per share in each period because the exercise price of such options was greater than the average market price per share of common stock for the respective periods or because of the unearned compensation associated with either stock options, restricted stock units, restricted or deferred stock had an anti-dilutive effect.

	For the three months ended		For the nine months ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
<i>(in thousands, except exercise prices)</i>				
Stock options	963	1,295	963	1,295
Restricted stock units	754	1,106	786	1,109
Restricted and deferred stock	24	54	57	78
Range of exercise prices of such options	\$2.25 - \$7.02	\$1.85 - \$7.02	\$2.25 - \$7.02	\$1.85 - \$7.02

The above options, which were outstanding at November 3, 2018, expire from March 19, 2020 to June 29, 2028.



Shares of unvested time-based restricted stock of 30,000 at November 3, 2018 and 53,333 shares at October 28, 2017 were excluded from the computation of basic earnings per share and will continue to be excluded until such shares vest.

The 30,000 shares of restricted stock outstanding at November 3, 2018 are considered issued and outstanding. Each share of restricted stock has all of the rights of a holder of the Company's common stock, including, but not limited to, the right to vote and the right to receive dividends, which rights are forfeited if the restricted stock is forfeited.

## **7. Income Taxes**

At November 3, 2018, the Company had total deferred tax assets of approximately \$52.5 million, total deferred tax liabilities of \$4.0 million and a corresponding valuation allowance of \$48.5 million.

Since the end of fiscal 2014, the Company has had a full valuation allowance against its net deferred tax assets. While the Company has projected it will return to profitability, generate taxable income and ultimately emerge from a three-year cumulative loss, based on the Company's forecast for fiscal 2018, the Company believes that a full valuation allowance remains appropriate at this time.

As of November 3, 2018, for federal income tax purposes, the Company has net operating loss carryforwards of \$141.4 million, which will expire from 2022 through 2036 and net operating loss carryforwards of \$16.9 million that are not subject to expiration. For state income tax purposes, the Company has \$89.3 million of net operating losses that are available to offset future taxable income. Additionally, the Company has \$2.8 million of net operating loss carryforwards related to the Company's operations in Canada.

The utilization of net operating loss carryforwards and the realization of tax benefits in future years depends predominantly upon having taxable income. Under the provisions of the Internal Revenue Code, certain substantial changes in the Company's ownership may result in a limitation on the amount of net operating loss carryforwards and tax credit carryforwards which may be used in future years.

As of February 4, 2018, the Company is calculating its tax provision based on the newly enacted U.S. statutory rate of 21%. The tax benefit for the third quarter and first nine months of fiscal 2018 included a tax expense of \$45,000 and \$92,000 in other comprehensive income (loss), which resulted in a tax benefit on the Consolidated Statement of Operations related to the corresponding decrease in valuation allowance, partially offset by a tax expense for certain states' margin tax. The tax provision for the nine months of fiscal 2017 primarily represented certain states' margin tax.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The charge for taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. The charge is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Pursuant to Topic 740, "Income Taxes", the Company will recognize the benefit from a tax position only if it is more likely than not that the position would be sustained upon audit based solely on the technical merits of the tax position. The unrecognized tax benefit at November 3, 2018 was \$2.0 million. This amount is directly associated with a prior year tax position related to exiting the Company's direct business in Europe. The amount of unrecognized tax benefit has been presented as a reduction in the reported amounts of its federal and state net operating loss carryforwards. It is the Company's policy to record interest and penalties on unrecognized tax benefits as income taxes; however, no penalties or interest have been accrued on this liability because the carryforwards have not yet been utilized.

The Company is subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. The Company has concluded all U.S. federal income tax matters for years through fiscal 2001, with remaining fiscal years subject to income tax examination by federal tax authorities.

## **8. Corporate Restructuring**

On May 16, 2018, the Company committed to a corporate restructuring plan ("Restructuring") to accelerate the Company's path to profitability by better aligning its expense structure with its revenues. The Company eliminated 56 positions, which represented approximately 15% of its corporate work force, or 2% of its total work force, in connection with the Restructuring. On May 16, 2018, 36 employees were notified of their termination, with the remaining 20 positions representing open positions that will not be filled. The Company offered cash severance benefits to the eligible affected employees. Each affected employee's eligibility for these severance benefits is contingent upon such employee's execution (and no revocation) of a separation agreement, which includes a general release of claims against the Company.

The Company incurred an aggregate charge of approximately \$1.9 million, of which \$0.3 million was incurred in the third quarter of fiscal 2018, for employee severance and one-time termination benefits, as well as other employee-related costs associated with the

Restructuring. Approximately \$1.5 million of the \$1.9 million will be cash expenditures. At November 3, 2018, the Company has an accrued liability related to the restructuring of \$0.3 million.

#### **9. CEO Search and Transition Costs**

Pursuant to the terms of the Transition Agreement between the Company and Mr. Levin dated March 20, 2018, as amended (the "Transition Agreement"), Mr. Levin is expected to resign as an officer and director of the Company on January 1, 2019, at which time he will be entitled to receive his base salary, AIP bonus and LTIP compensation over the following twelve months.

On November 27, 2018, subsequent to the end of the third quarter of fiscal 2018, the Company entered into a letter agreement with Mr. Levin (the "Letter Agreement"). The Letter Agreement is a supplement to the Transition Agreement between the Company and Mr. Levin, and sets forth Mr. Levin's initial transition duties and consulting activities that he will be required to perform under the terms of the Transition Agreement in the event that the Company does not appoint a successor CEO by December 31, 2018 and, pursuant to the terms of the Transition Agreement, Mr. Levin resigns as President and Chief Executive Officer and as a Director of the Company on January 1, 2019.

In accordance with the terms of the Letter Agreement, effective January 1, 2019, if no successor CEO has been appointed by December 31, 2018, Mr. Levin will begin serving as the Company's acting CEO and, as such, its principal executive officer (collectively, "Acting CEO") through the earliest of: (i) April 30, 2019 (subject to an extension by the Company on the same terms through no later than June 30, 2019); (ii) the date that a successor CEO commences employment or (iii) termination of his employment by the Company. As compensation, Mr. Levin will receive \$200,000 per month but in no event less than \$800,000.

During the third quarter and first nine months of fiscal 2018, the Company incurred costs of approximately \$0.4 million and \$0.6 million, respectively, primarily related to the CEO search.

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

### **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this Quarterly Report on Form 10-Q constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by the use of forward-looking terminology such as "may," "will," "estimate," "intend," "plan," "continue," "believe," "expect" or "anticipate" or the negatives thereof, variations thereon or similar terminology. The forward-looking statements contained in this Quarterly Report are generally located in the material set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," but may be found in other locations as well, and include statements regarding our expectations with respect to CEO transition costs, CEO search process, cash flows, gross profit margins, merchandise margins, marketing costs, restructuring charges, selling, general and administrative expenses, store counts, inventory levels, capital expenditures, borrowings, interest costs, sales and earnings for fiscal 2018, the expected impact of investments in marketing on 2018 sales and longer term impact on customer acquisition and brand awareness, anticipated savings from our corporate restructuring, and the anticipated number of store openings and closings in fiscal 2018. These forward-looking statements generally relate to plans and objectives for future operations and are based upon management's reasonable estimates of future results or trends. The forward-looking statements in this Quarterly Report should not be regarded as a representation by us or any other person that our objectives or plans will be achieved. The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements and notes to those statements included elsewhere in this Quarterly Report and our audited consolidated financial statements for the year ended February 3, 2018, included in our Annual Report on Form 10-K for the year ended February 3, 2018, as filed with the Securities and Exchange Commission on March 23, 2018 (our "Fiscal 2017 Annual Report").

Numerous factors could cause our actual results to differ materially from such forward-looking statements. We encourage readers to refer to the "Risk Factors" section in Part I, Item 1A of our Fiscal 2017 Annual Report, that sets forth certain risks and uncertainties that may have an impact on future results and direction of our Company, including, without limitations, risks relating to the execution of our corporate strategy, and our ability to grow our market share, predict customer tastes and fashion trends, forecast sales growth trends, maintain and build our brand awareness and compete successfully in our market.

All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the foregoing. These forward-looking statements speak only as of the date of the document in which they are made. We disclaim any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in our expectations or any change in events, conditions or circumstances in which the forward-looking statement is based.

### **BUSINESS SUMMARY**

Destination XL Group, Inc., together with our consolidated subsidiaries (the "Company"), is the largest specialty retailer of big & tall men's apparel with retail and direct operations in the United States, Canada and London, England. We operate under the trade names of Destination XL®, DXL®, DXL Outlets, Casual Male XL®, Casual Male XL Outlets and Rochester Clothing. At November 3, 2018, we operated 216 Destination XL stores, 15 DXL outlet stores, 67 Casual Male XL retail stores, 30 Casual Male XL outlet stores and 5 Rochester Clothing stores. Our e-commerce site, DestinationXL.com, supports our stores, brands and product extensions.

Unless the context indicates otherwise, all references to "we," "our," "us" and "the Company" refer to Destination XL Group, Inc. and our consolidated subsidiaries. We refer to our fiscal years which end on February 2, 2019 and February 3, 2018 as "fiscal 2018" and "fiscal 2017," respectively. Fiscal 2018 is a 52-week period and fiscal 2017 was a 53-week period.

### **SEGMENT REPORTING**

We report our operations as one reportable segment, Big & Tall Men's Apparel. We consider our retail and direct (e-commerce) businesses, especially in our growing omni-channel environment, to be similar in terms of economic characteristics, production processes and operations, and have, therefore, aggregated them into a single reporting segment.

### **COMPARABLE SALES**

Total comparable sales include our retail stores that have been open for at least 13 months and our direct business. Stores that have been remodeled or re-located during the period are also included in our determination of comparable sales. Stores that have been expanded by more than 25% are considered non-comparable for the first 13 months. If a store becomes a clearance center, it is also removed from the calculation of comparable sales. The method of calculating comparable sales varies across the retail industry and, as a result, our calculation of comparable sales is not necessarily comparable to similarly titled measures reported by other retailers.

In addition, our customer's shopping experience continues to evolve across multiple channels and we are continually changing to meet his needs. As part of our omni-channel initiatives, the majority of our retail stores have the capability of fulfilling online orders if merchandise is not available in the warehouse. As a result, we continue to see more transactions that begin online but are ultimately satisfied at the store level. Similarly, if a customer visits a store and the item is out of stock, the associate can order the item through our website. A customer also has the ability to order online and pick-up in store. Because this omni-channel approach to retailing is changing the boundaries of where a sale originates and where a sale is ultimately settled, we do not report comparable sales separately for our retail and e-commerce businesses. However, as we invest in building our e-commerce platform, bringing a heightened digital focus to our Company, additional disclosure on our e-commerce growth as it relates to our current initiatives is important. We define store sales as sales that originate and are fulfilled directly at the store level. E-commerce sales are defined as sales that originate online, including those initiated online at the store level.

## RESULTS OF OPERATIONS

The following is a summary of results for the third quarter and first nine months of fiscal 2018 as compared to the prior year's third quarter and first nine months, including adjusted EBITDA and adjusted net loss, which are non-GAAP measures. Please see "Non-GAAP Financial Measures" below for reconciliations of these non-GAAP measures.

	For the three months ended		For the nine months ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
<i>(in millions, except per share data)</i>				
Net loss	\$ (2.0)	\$ (5.7)	\$ (6.3)	\$ (15.5)
Adjusted EBITDA (Non-GAAP basis)	\$ 6.6	\$ 2.8	\$ 20.7	\$ 12.1
<b>Per diluted share:</b>				
Net loss	\$ (0.04)	\$ (0.12)	\$ (0.13)	\$ (0.32)
Adjusted net loss (Non-GAAP basis)	\$ (0.02)	\$ (0.09)	\$ (0.06)	\$ (0.21)

### Executive Summary

During the third quarter of fiscal 2018, we continued to see solid growth in our comparable sales base, while maintaining a healthy gross margin, and cost savings in our SG&A (selling, general and administrative) expenses. As a result, our net loss for the third quarter of fiscal 2018 was \$(0.04) per diluted share, an \$(0.08) improvement from the net loss of \$(0.12) for the third quarter of fiscal 2017. For the first nine months of fiscal 2018, our adjusted EBITDA more than doubled to \$6.6 million, from \$2.8 million for the same period of the prior year. As a result of our performance year to date, we are updating our guidance for 2018, which we discuss in detail below.

We have seen a consistent improvement in sales since the fourth quarter of fiscal 2017, with a comparable sales increase in the third quarter of fiscal 2018 of 3.4%, or \$3.4 million. We saw positive sales growth across all regions, with particularly strong comparable sales in the Northeast and Southeast regions. Our results were driven by productivity in stores, with improved store traffic and strong conversion rates, and growth in our direct business. During the third quarter, we launched our new website, which offers a cleaner look and feel, with easier navigation, updated site functionality and streamlined checkout. Visually, the updated website provides a stronger showcase for our brands and product offerings, which we believe will resonate better with our customers. On a trailing 12-month basis, our direct business represented 21.2% of our total sales at the end of the third quarter of fiscal 2018, as compared to 20.8% at the end of the third quarter of fiscal 2017.

Our reduced SG&A costs, primarily related to payroll cost savings, also contributed to the improvement in earnings. As discussed in more detail below, in the second quarter we initiated a corporate restructuring to accelerate our path to profitability, including a corporate workforce reduction of approximately 15%. Given that our transformation to the DXL concept is essentially complete, we are intently focused on improving our adjusted EBITDA margin, as a percentage of total sales. Our current strategy includes growing our brand and better expense management. The corporate restructuring aligns us with those objectives.

We also remain focused on improving our liquidity and reducing our debt levels. Last quarter, we amended our credit facility with Bank of America, N.A., which extended the maturity date of the facility from October 2019 to May 2023. We also reduced our borrowing rates under the revolving facility by 25 basis points and added a \$15.0 million "first in last out" (FILO) facility at a substantially lower borrowing rate than our previous term loan facility. At the end of the third quarter of fiscal 2018, we have reduced our total debt outstanding by \$9.4 million to \$72.0 million from \$81.4 million at the end of the third quarter of fiscal 2017.

### Corporate Restructuring

As mentioned above, in May 2018, we executed a restructuring plan ("Restructuring") to accelerate the Company's path to profitability by better aligning its expense structure with its revenues. We eliminated 56 positions, which represented approximately 15% of our corporate work force, or 2% of our total work force. On May 16, 2018, 36 employees were notified of their termination with the remaining 20 positions representing open positions that will not be filled. In connection with the Restructuring, we incurred an aggregate charge of \$1.9 million for employee severance and one-time termination benefits, as well as other employee-related costs associated with the Restructuring. Of the total charge of \$1.9 million, \$0.3 million was recorded in the third quarter of fiscal 2018. Approximately \$1.5 million of the \$1.9 million was cash expenditures.

As a result of this Restructuring, we expect to realize savings of approximately \$5.6 million in SG&A expenses in fiscal 2018, which is reflected in our fiscal 2018 earnings expectations. The \$5.6 million in savings primarily related to corporate payroll, travel, benefits and non-essential project expenses, with expected annualized savings of approximately \$10.3 million. Of the \$10.3 million, we expect \$6.6 million to come from corporate staffing changes, \$2.0 million from changes to defined contribution plans and \$1.7 million from other non-essential general and administrative costs.

### **Marketing Campaign ~ Fall 2018**

Our “*Built XL*” advertising campaign emphasizes fit, expertise, clothing brands, in-store experience, and one-stop shopping. We are highlighting our key differentiators and working to make an emotional connection with our core consumer. In our Spring campaign, we reduced the number of weeks as compared to fiscal 2017, but we saw a strong increase in store and web traffic once our Spring campaign launched. We were pleased with the reaction to this campaign and its effect on our overall brand awareness.

Our Fall/Holiday campaign, which launched in late November, is a continuation of the Spring “*Built XL*” advertising campaign. Radio advertising began the week of Thanksgiving with a television ad starting after the Thanksgiving holiday, consistent with last year’s marketing campaign.

In addition to the media campaign, we will also be increasing the circulation of our direct mail campaign and strengthening offers under our loyalty program. This holiday season, we will also be testing a holiday catalog to our top customers which will highlight current fashion and product offerings.

### **CEO Search and Transition Costs**

On March 23, 2018, the Company announced Mr. Levin’s plan to retire on December 31, 2018, and the engagement of Heidrick & Struggles International Inc. to lead a search process to identify a successor for Mr. Levin. That search process was terminated on October 1, 2018. On November 26, 2018, the Company engaged Russell Reynolds Associates to lead a new CEO search process, which we expect to be completed by the end of the first quarter of fiscal 2019.

Pursuant to the terms of the Transition Agreement between the Company and Mr. Levin dated March 20, 2018, as amended (the “Transition Agreement”), Mr. Levin is expected to resign as an officer and director of the Company on January 1, 2019, at which time he will be entitled to receive his base salary, AIP bonus and LTIP compensation over the following twelve months.

On November 27, 2018, the Company entered into a letter agreement with Mr. Levin, whereby, if no successor CEO has been appointed by December 31, 2018, Mr. Levin will assume the role of Acting CEO from January 1, 2019 through April 30, 2019, unless such agreement is extended by the Board of Directors through June 30, 2019. In connection with assuming this role, Mr. Levin will receive additional compensation of \$200,000 per month, but in no event less than \$800,000.

The Company expects to incur an aggregate charge of approximately \$2.1 million for CEO transition costs in fiscal 2018, related primarily to expenses incurred pursuant to the Transition Agreement and the CEO search. During the third quarter and first nine months of fiscal 2018, the Company incurred costs of approximately \$0.4 million and \$0.6 million, respectively, related primarily to the CEO search.

The Company expects to incur additional charges in fiscal 2019 of approximately \$0.4 million for CEO search costs and approximately \$1.2 million, assuming target, of future cash payments that Mr. Levin may be entitled to under existing performance plans, if and when such targets are achieved.

### **Fiscal 2018 Outlook**

Based on the positive sales trend that we have experienced for the first nine months of fiscal 2018, we are updating our earnings guidance for fiscal 2018. As discussed above, the Company expects to incur an aggregate charge of \$2.1 million of CEO transition costs in fiscal 2018, a decrease from our previous disclosure of \$4.2 million.

Our strategy for fiscal 2018 remains focused on customer acquisition, customer retention, and customer re-activation. Our marketing spend for the year is expected to be approximately \$24.0 million, which is less than the fiscal 2017 spend of approximately \$29.5 million, but greater than the fiscal 2016 spend of \$18.0 million. Compared to fiscal 2017, we are projecting that our total sales for the year will be negatively impacted by one less week of sales and a net decrease in store count of ten stores, worth approximately \$5.3 million in sales. Fiscal 2017 included a 53rd week, with sales of \$6.9 million and operating income of \$1.6 million.

Our revised guidance for fiscal 2018 is as follows:

- Sales of \$470.0 million to \$474.0 million, with a total comparable sales increase of 2.5% to 3.5% (an increase from our previous guidance of \$462.0 million to \$472.0 million, with a total company comparable sales increase of approximately 1.0% to 3.0%).
- Gross margin rate of approximately 44.9% (an increase from our previous guidance of 44.5%).

- Net loss, on a GAAP basis, of \$(9.8) to \$(12.8) million, or \$(0.20) to \$(0.26) per diluted share (an improvement from our previous guidance of \$(13.2) million to \$(18.2) million, or \$(0.27) to \$(0.37) per diluted share). This improvement includes the reduced estimate of costs to be incurred in fiscal 2018 related to the CEO transition.
- Adjusted net loss of \$(0.08) to \$(0.13) per diluted share (an improvement from our previous guidance of \$(0.11) to \$(0.18) per diluted share). Because we expect to continue providing a full valuation allowance against our deferred tax assets, we do not expect to recognize any income tax benefit in fiscal 2018. This non-GAAP adjusted net loss was calculated, before Restructuring charges and CEO transition costs and assumes a tax rate benefit of 26%.
- EBITDA adjusted for the Restructuring charges and CEO transition costs (“adjusted EBITDA”), of \$24.0 million to \$27.0 million (an increase from our previous guidance of \$20.0 million to \$25.0 million).
- Capital expenditures of approximately \$12.5 million, \$1.8 million of which will be for new and remodeled stores to the DXL format and \$10.7 million for digital and infrastructure projects, partially offset by approximately \$1.1 million in tenant allowances (an increase from our previous guidance of \$11.4 million, which consisted of \$2.1 million for new and remodeled DXL stores and \$9.3 million for digital and infrastructure projects). We expect to fund our capital expenditures from our operating cash flow.
- At the end of fiscal 2018, we expect cash flow from operating activities of \$22.5 million to \$26.5 million, including tenant allowances (an increase from 20.5 million to \$26.5 million). This improvement is due to the increase in EBITDA guidance offset by an anticipated decrease in working capital for the acceleration of inventory receipts at the end of fiscal 2018. As a result, we expect free cash flow after all capital expenditures of approximately \$10.0 million to \$14.0 million (a change from our previous guidance of \$9.1 million to \$15.1 million)(inclusive of costs associated with restructuring and CEO transition).

## Financial Summary

### Sales

	Third Quarter	First Nine Months
	<i>(in millions)</i>	
<b>Sales for fiscal 2017</b>	<b>\$ 103.7</b>	<b>\$ 332.5</b>
Less 2017 sales for stores that have closed /converted	(1.7)	(6.5)
Adjustment to sales for the shift in calendar weeks	0.7	2.0
	<b>\$ 102.7</b>	<b>\$ 328.0</b>
Increase in comparable sales	3.4	9.5
Non-comparable sales, primarily DXL stores open less than 13 months	0.7	5.8
Other, net	0.3	(0.7)
<b>Sales for fiscal 2018</b>	<b>\$ 107.1</b>	<b>\$ 342.6</b>

Total sales for the third quarter of fiscal 2018 increased 3.2% to \$107.1 million from \$103.7 million from the third quarter of fiscal 2017. The increase of \$3.4 million in total sales was due to a comparable sales increase of 3.4%, or \$3.4 million, an increase of \$0.7 million in non-comparable sales from DXL stores open less than 13 months, a \$0.7 million shift in calendar weeks due to the 53<sup>rd</sup> week in fiscal 2017 and other revenue of \$0.3 million. These increases were partially offset by closed stores of \$1.7 million.

For the first nine months of fiscal 2018, total sales increased 3.1% to \$342.6 million from \$332.5 million for the first nine months of fiscal 2017. The increase of \$10.2 million was primarily due to a comparable sales increase of 3.0%, or \$9.5 million, non-comparable sales of \$5.8 million and \$2.0 million as a result of the shift in calendar weeks. These increases were offset by the closed stores of \$6.5 million and a decrease in other revenues of \$0.7 million.

Our focus in fiscal 2018 is on achieving topline growth through customer acquisition, customer retention, and customer re-activation, and capturing a greater share of wallet by providing a great guest experience wherever our target customer decides to shop, whether in our stores or online. During the third quarter of fiscal 2018, we launched our updated website, which enhances our digital presence and provides our customers with improved functionality. Our goal is to increase touchpoints across all of our e-commerce platforms with the objective of growing and retaining our customer base. On a trailing twelve-month basis, direct sales as a percentage of total sales were 21.2% at the end of the third quarter of fiscal 2018 as compared to 20.8% at the end of the third quarter of the prior year. For the first nine months of fiscal 2018, our direct sales were 20.4%, up from 20.1% for the first nine months of the prior year.

Our stores also performed strongly during the quarter, with comparable sales increases across all regions, especially in the Northeast and Southeast, which outperformed the chain. Store traffic has been improving each quarter, but this quarter we saw store traffic move positive. This improvement, coupled with our continued increases in conversions and dollars per transactions, contributed to the sales growth this quarter.

Our end-of-rack customer represented 45.7% of our bottoms business, up slightly from 45.3% in the first nine months of fiscal 2017.

### *Gross Profit Margin*

For the third quarter of fiscal 2018, our gross margin rate, inclusive of occupancy costs, was 44.0% as compared to a gross margin rate of 43.2% for the third quarter of fiscal 2017. The 80 basis point improvement was the result of a 90 basis point decrease in occupancy costs as a percent of sales partially offset by a decrease of 10 basis points in merchandise margins.

For the first nine months of fiscal 2018, our gross margin rate, inclusive of occupancy costs, was 45.0% as compared to 44.9% for the first nine months of fiscal 2017. The increase of 10 basis points was due to a 60 basis point decrease in occupancy costs as a percent of sales partially offset by a decrease in merchandise margins of 50 basis points.

The decrease in merchandise margins for the third quarter of fiscal 2018 was due to a slight shift in product mix from our private label brands to our designer brands. For the first nine months of fiscal 2018, increases in shipping costs were also a factor. Occupancy costs, as a percentage of sales, improved as a result of the leveraging of the sales base. For the third quarter and first nine months of fiscal 2018, occupancy costs decreased \$0.3 million and \$0.4 million, respectively, related to closed stores.

### *Selling, General and Administrative Expenses*

As a percentage of sales, SG&A expenses for the third quarter of fiscal 2018 were 37.8% as compared to 40.5% for the third quarter of fiscal 2017. On a dollar basis, SG&A decreased by \$1.5 million for the third quarter of fiscal 2018. The decrease was due to a reduction in payroll and payroll related cost.

For the first nine months of fiscal 2018, SG&A expenses were 39.0% as compared to 41.3% for the first nine months of fiscal 2017. On a dollar basis, SG&A expenses decreased \$3.6 million, primarily due to a decrease in marketing costs of approximately \$2.2 million, due to a reduction in the number of weeks in the Spring campaign, a reduction in payroll and payroll related costs of approximately \$2.5 million and other supporting costs of approximately \$0.9 million. These savings were partially offset by an increase of approximately \$2.1 million in costs related to e-commerce and technology initiatives.

SG&A expenses are managed through two primary cost centers: Customer Facing Costs and Corporate Support Costs. Customer Facing Costs, which include store payroll, marketing, and other store operating costs, represented 23.0% of sales in the first nine months of fiscal 2018 as compared to 23.9% of sales in the first nine months of last year. Corporate Support Costs, which include the distribution center and corporate overhead costs, represented 16.0% of sales in the first nine months of fiscal 2018 compared to 17.4% of sales in the first nine months of last year. The Company will continue to address its SG&A cost structure to improve its EBITDA margins and overall profitability.

### *Impairment of Assets*

In the second quarter of fiscal 2017, we incurred an asset impairment charge of \$1.7 million for the write-off of certain store assets. This amount was previously included in depreciation and amortization in the Consolidated Financial Statements for the first nine months of fiscal 2017 but was reclassified to impairment of assets in the Consolidated Financial Statements for fiscal year 2017. For consistency, the prior year results included in the Consolidated Financial Statements for the first nine months of fiscal 2018 reflect this year-end reclassification to impairment of assets.

### *Depreciation and Amortization*

Depreciation and amortization for the third quarter of fiscal 2018 decreased \$0.5 million to \$7.2 million as compared to \$7.7 million for the third quarter of fiscal 2017. For the first nine months of fiscal 2018, depreciation and amortization decreased \$1.4 million to \$21.9 million from \$23.3 million for the first nine months of fiscal 2017. With the DXL store growth substantially complete, our depreciation costs have started to decrease.

### *Interest Expense, Net*

Net interest expense for the third quarter of fiscal 2018 of \$0.8 million decreased slightly from \$0.9 for the third quarter of fiscal 2017 million. The decrease in interest costs is due to a reduction in total debt outstanding at the end of the third quarter of fiscal 2018 as compared to the prior year, partially offset by an increase in interest rates.

For the first nine months of fiscal 2018, interest expense of \$2.6 million increased slightly from \$2.5 million for the first nine months of fiscal 2017. Net interest expense for the first nine months of fiscal 2018 include the write-off of approximately \$0.2 million of unamortized debt issuance costs associated with entering into a New Credit Facility and the repayment of the Term Loan Facility, as discussed below. As a result of the New Credit Facility and the repayment of the Term Loan Facility, we expect to realize, on an annualized basis, savings of approximately \$0.7 million due to more favorable interest rates.

### *Income Taxes*

At November 3, 2018, we had total deferred tax assets of \$52.5 million, total deferred tax liabilities of \$4.0 million and a corresponding valuation allowance of \$48.5 million. The deferred tax assets included approximately \$39.0 million of net operating loss carryforwards and approximately \$2.8 million of deferred gain on our sale-leaseback and, to a lesser extent, other book/tax timing differences.

At the end of fiscal 2014, we established a full valuation allowance against our deferred tax assets. Based on our earnings guidance for fiscal 2018, we believe that a full valuation allowance continues to remain appropriate at this time.

Beginning with the first quarter of fiscal 2018, we are calculating our tax provision based on the newly enacted U.S. statutory rate of 21%. Our tax provision for the third quarter and first nine months of fiscal 2018 and fiscal 2017 was primarily due to current state margin tax. The third quarter and first nine months of fiscal 2018 included a tax expense of \$45,000 and \$92,000, respectively, in other comprehensive income (loss), which resulted in a tax benefit on the Consolidated Statement of Operations related to the corresponding decrease in valuation allowance.

#### *Net Loss*

For the third quarter of fiscal 2018, we had a net loss of \$(2.0) million, or \$(0.04) per diluted share, compared with a net loss of \$(5.7) million, or \$(0.12) per diluted share, for the third quarter of fiscal 2017. For the first nine months of fiscal 2018, we had a net loss of \$(6.3) million, or \$(0.13) per diluted share, as compared with a net loss of \$(15.5) million, or \$(0.32) per diluted share for the first nine months of fiscal 2017.

Results for the third quarter and first nine months of fiscal 2018 includes charges of \$0.7 million and \$2.5 million, respectively, associated with the Company's restructuring and CEO transition costs discussed above. Results for the first nine months of fiscal 2017 included an impairment charge of \$1.7 million for the write-down of certain store assets.

On a non-GAAP basis, the adjusted net loss for the third quarter and first nine months of fiscal 2018 was \$(0.02) and \$(0.06) per diluted share, respectively, as compared to the adjusted net loss of \$(0.09) per diluted share and \$(0.21) per diluted share for the third quarter and first nine months of fiscal 2017, respectively. Results for the third quarter and first nine months of fiscal 2018 were adjusted for the restructuring charge and CEO transition costs of \$0.7 million and \$2.5 million, respectively. Results for the first nine months of fiscal 2017 were adjusted for the impairment charge of \$1.7 million. Further, all periods were adjusted to assume a normalized tax rate of 26%.

#### *Inventory*

At November 3, 2018, total inventory was \$116.4 million compared to \$103.3 million at February 3, 2018 and \$119.9 million at October 28, 2017. The 2.9% decrease of \$3.5 million from October 28, 2017 was due to inventory initiatives that began in fiscal 2016 to improve timing of receipts and reduce weeks of supply on hand. At November 3, 2018, our clearance inventory, which includes inventory in our "dots" program as well as certain merchandise that has been permanently marked down, represented 11.7% of our total inventory, as compared to 9.7% at October 28, 2017. We believe that this slight increase is due to more customers gravitating toward our new, full-price fashion merchandise in the Fall assortment, as opposed to last year where we were seeing higher sell-throughs on clearance product.

#### **SEASONALITY**

Historically, and consistent with the retail industry, we have experienced seasonal fluctuations as it relates to our operating income and net income. Traditionally, a significant portion of our operating income and net income is generated in the fourth quarter, as a result of the "Holiday" season.

#### **LIQUIDITY AND CAPITAL RESOURCES**

Our primary sources of liquidity are cash generated from operations and availability under our credit facility with Bank of America, N.A., which was amended and restated in May 2018. Our current cash needs are primarily for working capital (essentially inventory requirements), capital expenditures and growth initiatives. We plan to manage our working capital and it is expected that excess cash from operations will be directed toward our growth initiatives and debt reductions.

Our capital expenditures in fiscal 2018 are expected to be approximately \$12.5 million, and while capital expenditures may have to be funded periodically during the year from our credit facility, by the end of fiscal 2018 all capital expenditures are expected to be funded from cash flow from operations. We currently believe that our existing cash generated by operations together with our credit facility will be sufficient within current forecasts for us to meet our foreseeable liquidity requirements.

For fiscal 2018, we expect cash flow from operating activities of \$22.5 million to \$26.5 million (including tenant allowances), and positive free cash flow of \$10.0 million to \$14.0 million that we expect to use to reduce outstanding debt.

Cash flow from operations for the first nine months of fiscal 2018 was \$(1.3) million, compared to \$5.2 million for the first nine months of fiscal 2017. The decrease in cash flow from operations was primarily due to the prior year benefiting from inventory reduction initiatives, which have now annualized, resulting in a \$10.6 million swing as well as a decrease in tenant allowances from the prior year of approximately \$5.4 million, which corresponds to our decrease in capital expenditures. These decreases in cash flow from operations were partially offset by our improved earnings of \$9.2 million. Capital expenditures for the first nine months of fiscal



2018 decreased to \$9.8 million as compared to \$18.4 million for the first nine months of fiscal 2017, due to opening fewer stores. For the first nine months of fiscal 2018, we opened two DXL stores, one DXL outlet store and rebranded three Casual Male XL stores to DXL stores, as compared to 20 store openings for the first nine months of fiscal 2017. Partially offsetting this decrease in store capital was an increase in capital expenditures related to our IT and website initiatives. The majority of the planned capital for these IT and website initiatives was incurred in the first half of fiscal 2018. Free cash flow, a non-GAAP measure, was \$(11.1) million for the first nine months of fiscal 2018 as compared to \$(13.2) million for the first nine months of fiscal 2017.

The following is a summary of our total debt outstanding at November 3, 2018 with the associated unamortized debt issuance costs:

<i>(in thousands)</i>	Gross Debt Outstanding	Less Debt Issuance Costs	Net Debt Outstanding
Credit facility	\$ 57,671	\$ (381)	\$ 57,290
FILO loan	15,000	(257)	14,743
<b>Total debt</b>	<b>\$ 72,671</b>	<b>\$ (638)</b>	<b>\$ 72,033</b>

#### New Credit Facility

In the second quarter of fiscal 2018, we amended and restated our credit facility with Bank of America, N.A (our “New Credit Facility”) which extended the maturity date to May 24, 2023. The New Credit Facility continues to provide for a maximum committed borrowing of \$125.0 million, which, pursuant to an accordion feature, could be increased to \$175.0 million upon our request and the agreement of the lender(s) participating in the increase (the “Revolving Facility”). The New Credit Facility includes a sublimit of \$20.0 million for commercial and standby letters of credit and a sublimit of up to \$15.0 million for swingline loans. Borrowings made pursuant to the Revolving Facility under the New Credit Facility will bear interest, calculated under either the Federal Funds rate or the LIBOR rate, at a rate equal to the following: (a) the Federal Funds rate plus a varying percentage based on the Company’s excess availability, of either 0.25% or 0.50%, or (b) the LIBOR rate (the Company being able to select interest periods of 1 week, 1 month, 2 months, 3 months or 6 months) plus a varying percentage based on the Company’s excess availability, of either 1.25% or 1.50%.

We had outstanding borrowings of \$57.7 million under the New Credit Facility at November 3, 2018. At November 3, 2018, outstanding standby letters of credit were \$2.9 million and outstanding documentary letters of credit were \$2.3 million. The average monthly borrowing outstanding under the our credit facility during the first nine months ended November 3, 2018 was approximately \$56.3 million, resulting in an average unused excess availability of approximately \$33.6 million. Unused excess availability at November 3, 2018 was \$45.4 million.

The New Credit Facility also included a FILO facility for \$15.0 million, the proceeds of which were used to repay our previous Term Loan Facility. The total borrowing capacity under the FILO Facility is based on a borrowing base, generally defined as a specified percentage of the value of eligible accounts, including certain trade names, that step down over time, plus a specified percentage of the value of eligible inventory that steps down over time. There can be no voluntary prepayments on the FILO Facility during the first year. After its one-year anniversary, the FILO Facility can be repaid, in whole or in part, subject to certain payment conditions.

Borrowings made under the FILO Facility will bear interest, calculated under either the Federal Funds rate or the LIBOR rate, at a rate equal to the following: (a) the Federal Funds rate plus a varying percentage based on the Company’s excess availability, of either 1.75% or 2.00% or (b) the LIBOR rate (the Company being able to select interest periods of 1 week, 1 month, 2 months, 3 months or 6 months) plus a varying percentage based on the Company’s excess availability, of either 2.75% or 3.00%. At November 3, 2018, the outstanding balance of \$15.0 million was in a 2-month LIBOR-based contract with an interest rate of 5.07%.

#### Equipment Financing Loans

We previously entered into twelve Equipment Security Notes (the “Notes”), whereby we borrowed an aggregate of \$26.4 million. The Notes, which were issued between September 2013 and June 2014, were issued pursuant to a Master Loan and Security Agreement with Banc of America Leasing & Capital, LLC, dated July 20, 2007 and most recently amended on September 30, 2013. The Notes were secured by a security interest in all of our rights, title and interest in and to certain equipment. The Notes accrued interest at fixed rates ranging from 3.07% to 3.50%. During the second quarter of fiscal 2018, the Company repaid in full the remaining balance on these Notes, without penalty.

#### Term Loan, Due 2019

We previously had a senior secured term loan facility with Wells Fargo Bank, National Association as administrative and collateral agent (the “Term Loan Facility”). The interest rate on the Term Loan Facility was equal to the greater of (a) 1.00% and (b) the one-month LIBOR rate, plus 6.50%. The Term Loan Facility, with a maturity date of October 29, 2019 and an outstanding balance of \$11.5 million, was repaid in full, without penalty, during the second quarter of fiscal 2018 in connection with the New Credit Facility.

## Capital Expenditures

The following table sets forth the open stores and related square footage at November 3, 2018 and October 28, 2017, respectively:

Store Concept	November 3, 2018		October 28, 2017	
	Number of Stores	Square Footage	Number of Stores	Square Footage
<i>(square footage in thousands)</i>				
DXL Retail	216	1,683	211	1,659
DXL Outlets	15	78	14	72
Casual Male XL Retail	67	225	81	280
Casual Male Outlets	30	91	33	103
Rochester Clothing	5	51	5	51
Total Stores	333	2,128	344	2,165

Below is a summary of store openings and closings from February 3, 2018 to November 3, 2018:

Number of Stores:	DXL	DXL Outlets	Casual Male XL Retail	Casual Male XL Outlets	Rochester Clothing	Total Stores
At February 3, 2018	212	14	78	33	5	342
New stores <sup>(1)</sup>	1	—	—	—	—	1
Rebranded stores <sup>(2)</sup>	3	—	(3)	—	—	—
Replaced stores <sup>(3)</sup>	1	1	(1)	(1)	—	—
Closed retail stores <sup>(4)</sup>	(1)	—	(7)	(2)	—	(10)
At November 3, 2018	216	15	67	30	5	333

(1) Represents stores opened in new markets.

(2) Represents Casual Male XL stores that were remodeled and rebranded to a DXL store.

(3) Represents the total number of DXL stores opened in existing markets with the corresponding total number of Casual Male XL stores closed in such markets in connection with those DXL store openings.

(4) Represents closed stores for which there were no corresponding openings in the same market.

Our capital expenditures for the first nine months of fiscal 2018 were \$9.8 million as compared to \$18.4 million for the first nine months of fiscal 2017. We have opened 2 DXL retail stores, 1 DXL outlet and rebranded 3 Casual Male XL stores to a DXL during the first nine months of fiscal 2018 as compared to 19 DXL retail stores and 1 DXL outlet for the first nine months of fiscal 2017.

For fiscal 2018, our capital expenditures are expected to be approximately \$12.5 million and we expect to receive approximately \$1.1 million in tenant allowances to offset these expenditures. This includes approximately \$1.8 million, excluding any allowance, related to the opening of 2 new DXL retail stores, the remodeling of 3 Casual Male XL to DXL retail stores and 1 DXL outlet store, and approximately \$10.7 million for continued information technology projects, website initiatives and general overhead projects. In addition, for fiscal 2018, we expect to close approximately 9 Casual Male XL stores, 3 Casual Male XL outlet stores and 1 DXL store.

## CRITICAL ACCOUNTING POLICIES

There have been no material changes to the critical accounting policies and estimates disclosed in our Form 10-K for the year ended February 3, 2018. See Note 1 to the Consolidated Financial Statements included in this report for information on recent accounting pronouncements and changes in accounting principles.

### Non-GAAP Financial Measures

Adjusted net loss, adjusted net loss per diluted share, free cash flow, EBITDA and adjusted EBITDA are non-GAAP measures. These non-GAAP measures are not presented in accordance with GAAP and should not be considered superior to or as a substitute for net loss or cash flows from operating activities or any other measure of performance derived in accordance with GAAP. In addition, all companies do not calculate non-GAAP financial measures in the same manner and, accordingly, the non-GAAP measures presented in this Quarterly Report may not be comparable to similar measures used by other companies. We believe that inclusion of these non-GAAP measures helps investors gain a better understanding of our performance, especially when comparing such results to previous periods and that they are useful as an additional means for investors to evaluate our operating results, when reviewed in conjunction with our GAAP financial statements. Reconciliations of these non-GAAP measures are presented in the following tables (*certain columns may not foot due to rounding*):

Adjusted net loss and adjusted net loss per diluted share. The above discussion includes an adjusted net loss for the third quarter and first nine months of fiscal 2018 and fiscal 2017 on a non-GAAP basis, which reflected results before corporate restructuring, CEO transition costs, impairment charges and assumes a normal tax rate of 26%. We have fully reserved against our deferred tax assets and, therefore, net loss is not reflective of earnings assuming a “normal” tax position. Adjusted net loss provides investors with a useful indication of the financial performance of the business, on a comparative basis, assuming a normalized effective tax rate of 26%.

The following is a reconciliation of the net loss to adjusted net loss, adjusted for corporate restructuring charge, CEO transition costs and impairment charges and assumes a normal tax rate of 26% for the third quarter and first nine months of fiscal 2018 and fiscal 2017:

	For the three months ended				For the nine months ended			
	November 3, 2018		October 28, 2017		November 3, 2018		October 28, 2017	
	\$	Per diluted share	\$	Per diluted share	\$	Per diluted share	\$	Per diluted share
<i>(in thousands, except per share data)</i>								
Net loss (GAAP basis)	\$ (2,005)	\$ (0.04)	\$ (5,706)	\$ (0.12)	\$ (6,300)	\$ (0.13)	\$ (15,502)	\$ (0.32)
<b>Adjust:</b>								
Corporate restructuring	262	\$ 0.01	-	-	1,922	\$ 0.04	-	-
CEO transition costs	430	\$ 0.01	-	-	530	\$ 0.01	-	-
Impairment of assets	-	-	-	-	-	-	1,718	\$ 0.04
Add back actual income tax provision (benefit)	(22)	-	-	-	(19)	-	64	-
Add income tax benefit, assuming a normal tax rate of 26%	347	\$ 0.01	1,484	\$ 0.03	1,005	\$ 0.02	3,567	\$ 0.07
Adjusted net loss (non-GAAP basis)	\$ (988)	\$ (0.02)	\$ (4,222)	\$ (0.09)	\$ (2,862)	\$ (0.06)	\$ (10,153)	\$ (0.21)
Weighted average number of common shares outstanding:								
diluted basis for a net loss position		49,352		48,607		49,068		48,966

Free Cash Flow. We define free cash flow as cash flow from operating activities less capital expenditures. Free cash flow excludes the mandatory and discretionary repayment of debt. Free cash flow is a metric that management uses to monitor liquidity. We expect to fund our ongoing capital expenditures with cash flow from operations.

The following table reconciles free cash flow:

	For the nine months ended	
	November 3, 2018	October 28, 2017
<i>(in millions)</i>		
Cash flow from operating activities (GAAP basis) <sup>(1)</sup>	\$ (1.3)	\$ 5.2
Capital expenditures, infrastructure projects	(8.0)	(5.8)
Capital expenditures for DXL stores	(1.8)	(12.6)
Free Cash Flow (non-GAAP basis)	\$ (11.1)	\$ (13.2)

(1) Cash flow from operating activities includes lease incentives received against our capital expenditures, which are deferred and amortized into earnings over the lease term.

**EBITDA and Adjusted EBITDA.** EBITDA is calculated as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before restructuring charges, impairment charges and CEO transition costs. We believe that EBITDA and adjusted EBITDA are useful to investors in evaluating our performance. With the significant capital investment we have made over the past several years in connection with DXL store openings, we have increased levels of depreciation and interest, and therefore, management uses EBITDA as a key metric to measure profitability and economic productivity.

The following table is a reconciliation of net loss to adjusted EBITDA:

<i>(in millions)</i>	For the three months ended		For the nine months ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Net loss (GAAP basis)	\$ (2.0)	\$ (5.7)	\$ (6.3)	\$ (15.5)
Add back:				
Corporate restructuring	0.3	-	1.9	-
CEO transition costs	0.4	-	0.6	-
Impairment of assets	-	-	-	1.7
Provision for income taxes	-	-	-	0.1
Interest expense	0.8	0.9	2.6	2.5
Depreciation and amortization	7.2	7.7	21.9	23.3
Adjusted EBITDA (non-GAAP basis)	<u>\$ 6.6</u>	<u>\$ 2.8</u>	<u>\$ 20.7</u>	<u>\$ 12.1</u>

**Fiscal 2018 Outlook - GAAP to Non-GAAP Reconciliations.**

The following table is a reconciliation of non-GAAP measures used in our Fiscal 2018 Outlook:

<i>(in millions, except per share data)</i>	Projected	
	Fiscal 2018	
		<i>per diluted share</i>
Net loss (GAAP basis)	\$ (9.8) - \$ (12.8)	
Add back:		
Restructuring charge	1.9	
CEO transition costs	2.1	
Provision for income taxes	0.1	
Interest expense	3.4	
Depreciation and amortization	29.3	
Adjusted EBITDA (non-GAAP basis)	<u>\$24.0 - \$27.0</u>	
Net loss (GAAP basis)	\$ (9.8) - \$ (12.8)	
Add back:		
Restructuring charge	1.9	
CEO transition costs	2.1	
Add back tax provision and record benefit assuming 26%	1.8 - 2.7	
Adjusted net loss (non-GAAP basis)	<u>\$ (4.0) - \$ (6.1)</u>	
Weighted average common shares outstanding - diluted	49.1	
Cash flow from operating activities (GAAP basis)	\$22.5 - \$26.5	
Capital expenditures, infrastructure projects	(10.7)	
Capital expenditures for DXL stores	(1.8)	
Free Cash Flow (non-GAAP basis)	<u>\$10.0 - \$14.0</u>	

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

In the normal course of business, our financial position and results of operations are routinely subject to a variety of risks, including market risk associated with interest rate movements on borrowings and foreign currency fluctuations. We regularly assess these risks and have established policies and business practices to protect against the adverse effects of these and other potential exposures.

#### Interest Rates

We utilize cash from operations and from the Revolving Facility of our Credit Facility to fund our working capital needs. Our Credit Facility is not used for trading or speculative purposes. As part of our Credit Facility, we also have an outstanding \$15.0 million FILO loan. In addition, we have available letters of credit as sources of financing for our working capital requirements. Borrowings under the Credit Facility, which expires May 24, 2023, bear interest at variable rates based on Bank of America's prime rate or LIBOR. At November 3, 2018, the interest rate on our prime based borrowings was 5.50%. At November 3, 2018, the \$15.0 million outstanding under our FILO loan were in a LIBOR contract with an interest rate of 5.07% and approximately \$52.0 million of our outstanding borrowings under our Revolving Facility were in LIBOR contracts with an interest rate of 3.50%.

Based upon a sensitivity analysis as of November 3, 2018, assuming average outstanding borrowing during the first nine months of fiscal 2018 of \$56.3 million under our Revolving Facility and \$15.0 million outstanding under our FILO loan, a 50 basis point increase in interest rates would have resulted in a potential increase in interest expense of approximately \$356,500 on an annualized basis.

#### Foreign Currency

Our Rochester Clothing store located in London, England conducts business in British pounds and our two DXL stores located in Ontario, Canada conduct business in Canadian dollars. As of November 3, 2018, sales from these stores were immaterial to consolidated sales. As such, we believe that movement in foreign currency exchange rates will not have a material adverse effect on our financial position or results of operations.

### **Item 4. Controls and Procedures.**

#### Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of November 3, 2018. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of November 3, 2018, our disclosure controls and procedures were effective.

#### Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended November 3, 2018 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.**

We are subject to various legal proceedings and claims that arise in the ordinary course of business. Management currently believes that the resolution of these matters will not have a material adverse impact on our future results of operations or financial position.

### **Item 1A. Risk Factors.**

There have been no material changes to the risk factors as previously disclosed in Part I, Item 1A of our Form 10-K for the year ended February 3, 2018.

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

None.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

On October 22, 2018, the Compensation Committee of the Board of Directors approved the First Amendment to the Second Amended and Restated Long-Term Incentive Plan (the "Amended LTIP"), as filed as Exhibit 10.1 to this Form 10-Q for the quarter ending November 3, 2018. The Amended LTIP amended Section 7(e) to clarify the payment of performance-based awards in connection with a Change in Control as it relates to a performance period that has not yet ended or has not previously been vested or paid. In addition, Section 16 of the Amended LTIP was amended to update the 409(a) language to be consistent with the Company's 2016 Incentive Compensation Plan.

On October 24, 2018, the Compensation Committee established two performance targets for the 2018-2020 Performance Period under the Amended LTIP (the "2018-2020 LTIP") as follows:

- Three-Year Average Adjusted EBITDA Margin (weighted 75%).
- Three-Year Relative Total Shareholder Return of the Company as compared to its 2018 disclosed peer group (weighted 25%). The three-year relative total shareholder return will be calculated as the percentage change in the 30-day trailing volume weighted average closing stock price at February 2, 2018 and January 29, 2021, adjusted for any dividends received. An award at target will be earned if the Company's performance falls within the second quartile among its peer group, with an award payout at maximum for the top quartile, an award payout at threshold for the third quartile and no payout if the Company's results are in the fourth quartile.

**Item 6. Exhibits.**

- 10.1 [First Amendment to the Second Amended and Restated Long-Term Incentive Plan.](#) †
- 10.2 [Second Amendment to Employment and Chairman Compensation Agreement between the Company and Seymour Holtzman \(included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 7, 2018, and incorporated herein by reference\).](#) \*†
- 10.3 [Second Amended and Restated Employment Agreement dated as of October 8, 2018 between the Company and Brian S. Reaves \(included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 9, 2018, and incorporated herein by reference\).](#) †
- 31.1 [Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14\(a\) under the Securities Exchange Act of 1934.](#)
- 31.2 [Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14\(a\) under the Securities Exchange Act of 1934.](#)
- 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 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended November 3, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.

\* Previously filed.

† Denotes management contract or compensatory plan or arrangement.

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.

DESTINATION XL GROUP, INC.

Date: November 30, 2018

By: /S/ John F. Cooney  
John F. Cooney  
Vice President, Managing Director, Chief Accounting Officer  
and Corporate Controller (Duly Authorized Officer and Chief  
Accounting Officer)



**DXL GROUP**  
**First Amendment to Second Amended and Restated Destination XL Group, Inc.**  
**Long-Term Incentive Plan**

Establishment and Purpose

. Destination XL Group, Inc. (the “Company”) hereby establishes this First Amendment to Second Amended and Restated Destination XL Group, Inc. Long-Term Incentive Plan (the “Plan”) for the purpose of supporting the Company’s ongoing efforts to attract, retain and develop exceptional talent and enable the Company to provide incentives directly linked to the Company’s short and long-term objectives and increases in shareholder value.

Definitions

. When used herein, the following capitalized terms shall have the meanings assigned to them, unless the context clearly indicates otherwise. Capitalized terms used herein and not defined shall have the meanings assigned to them in the Incentive Compensation Plan, as defined below.

- (a) **Affiliate** means any entity that controls, is controlled by, or is under common control with, the Company.
- (b) **Applicable Performance Target** means the Performance Target(s) selected by the Committee of the Board to be met during a Performance Period pursuant to the Plan.
- (c) **Award** means an award under the Plan that is payable in the form of Cash, Options, Restricted Stock, Restricted Stock Units or any other form of Award available under the Company’s Incentive Compensation Plan, pursuant to the terms and conditions set forth in this Plan.
- (d) **Black-Scholes Value** means the value of an Option as of the date of the valuation calculated utilizing the same formula and assumptions as the Company utilized for the purpose of valuing outstanding options in its most recently (meaning at the time of the valuation) prepared audited annual financial statement.
- (e) **Board** means the Board of Directors of the Company.
- (f) **Cash** means U.S. dollars.
- (g) **Committee** means the Compensation Committee of the Board.
- (h) **Effective Date** means the date on which the metrics for a Performance Period have been finally approved by the Committee, or such later date as shall be designated by the Committee.
- (i) **Effective Date of Participation** means the date on which a Participant became a Participant in the Plan with respect to a Performance Period.
- (j) **Fiscal Quarter** means each fiscal quarter that ends within a fiscal year of the Company.
- (k) **FYE** means the last day of each fiscal year of the Company.

(l) **Gain** means (i) to the extent that the Award was satisfied with a grant of Options, the amount by which the Fair Market Value per share of the Shares underlying such Option as of the date on which the Participant exercised the Option exceeded the exercise price of the Option; (ii) to the extent that the Award was satisfied by the grant of Restricted Stock that became vested, the Fair Market Value of those vested Shares on the earlier of the date on which the Participant incurred a Termination of Employment or the date on which the Participant sold those Shares; (iii) to the extent that the Award was satisfied by the grant of Restricted Stock Units that became vested, the Fair Market Value of the vested Shares on the earlier of the date on which the Participant incurred a Termination of Employment or the date on which the Participant sold the Shares; (iv) to the extent that the Award was satisfied in Cash, the amount of Cash paid to satisfy the Award; or (v) to the extent that the Award is satisfied in some other form, the value of the amount used to satisfy the Award (as determined by the Committee).

(m) **Good Reason** means the same definition of Good Reason, or any substantially similar term, in the Participant's employment agreement with the Company, if any, that is in effect at the time the determination is being made. If the Participant does not have an employment agreement with the Company at that time, or there is no definition of Good Reason, or any substantially similar term, in the Participant's employment agreement at that time, or the Committee determines, in its sole and absolute discretion, that the right to any payment or benefit under this Plan pursuant to a Termination of Employment by a Participant for Good Reason would not be treated as a right to a payment or benefit pursuant to an involuntary separation from service for purposes of Section 409A (as defined in Section 16(a) of this Plan) if the definition of Good Reason, or any substantially similar term, in the Participant's employment agreement at that time is applied to the Participant's Termination of Employment, then Good Reason means the occurrence of any of the following in the absence of Justifiable Cause by the Company: (i) a material diminution in the Participant's base salary, unless such material diminution in the Participant's base salary is made pursuant to a reduction in base salary that affects all similarly situated employees in a similar manner and is made at least six months prior to a Change in Control, in which case such material diminution in the Participant's base salary shall not constitute Good Reason; (ii) a material change in the geographic location at which the Participant must perform his or her job functions to which the Participant does not agree; or (iii) solely in the case of a Section 16 Officer, a material diminution in the Participant's authority, duties, or responsibilities. For purposes of this Plan, Good Reason shall not be deemed to exist unless the Termination of Employment by a Participant for Good Reason occurs within 180 days following the initial existence of one of the conditions specified in clauses (i) through (iii) above, the Participant provides the Company with written notice of the existence of such condition within 90 days after the initial existence of the condition, and the Company fails to remedy the condition within 30 days after its receipt of such notice.

(n) **Grant Date** means the date on which an Award is granted to a Participant under the Plan, or such later date as shall be determined by the Committee.

(o) **Incentive Compensation Plan** means the Company's 2016 Incentive Compensation Plan or any shareholder-approved successor plan to the Company's 2016 Incentive Compensation Plan.

(p) **Justifiable Cause** means the same definition as used in the Participant's employment agreement, if any, that is in effect at the time the determination is being made. If the Participant does not have an employment agreement at that time, or there is no definition of Justifiable Cause, or any substantially similar term, in the Participant's employment agreement at that time, then Justifiable Cause means any material failure by the Participant in performing

his or her necessary job functions; any breach of any material written policies, rules or regulations which have been adopted by the Company; the Participant's performance of any act or failure to act, as to which if the Participant were prosecuted and convicted, a crime or offense involving money or property of the Company or its Subsidiaries or Affiliates, or a crime or offense constituting a felony in the jurisdiction involved, would have occurred; the Participant's embezzlement of funds or assets of the Company or any of its Subsidiaries or Affiliates; the Participant's conviction of, plea of guilty to, or plea of nolo contendere to any felony; the Participant's unauthorized disclosure to any person, firm or corporation of any confidential information of the Company or any of its Subsidiaries or Affiliates; the Participant's usurpation of a corporate opportunity of the Company or any of its Subsidiaries or Affiliates; or the Participant's engaging in any business other than the business of the Company or its Subsidiaries or Affiliates which materially interferes with the performance of his or her duties.

(q) **Operating Margin** for any period means the Company's operating income, as reported on the Company's consolidated financial statements for that period, divided by Sales for that period.

(r) **Performance-Vesting Benefit Amount** has the meaning given to that term in Section 6(b) hereof, and includes not only its dollar value but also any Awards made with respect thereto.

(s) **Performance Period** means each three-year fiscal period which begins on the first day of the fiscal year in which an Effective Date occurs and ends at FYE of the third fiscal year. For example, if the Effective Date is April 1, 2018, the Performance Period would be February 4, 2018 to January 30, 2021.

(t) **Performance Target** means any business criteria for the Company, on a consolidated basis, and/or for Related Entities, or for business or geographical units of the Company and/or a Related Entity that the Committee, in its sole discretion, uses to establish performance goals for Awards. Any goals may be determined on an absolute or relative basis or as compared to the performance of a published or special index deemed applicable by the Committee including, but not limited to, the Standard & Poor's 500 Stock Index or a group of companies that are comparable to the Company. As set forth in Section 3, the Committee may establish threshold, target and maximum goals for each Performance Target. Except as otherwise specified by the Committee at the time the goals are set, the Committee shall exclude the impact of: (i) restructurings, discontinued operations, extraordinary items, and other unusual or non-recurring charges, (ii) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management, (iii) a change in accounting standards required by generally accepted accounting principles, or (iv) any other item or event specified by the Committee at the time the goals are set.

(u) **Plan** means this Destination XL Group, Inc. Long-Term Incentive Plan, as it may be amended from time to time.

(v) **Projected Benefit Amount** has the meaning given to that term in Section 5 hereof.

(w) **Pro-Rata Vesting Percentage** means the percentage that (1) the number of days from the Participant's Effective Date of Participation until the date of the Participant's Termination of Employment bears to (2) the number of days from the Participant's Effective Date of Participation until the end of the Performance Period. If the Participant receives more

than one Award pursuant to Section 6(c) hereof, then the Pro-Rata Vesting Percentage shall be determined separately with respect to each separate Award based upon the particular Grant Date (which is to be treated as the Participant's Effective Date of Participation with respect to that Award) and Performance-Vesting Benefit Amount for each such Award.

(x) **Retirement** means the Termination of Employment of the Participant, other than by reason of the Participant's death or Disability and other than by the Company for Justifiable Cause or by the Participant for Good Reason, after the Participant has attained age 65 and completed at least 5 years of employment with the Company and its Subsidiaries and Affiliates.

(y) **Sales** for any period mean the sales of the Company consistent with the calculation as reported on the Company's consolidated financial statements for that period.

(z) **Section 16 Officer** means an officer of the Company who is subject to the requirements of Section 16 of the Securities and Exchange Act of 1934.

(aa) **Subsidiary** means any corporation or other entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities or interests of such corporation or other entity entitled to vote generally in the election of directors or in which the Company has the right to receive 50% or more of the distribution of profits or 50% or more of the assets on liquidation or dissolution.

(bb) **Target Cash Value** means the amount in U.S. dollars determined by: multiplying (i) the Participant's annual base salary in effect on the Participant's Effective Date of Participation by (ii) the long-term incentive program percentage designated in the Participant's executed employment agreement with the Company (or the percentage as otherwise designated in the Company's records) or such other amount as shall be determined by the Committee.

(cc) **Termination of Employment** means the termination of the Participant's employment with the Company and its Subsidiaries and Affiliates for any reason.

(dd) **Time-Vesting Benefit Amount** has the meaning given to that term in Section 6(a) hereof, and includes not only its dollar value but also any Awards made with respect thereto.

3. ***Establishment of Fiscal Year Applicable Performance Target and Awards.*** The Committee will establish the Performance Target(s) (in the aggregate, the Applicable Performance Target) in no event later than the expiration of 25% of the applicable performance period. The Committee may establish threshold, target and maximum goals for each Performance Target and the weight of each Performance Target may vary and may be dependent on achievement of another Performance Target. At that time, the Committee will establish whether Awards will be granted in Cash, a form of equity (for example, Restricted Stock, Restricted Stock Units and/or Options), or a combination thereof.

4. ***Eligibility.*** The Committee shall designate those employees of the Company and its Subsidiaries and Affiliates who shall be eligible to become Participants in the Plan and the date during the Performance Period on which they shall become Participants. The initial Participants shall become Participants on the Effective Date for the Performance Period that begins February 4, 2018. Except as otherwise provided in Section 7(d) hereof, unless otherwise determined by the Committee, no portion of any Award shall become vested pursuant to Section 7 hereof,

unless and until a Participant has completed at least 1 year of employment with the Company and its Subsidiaries and Affiliates from the Grant Date. No one shall be eligible to be a Participant during an existing Performance Period unless he or she was employed by, or is promoted by, the Company by the first day of the fourth fiscal quarter in the third year of a Performance Period.

#### Amount of Benefit

. The benefit payable to a Participant pursuant to an Award under this Plan shall be equal to the sum of the vested portions, if any, of the Participant's Time-Vesting Benefit Amount and Performance-Vesting Benefit Amount. Those amounts shall be determined in accordance with Section 7 of this Plan, based upon the Participant's Target Cash Value for the Performance Period (or, in the case of an individual that becomes a Participant after the Effective Date of a Performance Period, an amount (the "Projected Benefit Amount") equal to the Target Cash Value for the Performance Period multiplied by a fraction, the numerator of which shall be the number of calendar days from the Participant's Effective Date of Participation to the end of the Performance Period and the denominator of which shall be the total number of days in Performance Period).

#### Form of Payment

(a) **Grant of Time-Based Awards.** Upon a Participant's Effective Date of Participation, the Committee shall grant to the Participant the portion of the Award having a total dollar value equal to 50% of the Participant's Projected Benefit Amount for the Performance Period (the "Time-Vesting Benefit Amount") which shall vest over time. In the event all or a portion of the Award will be Restricted Stock or a Restricted Stock Unit, the number of shares to be granted will be determined by taking the dollar value of the Restricted Stock or Restricted Stock Unit Award and dividing by the closing price of the Company's common stock on Grant Date. In the event all or a portion of the Award will be Options, then the number of options to be granted will be determined by taking the dollar value of the Stock Option Award and dividing by the Black-Scholes Value on the Grant Date, each with an exercise price equal to the closing price of the Company's common stock on the Grant Date.

Subject to continued employment with the Company, time-vested RSUs granted with respect to a Performance Period will vest 25% a year over a four-year period beginning on April 1 of the immediately following fiscal year in accordance with Section 7(b).

(b) **Grant of Performance-Based Awards.** 50% of the Projected Benefit Amount shall be converted into a dollar value in accordance with Section 7(b), based upon the achievement of performance criteria during the Performance Period, which dollar value is sometimes hereinafter referred to as the "Performance-Vesting Benefit Amount". After completion of an audit of the Company's financial statements after the respective Performance Period ends and the Committee's review and approval that the Applicable Performance Targets were met the Committee shall grant to the Participant one or more Awards having an aggregate dollar value equal to the Performance-Vesting Benefit Amount as so calculated. All grants of performance-based awards are subject to a post-grant vesting period, as set forth in Section 7(b). In the event all or a portion of the Award will be Restricted Stock or Restricted Stock Units, the number of shares or units to be granted will be determined by taking the dollar value of the Restricted Stock or Restricted Stock Unit Award and dividing by the closing price of the Company's common stock on the Grant Date. In the event all or a portion of the Award will be Options, then the number of options to be granted will be determined by taking the dollar value of the Stock Option Award and dividing by the Black-Scholes Value on the Grant Date,

each with an exercise price equal to the closing price of the Company's common stock on the Grant Date.

(c) **Additional Grants for Promotions.** If a Participant is promoted during the Performance Period (prior to the 1<sup>st</sup> day of the fourth quarter of the third fiscal year) and entitled to a higher long-term incentive program percentage as a result of such promotion, then the Committee shall grant the Participant an additional Award determined as if the Participant had become a Participant on the Grant Date of the additional Award, with the amount of the additional Award being equal to the excess, if any, of (i) Participant's Projected Benefit Amount determined as if the Participant had become a Participant on the Grant Date of the additional Award, over (ii) the Participant's original Projected Benefit Amount multiplied by a fraction, the numerator of which shall be equal to the total number of calendar days from the Grant Date of the additional Award to the last day of the Performance Period and the denominator of which shall be the total number of days from the Participant's Effective Date of Participation to the last day of the Performance Period. In the event that a Participant is promoted and entitled to a higher long-term incentive program percentage as a result of such promotion more than once during the Performance Period, each additional Award shall be determined by the Committee, in its sole and absolute discretion, under the principles set forth above in this Section 6(c).

(d) **Forms of Award Agreements.** The Restricted Stock, Restricted Stock Units and Options granted pursuant to the Plan shall be made pursuant to the forms of Restricted Stock Agreement, Restricted Stock Unit and Stock Option Agreement, respectively, attached as Exhibits A, B and C hereto (with such modifications as the Committee may deem to be appropriate).

(e) **Payment of Cash.** The portion of any Projected Benefit Amount that vests and is payable in Cash shall be payable as soon as practicable after the date on which that portion of the benefit vests and, in the case of the Cash attributable to the Performance-Based Vesting Award, the Committee certifies in writing that the Applicable Performance Target has been met (but in either case, in no event later than the last day of the calendar year in which the portion of the Projected Benefit Amount vests).

(f) **If Insufficient Shares Available.** Notwithstanding the foregoing, if and to the extent that, at the time an Award is granted, the Company does not have a sufficient number of Shares remaining available for Awards under the Incentive Compensation Plan to issue such Award in the form of Restricted Stock, Restricted Stock Units and/or Options, or the Shares are available for Awards under the Incentive Compensation Plan subject to shareholder approval, and such approval is not obtained and the grant of Restricted Stock, Restricted Stock Units and/or Options therefore are cancelled, then such Award shall be settled in Cash to the extent of such insufficiency.

#### Vesting of Benefit

(a) ***Vesting of Time-Vesting Benefit Amount:***

(i) The Time-Vesting Benefit Amount shall vest according to the following four-year vesting schedule, provided that the Participant does not have a Termination of Employment on or before the applicable vesting date:

Vesting Date

Percentage of Time-Vesting Benefit Amount that Vests

The latter of one year from the Grant Date or April 1 following the FYE which marks the end of the first year of the Performance Period	25%
April 1 following the FYE which marks the end of the second year of the Performance Period	25%
April 1 following the FYE which marks the end of the Performance Period	25%
April 1 in the succeeding year (meaning, one year after the third tranche vests)	25%

(ii) Notwithstanding the foregoing, if a Participant has a Termination of Employment during a Performance Period, then notwithstanding anything to the contrary in the Participant's employment agreement, if any:

(A) If such Termination of Employment is by reason of the Participant's death or Disability, then the Participant shall, upon such Termination of Employment, (x) become fully vested in the entire Time-Vesting Benefit Amount for any Performance Period that ended on or before such Termination of Employment but that had not yet vested or been paid and (y) become vested in the Pro-Rata Vesting Percentage of the Time-Vesting Benefit Amount for any Performance Period(s) in which such Termination of Employment occurs;

(B) If such Termination of Employment is by reason of the Participant's Retirement, then the Participant shall, upon such Termination of Employment, (x) become fully vested in the entire Time-Vesting Benefit Amount for Performance Period ended before such Termination of Employment that has not yet vested or been paid and (y) become vested in the Pro-Rata Vesting Percentage of the portion of the Time-Vesting Benefit Amount determined as if the Participant had continued to be employed by the Company and its Subsidiaries until the last day of the fiscal year in which such Termination of Employment occurs; and

(C) If such Termination of Employment is by reason of a termination by the Company without Justifiable Cause (and other than by reason of the Participant's Disability) or is by the Participant for Good Reason, then, without including any time for a Notification Period (as that term is defined in an employment agreement):

(1) the Participant shall become fully vested in any Time-Vesting Benefit Amount for the entire Performance Period that ended on or before such Termination of Employment that has not yet vested or been paid; and

(2) for any Performance Period that is in its first year of the Performance Period when such Termination of Employment occurs, the Participant shall forfeit the Time-Vesting Benefit Amount for that Performance Period; and

(3) for any Performance Period that is in its second or third year of the Performance Period when such Termination of Employment occurs, the Participant shall become vested in the Pro-Rata Vesting Percentage of the Time-Vesting Benefit Amount for that Performance Period.

(b) ***Vesting of Performance-Vesting Benefit Amount.***

(i) After the respective Performance Period ends and an audit of the Company's financial statements has been completed, the Committee will calculate the amount of the "Performance-Vesting Benefit Amount" for each Participant. If there is more than one Performance Target, the Performance-Vesting Benefit Amount will be determined by first calculating the portion of 50% of the Projected Benefit Amount for the Performance Period that is to be attributable to each Performance Target and then adding those results together. To do so, the Committee will first multiply 50% of the Projected Benefit Amount for the Performance Period by the weight of each individual Performance Target and then by the percentage of target actually achieved for each Performance Target. If results for an individual Performance Target falls below the threshold established, there will be no Award with respect to the portion of the Projected Benefit Amount to which that Performance Target relates. The Performance-Vesting Benefit Amount shall vest on August 31 following the end of the applicable Performance Period if the Participant's employment continues through such August 31.

For example, assume the Performance Targets were Goal A and Goal B and that each was weighted 50%, with a threshold payment at 80% of target and a maximum payout at 150% of target:

(A) if Goal A and Goal B are both less than 80% of their respective target, then no Award shall be made for the Performance-Vesting Benefit Amount;

(B) if Goal A is 100% of its target and Goal B is 100% of its target, and a Participant has a Projected Benefit Amount of \$140,000, then 50% of that amount, or \$70,000, would be subject to the achievement of the Applicable Performance Target, and the Performance-Vesting Benefit Amount would be \$70,000 (100% X \$70,000 X 50%) + (100% X \$70,000 X 50%); and

(C) if Goal A is 180% of its target and Goal B is 125% of its target, and a Participant has a Projected Benefit Amount of \$140,000, then 50% of that amount, or \$70,000, would be subject to the achievement of the Applicable Performance Target, and the Performance-Vesting Benefit Amount would be \$96,250 (150% (cap) X \$70,000 X 50%) + (125% X \$70,000 X 50%).

(ii) Notwithstanding the foregoing, if a Participant has a Termination of Employment during a Performance Period, then notwithstanding anything to the contrary in the Participant's employment agreement, if any:

(A) If such Termination of Employment is by reason of the Participant's death or Disability, then the Participant shall, upon such Termination of Employment, become (x) fully vested in the entire Performance-Vesting Benefit Amount for any Performance Period that ended on or before such Termination of Employment but that had not yet vested or been paid, and (y) vested in the Pro-Rata Vesting Percentage of the



Performance-Vesting Benefit Target for any Performance Period that has not ended on or before the Termination of Employment, regardless of whether the Applicable Performance Target for the current Performance Period has been met.

(B) If such Termination of Employment is by reason of the Participant's Retirement, then the Participant shall (x) become fully vested in the entire Performance-Vesting Benefit Amount for any Performance Period that ended on or before such Termination of Employment but that had not yet vested or been paid and (y) for any Performance Period that is in its first year of the Performance Period when the Termination of Employment occurs, forfeit the Performance-Vesting Benefit Amount for such Performance Period and (z) for any Performance Period that is in at least the second year of the Performance period when the Termination of Employment occurs, become vested in the Pro-Rata Vesting Percentage of the Performance-Vesting Benefit Amount, if any, determined based upon the actual level of achievement of the Applicable Performance Targets for the entire Performance Period; and

(C) If such Termination of Employment is by reason of a termination by the Company without Justifiable Cause (and other than by reason of the Participant's Disability) or by the Participant for Good Reason, then, without including any time for a Notification Period (as that term is defined in an employment agreement):

(1) the Participant shall become fully vested in the entire Performance-Vesting Benefit Amount for any Performance Period that ended on or before such Termination of Employment but that has not yet vested or been paid; and

(2) for any Performance Period that is in its first year of the Performance Period when such Termination of Employment occurs, the Participant shall forfeit the Performance-Vesting Benefit Amount for such Performance Period;

(3) for any Performance Period that is in its second or third year of the Performance Period when such Termination of Employment occurs, the Participant shall become vested in the Pro-Rata Vesting Percentage of the Performance-Vesting Benefit Amount, if any, determined based upon the actual level of achievement of the Applicable Performance Targets for the entire Performance Period if and when the Applicable Performance Target has been met.

(c) **Forfeitures.** Except as otherwise provided in Section 7(a)(ii) and 7(b)(ii) hereof, any portion of any Awards for any Performance Period that was not vested on the date on which the Participant incurs a Termination of Employment and that does not vest on account of the Participant's Termination of Employment shall automatically and without any further action by the Committee immediately be forfeited and become null and void. In the event that the Participant's Termination of Employment is by the Company for Justifiable Cause, then any portion of the Participant's Award that has not previously vested and been exercised (in the case of any Options), or paid (in the case of any amount payable in cash) shall automatically and without further action by the Committee immediately be forfeited and become null and void.

(d) **Clawback of Gains on Termination for Justifiable Cause.** In the event that a Participant has a Termination of Employment, and such Termination of Employment was by the Company for Justifiable Cause, then in addition to any other remedy that may be available to the Company in law or in equity, and/or pursuant to the provisions of the Participant's

employment agreement, if any, the Participant also shall be required to pay to the Company, immediately upon written demand by the Committee or the Board, any Gains resulting from the grant, vesting, exercise or payment of any Award in the previous twelve months.

(e) ***Change in Control.***

(i) In the event there is a Change in Control and within 18 months after the Change in Control, either (1) the Participant is terminated by the Company without Justifiable Cause or by the Participant for Good Reason, or (2) there is a Termination of Employment because of the Participant's death or Disability, the following shall occur: (i) if and to the extent the portion of the Participant's Award(s) that is attributable to a Time-Based Vesting Amount for any Performance Period that ended on or before such Change of Control had not yet vested or been paid to the Participant shall immediately vest (in the case of Restricted Stock, Restricted Stock Units and Options) and the Cash payable as a result of such vesting shall be paid to the Participant, as soon as practicable (but in no event more than 5 business days) after the Participant's Termination of Employment; (ii) if and to the extent any portion of the Participant's Award(s) is attributable to a Time-Based Vesting Amount for a current Performance Period and has not previously been vested or paid to the Participant and is not assumed by the acquirer or converted into a new award that is at least the equivalent of the outstanding award, then the Pro-Rata Vesting Percentage of the Time-Vesting Benefit Amount of such Performance Period shall immediately vest (in the case of Restricted Stock, Restricted Stock Units and Options) and the Cash payable as a result of such vesting shall be paid to the Participant, as soon as practicable (but in no event more than 5 business days) after the Participant's Termination of Employment; (iii) if and to the extent the portion of the Participant's Award(s) that is attributable to a Performance-Based Vesting Amount for any Performance Period that ended on or before such Change of Control had not yet vested or been paid to the Participant shall immediately vest (in the case of Restricted Stock, Restricted Stock Units and Options) and the Cash payable as a result of such vesting shall be paid to the Participant, as soon as practicable (but in no event more than 5 business days) after the Participant's Termination of Employment; and (iv) if and to the extent the portion of the Participant's Award(s) that is attributable to a Performance-Based Vesting Amount for any Performance Period that has not yet ended and has not previously been vested or paid to the Participant, then the Pro-Rata Vesting Percentage (determined assuming target performance) of the Performance-Based Vesting Amount for such Performance Period(s) for the time elapsed in the ongoing Performance Period(s), shall immediately vest (in the case of Restricted Stock, Restricted Stock Units and Options) and the Cash payable as a result of such vesting shall be paid to the Participant, as soon as practicable (but in no event more than 5 business days) after the Participant's Termination of Employment (provided that in the event the Award is considered nonqualified deferred compensation subject to Section 409A, the Cash shall be paid at the same time the Award would have been paid under Section 7(b)(ii)). Each Share of Restricted Stock that vests pursuant to this Section 7(d) shall be immediately redeemed by the Company (or its successor) for cash payable by the Company (or its successor) in an amount (the "Redemption Price Per Share") equal to, as applicable, (x) if the Shares have not been cancelled, exchanged or converted into other securities or property as a result of the Change in Control and are publicly-traded, the Fair Market Value of a Share on the date of the Participant's Termination of Employment, or (y) if the Shares have been cancelled, exchanged or converted into other securities or property as a result of the Change in Control, the greater of (i) the fair market value per Share of the consideration received pursuant to the Change in Control by the holders of Shares on the date of the Change in Control and (ii) if the consideration received by the holders of Shares pursuant to the Change in Control consisted, in whole or in part, of other securities which are publicly traded, the sum of (A) the fair market value of the number of such

securities received for each Share pursuant to the Change in Control on the date of the Participant's Termination of Employment and (B) the fair market value of any other consideration received for each Share pursuant to the Change of Control. Each Option that vests pursuant to this Section 7(d) shall be immediately cancelled in exchange for cash payable by the Company for each Share subject to the cancelled Option equal to the amount, if any, by which the Redemption Price Per Share exceeds the exercise price per Share of the Option.

(ii) In the event the Participant was terminated by the Company without Justifiable Cause or by the Participant for Good Reason, the Participant's Award was forfeited as of the Participant's Termination of Employment, and within the six (6) month period immediately following the Participant's Termination of Employment there is a Change in Control, the Participant shall be paid the CIC Lump Sum amount, as defined below. The "CIC Lump Sum" amount is an amount equal to the Cash payment the Participant would have received pursuant to Section 7(e)(i) with respect to any Award forfeited upon the Participant's Termination of Employment by the Company without Justifiable Cause or by the Participant for Good Reason if the Change in Control had occurred immediately prior to the Participant's Termination of Employment and such Award (or portion thereof) had not been forfeited. The CIC Lump Sum amount, if any, shall be paid on the first payroll date after the six month anniversary of the Participant's Termination of Employment.

#### Administration

(a) **Authority of the Committee.** The Plan shall be administered by the Committee. The Committee shall have full and final authority, subject to and consistent with the provisions of the Plan, to select persons to become Participants, grant Awards, determine the amount of any Participant's Award and all other matters relating to Awards, prescribe rules and regulations for the administration of the Plan, construe and interpret the Plan and correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan. In exercising any discretion granted to the Committee under the Plan or pursuant to any Award, the Committee shall not be required to follow past practices, act in a manner consistent with past practices, or treat any Participant in a manner consistent with the treatment of any other Participants. Decisions of the Committee shall be final, conclusive and binding on all persons or entities, including the Company, any Subsidiary, any Affiliate or any Participant or Beneficiary.

(b) **Manner of Exercise of Committee Authority.** The Committee may delegate to members of the Board, or officers or managers of the Company or any Subsidiary, or committees thereof, the authority, subject to such terms and limitations as the Committee shall determine, to perform such functions, including administrative functions, as the Committee may determine to the extent that such delegation will not result in the loss of an exemption under Rule 16b-3(d)(1) for Awards granted to Participants subject to Section 16 of the Securities and Exchange Act of 1934, as amended, in respect of the Company. The Committee may appoint agents to assist it in administering the Plan.

(c) **Limitation of Liability.** The Committee, and each member thereof, shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or employee, the Company's independent auditors, consultants or any other agents assisting in the administration of the Plan. Members of the Committee, and any other member of the Board and any officer or employee acting at the direction or on behalf of the

Committee, shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

(d) ***No Claim for Benefits Required.*** Benefits due and owing to a Participant under the Plan shall be paid when due without any requirement that a claim for benefits be filed. However, any Participant who has not received the benefits to which Participant believes himself or herself entitled may file a written claim with the Committee, which shall act on the claim within thirty days. If a Participant's employment agreement conflicts with any provision of this Plan, the language of the Plan shall govern.

(e) ***Payments to Beneficiary.*** Any vested benefits payable to any Participant that have not been paid as of the date of the Participant's death, shall be paid to the Participant's Beneficiary.

#### Awards Subject to Plans

. The Awards under this Plan, and the grants of Restricted Stock, Restricted Stock Units and Options pursuant to this Plan, are being granted pursuant to and in accordance with the terms and conditions of this Plan and the Incentive Compensation Plan, and the Award Agreements.

#### No Acceleration of Benefits

. In no event shall the acceleration of the time or schedule of any payment under the Plan be permitted, except to the extent that such acceleration would not violate Section 409A of the Code and the Treasury Regulations and other applicable guidance issued thereunder.

#### Amendment and Termination

. This Plan may be amended or terminated in any respect at any time by the Committee; provided, however, that no amendment or termination of the Plan shall be effective to reduce any benefits payable to a Participant that may accrue or vest under the terms of this Plan without the Participant's prior written consent. If and to the extent permitted without violating the requirements of Section 409A of the Code, the Committee may require that the Awards of all Participants be distributed as soon as practicable after such termination. If and to the extent that the Committee does not accelerate the timing of distributions on account of the termination of the Plan pursuant to the preceding sentence, payment of any remaining benefits under the Plan shall be made at the same times and in the same manner as such distributions would have been made under the terms of the Plan, as in effect at the time the Plan is terminated.

#### Unfunded Obligation

. The obligations of the Company to pay any benefits under the Plan shall be unfunded and unsecured, and any payments under the Plan shall be made from the general assets of the Company. Participants' rights under the Plan are not assignable or transferable except to the extent that such assignment or transfer is permitted under the terms of the Incentive Compensation Plan.

#### Withholding

. The Participants and personal representatives shall bear any and all federal, state, local or other taxes imposed on benefits under the Plan. The Company may deduct from any distributions under the Plan the amount of any taxes required to be withheld from such distribution by any federal, state, local or foreign government, and may deduct from any compensation or other amounts payable to the Participant the amount of any taxes required to be withheld with respect to any other amounts under the Plan by any federal, state, local or foreign government.

***Applicable Law***

. This Plan shall be construed and enforced in accordance with the laws of the State of Delaware, except to the extent superseded by federal law.

15. ***No Right to Continued Employment.*** No Award shall confer upon any Participant any right to continued service with the Company or any of its Affiliates.

Code Section 409A

(a) ***Interpretation of Plan.*** Although the Committee does not guarantee the tax treatment of any payments under the Plan, the intent of the Committee is that the payments and benefits under the Plan be exempt from, or comply with, Section 409A of the Code and all Treasury Regulations and guidance promulgated thereunder (“Code Section 409A”) and to the maximum extent permitted the Plan shall be limited, construed and interpreted in accordance with such intent. In no event whatsoever shall the Committee or the Company or its affiliates or their respective officers, directors, employees or agents be liable for any additional tax, interest or penalties that may be imposed on any Participant by Code Section 409A or damages for failing to comply with Code Section 409A.

(b) ***Separate Payments.*** For purposes of Code Section 409A (including, without limitation, for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii)), the right to receive payments in the form of installment payments shall be treated as a right to receive a series of separate payments and, accordingly, each installment payment shall at all times be considered a separate and distinct payment. Whenever a payment under this Plan may be paid within a specified period, the actual date of payment within the specified period shall be

(c) ***Section 409A Amendments.*** The Committee, in its sole discretion, and without the consent of any Participant or Beneficiary, may amend the provisions of this Plan to the extent that the Committee determines that such amendment is necessary or appropriate in order for the Awards made pursuant to the Plan to be exempt from the requirements of Section 409A, or if and to the extent that the Committee determines that Awards are not so exempt, to amend the Plan (and any agreements relating to any Awards) in such manner as the Committee shall deem necessary or appropriate to comply with the requirements of Section 409A.

(d) ***No Right to Section 409A Indemnification.*** Notwithstanding the foregoing, the Company does not make any representation to any Participant or Beneficiary that the Awards made pursuant to this Plan are exempt from, or satisfy, the requirements of Section 409A, and the Company shall have no liability or other obligation to indemnify or hold harmless any Participant or Beneficiary for any tax, additional tax, interest or penalties that the Participant or Beneficiary may incur in the event that any provision of the Plan or any Award agreement, or any amendment or any modification thereof, or any other action taken with respect thereto, is deemed to violate any of the requirements of Section 409A.

(e) ***Six Month Delay for Specified Employees.*** If a Participant is a “specified employee,” as that term is defined for purposes of Section 409A, then no payment or benefit that is payable on account of the Participant’s “separation from service,” as that term is defined for purposes of Section 409A, shall be made before the date that is six months after the Participant’s “separation from service” (or, if earlier, the date of the Participant’s death) if and to the extent that such payment or benefit constitutes nonqualified deferred compensation (or may be nonqualified deferred compensation) under Section 409A and such deferral is required to comply with the requirements of Section 409A. Any payment or benefit delayed by reason

of the prior sentence shall be paid out or provided in a single lump sum at the end of such required delay period in order to catch up to the original payment schedule.

#### No Assignment

. Neither any Participant nor any Beneficiary nor any other person shall have any right to assign the rights to receive any payments or benefits hereunder, in whole or in part, which payments and benefits are non-assignable and non-transferable, whether voluntarily, or involuntarily.

*MIA 186316679v2*

*4831-9633-9571, v. 4*

## CERTIFICATION

I, David A. Levin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Destination XL Group, Inc.;
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: November 30, 2018

By: \_\_\_\_\_ /s/ David A. Levin  
David A. Levin  
Chief Executive Officer

## CERTIFICATION

I, Peter H. Stratton, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Destination XL Group, Inc.;
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: November 30, 2018

By: \_\_\_\_\_  
/s/ Peter H. Stratton, Jr.  
**Peter H. Stratton, Jr.**  
**Chief Financial Officer**



**CERTIFICATION 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 Destination XL Group, Inc. (the "Company") for the period ended November 3, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David A. Levin, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (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.

This certification is being furnished as an exhibit to the Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing, except to the extent that the Company specifically incorporates this certification by reference.

Date: November 30, 2018

By: \_\_\_\_\_ /s/ David A. Levin  
David A. Levin  
Chief Executive Officer

*A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.*

**CERTIFICATION 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 Destination XL Group, Inc. (the "Company") for the period ended November 3, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter H. Stratton, Jr., Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (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.

This certification is being furnished as an exhibit to the Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing, except to the extent that the Company specifically incorporates this certification by reference.

Date: November 30, 2018

By: \_\_\_\_\_ /s/ Peter H. Stratton, Jr.  
**Peter H. Stratton, Jr.**  
**Chief Financial Officer**

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