UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 30, 2022

OR

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

Commission File Number: 01-34219

DESTINATION XL GROUP, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**04-2623104** (I.R.S. Employer Identification No.)
555 Turnpike Street **Canton, MA** (Address of principal executive offices)	**02021** (Zip Code)

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

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	DXLG	The Nasdaq Stock Market LLC

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

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

As of August 19, 2022, the registrant had 61,756,167 shares of common stock, $0.01 par value per share, outstanding.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

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

	July 30, 2022 (Fiscal 2022)	January 29, 2022 (Fiscal 2021)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,176	$ 15,506
Accounts receivable	1,450	2,110
Inventories	96,728	81,764
Prepaid expenses and other current assets	8,504	6,615
Total current assets	128,858	105,995
Non-current assets:		
Property and equipment, net of accumulated depreciation and amortization	39,763	44,442
Operating lease right-of-use assets	127,443	127,812
Deferred income taxes, net of valuation allowance	35,538	—
Intangible assets	1,150	1,150
Other assets	567	559
Total assets	$ 333,319	$ 279,958
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 27,962	$ 25,165
Accrued expenses and other current liabilities	29,587	35,102
Operating leases, current	37,114	35,191
Total current liabilities	94,663	95,458
Long-term liabilities:		
Operating leases, non-current	114,456	120,414
Other long-term liabilities	6,505	5,867
Total long-term liabilities	120,961	126,281
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value, 125,000,000 shares authorized, 77,359,687 and 77,025,419 shares issued at July 30, 2022 and January 29, 2022, respectively	774	770
Additional paid-in capital	321,253	319,511
Treasury stock at cost, 15,625,172 shares and 12,755,873 shares at July 30, 2022 and January 29, 2022, respectively	(105,386)	(92,658)
Accumulated deficit	(93,549)	(163,879)
Accumulated other comprehensive loss	(5,397)	(5,525)
Total stockholders' equity	117,695	58,219
Total liabilities and stockholders' equity	$ 333,319	$ 279,958

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 July 30, 2022 (Fiscal 2022)	For the Three Months Ended July 31, 2021 (Fiscal 2021)	For the Six Months Ended July 30, 2022 (Fiscal 2022)	For the Six Months Ended July 31, 2021 (Fiscal 2021)
Sales	$ 144,634	$ 138,590	$ 272,289	$ 250,084
Cost of goods sold including occupancy costs	69,316	66,988	133,104	127,649
Gross profit	75,318	71,602	139,185	122,435
Expenses:				
Selling, general and administrative	49,461	41,776	96,058	78,894
Impairment (gain) of assets	(47)	(365)	(398)	(1,017)
Depreciation and amortization	3,992	4,389	7,979	8,889
Total expenses	53,406	45,800	103,639	86,766
Operating income	21,912	25,802	35,546	35,669
Interest expense, net	(100)	(925)	(243)	(2,067)
Income before provision (benefit) for income taxes	21,812	24,877	35,303	33,602
Provision (benefit) for income taxes	(35,130)	426	(35,027)	454
Net income	$ 56,942	$ 24,451	$ 70,330	$ 33,148
Net income per share - basic	$ 0.91	$ 0.38	$ 1.11	$ 0.53
Net income per share - diluted	$ 0.85	$ 0.36	$ 1.04	$ 0.50
Weighted-average number of common shares outstanding:				
Basic	62,688	63,527	63,384	62,840
Diluted	66,670	67,615	67,519	65,938

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

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

	For the Three Months Ended		For the Six Months Ended	
	July 30, 2022 (Fiscal 2022)	July 31, 2021 (Fiscal 2021)	July 30, 2022 (Fiscal 2022)	July 31, 2021 (Fiscal 2021)
Net income	$ 56,942	$ 24,451	$ 70,330	$ 33,148
Other comprehensive income before taxes:				
Foreign currency translation	(3)	(17)	(7)	(42)
Pension plans	68	78	135	156
Other comprehensive income before taxes	65	61	128	114
Tax provision related to items of other comprehensive income	—	—	—	—
Other comprehensive income, net of tax	65	61	128	114
Comprehensive income	$ 57,007	$ 24,512	$ 70,458	$ 33,262

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 Shares	Common Stock Amounts	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Amounts	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at January 29, 2022	77,025	$ 770	$ 319,511	(12,755)	$ (92,658)	$ (163,879)	$ (5,525)	$ 58,219
Board of directors compensation	29	—	125					125
Stock compensation expense			366					366
Restricted stock units (RSUs) granted for achievement of performance-based compensation, reclassified from liability to equity			1,138					1,138
Issuance of common stock, upon RSUs release	313	3	(3)					—
Shares withheld for taxes related to net share settlement	(85)	(1)	(414)					(415)
Exercise of stock options	41	1	22					23
Repurchase of common stock				(946)	(4,847)			(4,847)
Accumulated other comprehensive income (loss):								
Pension plan, net of taxes							67	67
Foreign currency, net of taxes							(4)	(4)
Net income						13,388		13,388
Balance at April 30, 2022	77,323	$ 773	$ 320,745	(13,702)	$ (97,505)	$ (150,491)	$ (5,462)	$ 68,060
Board of directors compensation	25	1	125					126
Stock compensation expense			386					386
Issuance of common stock, upon RSUs release	5	—	—					—
Shares withheld for taxes related to net share settlement	—	—	(6)					(6)
Exercise of stock options	7	—	3					3
Repurchase of common stock				(1,923)	(7,881)			(7,881)
Accumulated other comprehensive income (loss):								
Pension plan, net of taxes							68	68
Foreign currency, net of taxes							(3)	(3)
Net income						56,942		56,942
Balance at July 30, 2022	77,360	$ 774	$ 321,253	(15,625)	$ (105,386)	$ (93,549)	$ (5,397)	$ 117,695

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

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

	Common Stock		Additional Paid-in	Treasury Stock		Accumulated	Accumulated Other Comprehensive	
	Shares	Amounts	Capital	Shares	Amounts	Deficit	Loss	Total
Balance at January 30, 2021	64,656	$ 647	$ 314,747	(12,755)	$ (92,658)	$ (220,592)	$ (6,221)	$ (4,077)
Issuance of common stock through private direct offering, net of offering costs	11,111	111	4,264					4,375
Board of directors compensation	137	1	108					109
Stock compensation expense			327					327
Issuance of common stock, upon RSUs release	308	3	(3)					—
Accumulated other comprehensive income (loss):								
Pension plan, net of taxes							78	78
Foreign currency, net of taxes							(25)	(25)
Net income						8,697		8,697
Balance at May 1, 2021	76,212	$ 762	$ 319,443	(12,755)	$ (92,658)	$ (211,895)	$ (6,168)	$ 9,484
Board of directors compensation	70	1	109					110
Stock compensation expense			316					316
Exercise of stock options	7	—	4					4
Accumulated other comprehensive income (loss):								
Pension plan, net of taxes							78	78
Foreign currency, net of taxes							(17)	(17)
Net income						24,451		24,451
Balance at July 31, 2021	76,289	$ 763	$ 319,872	(12,755)	$ (92,658)	$ (187,444)	$ (6,107)	$ 34,426

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 Six Months Ended July 30, 2022 (Fiscal 2022)	For the Six Months Ended July 31, 2021 (Fiscal 2021)
Cash flows from operating activities:		
Net income	$ 70,330	$ 33,148
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and write-off of deferred debt issuance costs	38	328
Impairment (gain) of assets	(398)	(1,017)
Depreciation and amortization	7,979	8,889
Deferred taxes, net of valuation allowance	(35,538)	—
Stock compensation expense	752	643
Board of directors stock compensation	251	219
Changes in operating assets and liabilities:		
Accounts receivable	660	4,406
Inventories	(14,964)	11,660
Prepaid expenses and other current assets	(1,889)	(1,901)
Other assets	(46)	34
Accounts payable	2,797	(7,214)
Operating leases, net	(3,268)	(9,781)
Accrued expenses and other liabilities	(2,855)	2,829
Net cash provided by operating activities	23,849	42,243
Cash flows from investing activities:		
Additions to property and equipment, net	(4,056)	(1,723)
Net cash used for investing activities	(4,056)	(1,723)
Cash flows from financing activities:		
Repurchase of common stock	(12,728)	—
Proceeds from issuance of common stock from private direct offering, net of offering costs	—	4,375
Repayment of FILO loan	—	(15,000)
Proceeds from new FILO loan	—	17,500
Net repayments under credit facility	—	(59,733)
Debt issuance costs	—	(818)
Tax withholdings paid related to net share settlements	(421)	—
Proceeds from the exercise of stock options	26	4
Net cash used for financing activities	(13,123)	(53,672)
Net increase (decrease) in cash and cash equivalents	6,670	(13,152)
Cash and cash equivalents:		
Beginning of period	15,506	18,997
End of period	$ 22,176	$ 5,845

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

1. Basis of Presentation

In the opinion of management of Destination XL Group, Inc., a Delaware corporation (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 January 29, 2022 included in the Company's Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 17, 2022.

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 2022 and fiscal 2021 are 52-week periods ending on January 28, 2023 and January 29, 2022, respectively.

Segment Information

The Company has two principal operating segments: its stores and its direct business. The Company considers its stores and direct operating segments to be similar in terms of economic characteristics, production processes and operations, and has therefore aggregated them into one reportable segment, retail segment, consistent with its omni-channel business approach. The Company's wholesale business was a third operating segment. In the first quarter of fiscal 2022, the Company ended its relationship with its primary wholesale customer. Due to the immateriality of the wholesale segment's revenues, profits and assets, its operating results are aggregated with the retail segment for all periods presented.

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 carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses 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 six months ended July 30, 2022 and July 31, 2021, respectively, were as follows:

For the three months ended:	July 30, 2022			July 31, 2021		
	(in thousands)					
	Pension Plans	Foreign Currency	Total	Pension Plans	Foreign Currency	Total
Balance at beginning of the quarter	$ (5,399)	$ (63)	$ (5,462)	$ (6,146)	$ (22)	$ (6,168)
Other comprehensive income (loss) before reclassifications, net of taxes	76	(3)	73	90	(17)	73
Amounts reclassified from accumulated other comprehensive income, net of taxes (1)	(8)	—	(8)	(12)	—	(12)
Other comprehensive income (loss) for the period	68	(3)	65	78	(17)	61
Balance at end of quarter	$ (5,331)	$ (66)	$ (5,397)	$ (6,068)	$ (39)	$ (6,107)

For the six months ended:	July 30, 2022			July 31, 2021		
	(in thousands)					
	Pension Plans	Foreign Currency	Total	Pension Plans	Foreign Currency	Total
Balance at beginning of fiscal year	$ (5,466)	$ (59)	$ (5,525)	$ (6,224)	$ 3	$ (6,221)
Other comprehensive income (loss) before reclassifications, net of taxes	155	(7)	148	180	(42)	138
Amounts reclassified from accumulated other comprehensive income, net of taxes (1)	(20)	—	(20)	(24)	—	(24)
Other comprehensive income (loss) for the period	135	(7)	128	156	(42)	114
Balance at end of quarter	$ (5,331)	$ (66)	$ (5,397)	$ (6,068)	$ (39)	$ (6,107)

(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 Company recognized income of $8,000 and $12,000 for the three months ended July 30, 2022 and July 31, 2021, respectively, and income of $20,000 and $24,000 for the three months ended July 30, 2022 and July 31, 2021, respectively, as a result of a change in amortization from average remaining future service to average remaining lifetime. There was no related tax effect for the three and six months ended July 30, 2022 and July 31, 2021.

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 judgment. Actual results and future changes in estimates may differ from the Company's current estimates.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model based on the assumptions in the table below as it relates to stock options granted during the first six months of fiscal 2022 and fiscal 2021.

	July 30, 2022	July 31, 2021
Expected volatility	109.0%-123.7%	97.4% - 104.9%
Risk-free interest rate	2.52%-2.87%	0.31% - 0.60%
Expected term	2.5-3.5 yrs.	3.0 - 4.0 yrs.
Dividend rate	—	—
Weighted average fair value of options granted	$ 4.98	$ 0.47

The Company has outstanding performance stock units (PSUs) with a market condition. The respective grant-date fair value and derived service periods assigned to the PSUs were determined using a Monte Carlo model. The valuation included assumptions with respect to the Company's historical volatility, risk-free rate and cost of equity and the related stock compensation expense was fully expensed by the end of fiscal 2021.

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's judgment regarding the identification of impairment indicators is based on operational performance at the store level. Factors considered by the Company that could result in an impairment triggering event include significant changes in the use of assets, a current period operating or cash flow loss, underperformance of a store relative to historical or expected operating results, and an accumulation of costs significantly in excess of the amount originally expected for the construction of the long-lived store assets. 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 model for undiscounted future cash flows includes assumptions, at the individual store level, with respect to expectations for future sales and gross margin rates as well as an estimate for occupancy costs used to estimate the fair value of the respective store's operating lease right-of-use asset. 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.

The Company recognized non-cash gains of $0.1 million and $0.4 million, respectively, for the second quarter of fiscal 2022 and fiscal 2021 and non-cash gains of $0.6 million and $1.1 million, respectively, for the first six months of fiscal 2022 and fiscal 2021 related to the Company's decision to close certain retail stores, which resulted in a revaluation of the existing lease liabilities. The portion of the gains that related to previously recorded impairment charges against the operating lease right-of-use asset were included as an offset to previously recorded asset impairment charges. Accordingly, for the second quarter of fiscal 2022 and fiscal 2021, $0.1 million and $0.4 million, respectively, were included as an offset to asset impairment charges. For the first six months of fiscal 2022 and fiscal 2021, $0.4 million and $1.0 million, respectively, were included as an offset to asset impairment charges. The remaining gains for the second quarter and first six months of fiscal 2022 and fiscal 2021 were included as a reduction of store occupancy costs.

Leases

The Company adopted ASU 2016-02, "*Leases (Topic 842)*" in fiscal 2019. Under ASC 842, the Company determines if an arrangement contains a lease at the inception of a contract. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use ("ROU") assets and lease liabilities are recognized at the commencement date based on the present value of the remaining future minimum lease payments, initial direct costs and any lease incentives are included in the value of those right-of use assets. As the interest rate implicit in the Company's leases is not readily determinable, the Company utilizes its incremental borrowing rate, based on information available at the lease measurement date, to determine the present value of future payments. The Company elected 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 also made an accounting policy election that the recognition requirement of ASC 842 will not be applied to certain, if any, non-store leases, with a term of 12 months or less, recognizing those lease payments on a straight-line basis over the lease term. At July 30, 2022, the Company had no short-term leases.

The Company's store leases typically contain options that permit renewals for additional periods of up to five years each. In general, for store leases with an initial term of 10 years or more, the options to extend are not considered reasonably certain at lease commencement. For stores leases with an initial term of 5 years, the Company evaluates each lease independently and, when the Company considers it reasonably certain that it will exercise an option to extend, the associated payment of that option will be included in the measurement of the right-of-use asset and lease liability. Renewal options are not included in the lease term for automobile and equipment leases because they are not considered reasonably certain of being exercised at lease commencement. Renewal options were not considered for the Company's corporate headquarters and distribution center lease, which was entered into in 2006 and was for an initial 20-year term. At the end of the initial term, the Company will have the opportunity to extend this lease for six additional successive periods of five years.

For store leases, the Company accounts for lease components and non-lease components as a single lease component. Certain store leases may require additional payments based on sales volume, as well as reimbursement for real estate taxes, common area maintenance and insurance, and are expensed as incurred as variable lease costs. Other store leases contain one periodic fixed lease payment that includes real estate taxes, common area maintenance and insurance. These fixed payments are considered part of the lease payment and included in the right-of-use assets and lease liabilities. Tenant allowances are included as an offset to the right-of-use asset and amortized as reductions to rent expense over the associated lease term.

See Note 4 "*Leases*" for additional information.

Recently Issued Accounting Pronouncements

No new accounting pronouncements, issued or effective during the first six months of fiscal 2022, have had or are expected to have a significant impact on the Company's Consolidated Financial Statements.

2. Revenue Recognition

The Company operates as a retailer of big and tall men's clothing, which includes stores, direct and wholesale. 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, on its website or on third-party marketplaces. Wholesale sales are defined as sales made to wholesale customers pursuant to the terms of each customer's contract with the Company. 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 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.
- Revenue from the Company's wholesale operations is recognized at the time the wholesale customer takes physical receipt of the merchandise, net of any identified discounts in accordance with each individual order. For the first six months of fiscal 2022 and fiscal 2021, chargebacks were immaterial.

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 $2.3 million and $3.3 million at July 30, 2022 and January 29, 2022, respectively.

Unredeemed Loyalty Coupons. The Company offers a free loyalty program to its customers for which points accumulate based on the purchase of merchandise. Approximately 90% of the Company's customers participate in the loyalty program. Under ASC 606, *Revenue from Contracts with Customers*, 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 $1.1 million and $1.3 million at July 30, 2022 and January 29, 2022, 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.

<u>Disaggregation of Revenue</u>

As noted above under *Segment Information* in Note 1, the Company's business consists of one reportable segment, its retail segment. Substantially all of the Company's revenue is generated from its stores and direct businesses. The operating results from the wholesale segment, which were immaterial, have been aggregated with this reportable segment, but the revenues are separately reported below. Accordingly, the Company has determined that the following sales channels depict the nature, amount, timing, and uncertainty of how revenue and cash flows are affected by economic factors:

(in thousands)	For the Three Months Ended July 30, 2022		July 31, 2021		For the Six Months Ended July 30, 2022		July 31, 2021	
Store sales	$ 100,924	69.8%	$ 99,043	71.9%	$ 189,203	69.6%	$ 173,923	70.7%
Direct sales	43,693	30.2%	38,664	28.1%	82,687	30.4%	72,206	29.3%
Retail segment	$ 144,617		$ 137,707		$ 271,890		$ 246,129	
Wholesale segment	17		883		399		3,955	
Total sales	$ 144,634		$ 138,590		$ 272,289		$ 250,084	

3. Debt

Credit Agreement with Citizens Bank, N.A.

On October 28, 2021, the Company entered into a credit facility with Citizens Bank, N.A. (the "Credit Facility”).

The Credit Facility is a $125.0 million secured, asset-based credit facility with a maturity date of October 28, 2026. The maximum committed borrowing of $125.0 million includes a sublimit of $20.0 million for commercial and standby letter of credits and a sublimit of up to $15.0 million for swing line loans. The Company’s ability to borrow under the Credit Facility is determined using an availability formula based on eligible assets.

Borrowings made pursuant to the Credit Facility will be made pursuant to either a Base Rate loan or LIBOR Rate loan, at the Company's option. Base Rate loans will bear interest, at a rate equal to (i) the greater of: (a) the Prime Rate, (b) the Federal Funds effective rate plus 0.50% per annum and (c) the daily LIBOR rate plus 1.00% per annum, plus (ii) a varying percentage, based on the Company’s average excess availability, of either 0.25% or 0.50%. LIBOR Rate loans, which may be either for 1 month or 3 months, will bear interest at (i) the LIBOR rate, or the Benchmark Rate as defined in the credit agreement plus (ii) a varying percentage based on the Company’s average excess availability, of either 1.25% or 1.50%. Any swingline loan will bear interest at a rate equal to the rate of a Base Rate loan, plus a varying percentage based on the Company’s average excess availability, of either 0.25% or 0.50%. The Company will be subject to an unused line fee of 0.25%.

The Company’s obligations under the Credit Facility are secured by a lien on substantially all of its assets. If the Company’s availability under the Credit Facility at any time is less than the greater of (i) 10% of the Revolving Loan Cap (the lesser of the aggregate revolving commitments or the borrowing base) and (ii) $7.5 million, then the Company is required to maintain a minimum consolidated fixed charge coverage ratio of 1.0:1.0 until such time as availability has exceeded the greater of (1) 10% of the Revolving Loan Cap and (2) $7.5 million for 30 consecutive days.

At July 30, 2022, the Company had no borrowings outstanding under the revolving credit facility and availability under the Credit Facility was $85.1 million. The Company had no borrowings during the first six months of fiscal 2022, resulting in an average unused excess availability of approximately $79.9 million. Outstanding standby letters of credit were $2.4 million and outstanding documentary letters were $1.0 million at July 30, 2022. At July 30, 2022, the Company’s prime-based interest rate was 5.75%.

Borrowings and repayments for the first six months ended July 31, 2021 were as follows:

(in thousands)	For the six months ended July 31, 2021
Borrowings	$ 33,696
Repayments	(93,429)
Net borrowings (repayments)	$ (59,733)

Long-Term Debt

The Company had no outstanding long-term debt during the first six months of fiscal 2022.

During the first quarter of fiscal 2021, the Company refinanced its then existing $15.0 million FILO (first-in, last-out) loan and entered into a new $17.5 million FILO loan, which was subsequently repaid in full in September 2021.

The Company paid interest and fees totaling $0.1 million and $1.7 million for the six months ended July 30, 2022 and July 31, 2021, respectively.

4. Leases

The Company leases all of its store locations and its corporate headquarters, which also includes its distribution center, under operating leases. The store leases typically have initial terms of 5 years to 10 years, with options that usually permit renewal for additional five-year periods. The initial term of the lease for the corporate headquarter was for 20 years, with the opportunity to extend for six additional consecutive periods of five years, beginning in fiscal 2026. The Company also leases certain equipment and other assets under operating leases, typically with initial terms of 3 to 5 years. The Company is generally obligated for the cost of property taxes, insurance and common area maintenance fees relating to its leases, which are considered variable lease costs and are expensed as incurred.

ASC 842 requires the assessment of any lease modification to determine if the modification should be treated as a separate lease and if not, modification accounting would be applied. Lease modification accounting requires the recalculation of the ROU asset, lease liability and lease expense over the respective lease term. In April 2020, the FASB issued guidance allowing entities to make a policy election to account for lease concessions related to the COVID-19 pandemic as though enforceable rights and obligations for those concessions existed. The election applies to any lessor-provided lease concession related to the impact of the COVID-19 pandemic, provided the concession does not result in a substantial increase in the rights of the lessor or in the obligations of the lessee. The Company opted not to elect this practical expedient and instead accounted for these rent concessions as lease modifications in accordance with ASC 842. As of July 30, 2022, the Company's operating leases liabilities represent the present value of the remaining future minimum lease payments updated based on concessions and lease modifications.

Lease costs related to store locations are included in cost of goods sold including occupancy costs on the Consolidated Statements of Operations, and expenses and lease costs related to the corporate headquarters and equipment leases are included in selling, general and administrative expenses on the Consolidated Statements of Operations.

The following table is a summary of the Company's components of net lease cost for the three and six months ended July 30, 2022 and July 31, 2021:

	For the three months ended		For the six months ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
(in thousands)				
Operating lease cost	$ 10,744	$ 10,516	$ 21,758	$ 21,642
Variable lease costs(1)	3,119	3,436	6,273	7,181
Total lease costs	$ 13,863	$ 13,952	$ 28,031	$ 28,823

(1) Variable lease costs include the cost of property taxes, insurance and common area maintenance fees related to its leases.

Supplemental cash flow and balance sheet information related to leases for the first six months ended July 30, 2022 and July 31, 2021 is as follows:

(dollars in thousands)	For the six months ended	
Cash paid for amounts included in the measurement of lease liabilities:	July 30, 2022	July 31, 2021
Operating cash flows for operating leases (1)	$ 28,281	$ 30,954
Non-cash operating activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	$ 14,167	$ 4,749
Weighted average remaining lease term	4.4 yrs.	4.3 yrs.
Weighted average discount rate	6.56%	6.87%

(1) The cash paid for the first six months of fiscal 2022 and fiscal 2021 includes prepaid rent of $3.6 million and $3.8 million, respectively.

The table below reconciles the undiscounted cash flows for each of the first five years and total of the remaining years to the operating lease liabilities recorded on the Consolidated Balance Sheet as of July 30, 2022:

(in thousands)		
2022 (remaining)	$	21,146
2023		47,506
2024		38,912
2025		30,624
2026		18,252
Thereafter		17,069
Total minimum lease payments	$	173,509
Less: amount of lease payments representing interest		21,939
Present value of future minimum lease payments	$	151,570
Less: current obligations under leases		37,114
Long-term lease obligations	$	114,456

5. Long-Term Incentive Plans

The following is a summary of the Company's Long-Term Incentive Plan ("LTIP"). All equity awards granted under long-term incentive plans are issued from the Company's stockholder-approved 2016 Incentive Compensation Plan. See Note 6, *Stock-Based Compensation*.

The LTIPs are granted annually and each LTIP covers a three-year performance period. Each participant in the LTIP participates 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. Under each LTIP, 50% of each participant's Target Cash Value is subject to time-based vesting and 50% is subject to performance-based vesting. Awards for any achievement of performance targets are not granted until the performance targets are achieved and then are subject to additional vesting through August 31 following the end of the applicable performance period.

<u>2019-2021 LTIP</u>
The performance targets for the Company's 2019-2021 LTIP were approved by the Compensation Committee of the Board of Directors (the "Compensation Committee") on August 7, 2019 and covered a three-year period performance period, which ended on January 29, 2022. The time-vested portion of the 2019-2021 LTIP vests in four annual installments, with the remaining installment vesting on April 1, 2023.

In the first quarter of fiscal 2022, on March 21, 2022, the Compensation Committee approved a 141.9% payout of its performance targets for the 2019-2021 LTIP. On that date, the Company granted awards totaling $2.7 million, in a combination of 50% cash and 50% restricted stock units (RSUs), which will vest, net of any forfeitures, on August 31, 2022. In connection with the grant of 269,162 RSUs, the Company reclassified $1.1 million of its liability accrual from "Accrued expenses and other current liabilities" to "Additional paid-in capital" in the first quarter of fiscal 2022. See the Consolidated Statement of Changes in Stockholders' Equity.

<u>Active LTIPs</u>

At July 30, 2022, the Company had three active LTIPs: the 2020-2022 LTIP, the 2021-2023 LTIP and the 2022-2024 LTIP. The time-based awards under the 2020-2022 LTIP were granted in a combination of 50% stock options and 50% cash; the 2021-2023 LTIP time-based awards were granted in a combination of 25% stock options and 75% cash; and the 2022-2024 LTIP time-based awards were granted in a combination of 50% RSUs and 50% cash.

Performance targets for the 2020-2022 LTIP, 2021-2023 LTIP and 2022-2024 LTIP were established and approved by the Compensation Committee on June 11, 2020, March 8, 2021 and April 9, 2022, respectively. The performance period for each LTIP is three years. Awards for any achievement of performance targets will not be granted until the performance targets are achieved and then will be subject to additional vesting through August 31, 2023, August 31, 2024 and August 31, 2025, respectively. The time-based awards under the 2020-2022 LTIP, 2021-2023 LTIP and 2022-2024 LTIP vest in four equal installments through April 1, 2024, April 1, 2025 and April 1, 2026, respectively. Assuming that the Company achieves the performance targets at target levels and all time-based awards vest, the compensation expense associated with the 2020-2022 LTIP, 2021-2023 LTIP and 2022-2024 LTIP is estimated to be approximately $3.8 million, $4.0 million and $4.5 million, respectively. Approximately half of the compensation expense for each LTIP relates to the time-based awards, which are being expensed straight-line over 46 months, 49 months and 48 months, respectively.

At July 30, 2022, the Company had accrued $1.9 million under the 2020-2022 LTIP, $1.2 million under the 2021-2023 LTIP and $0.2 million under the 2022-2024 LTIP for the performance awards.

6. 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 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. The Company's shareholders approved amendments to increase the share reserve by 2,800,000 shares on August 8, 2019, an additional 1,740,000 shares on August 12, 2020 and an additional 4,855,000 on August 5, 2021. At July 30, 2022, the Company had 3,825,095 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 cancelled 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 July 30, 2022, 298,231 stock options remained 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 first six months of fiscal 2022:

	RSUs (1)	Deferred shares (2)	Performance Share Units (3)	Fully-Vested Shares (4)	Total number of shares	Weighted-average grant-date fair value
Shares						
Outstanding non-vested shares at beginning of year	515,291	435,568	240,000	—	1,190,859	$ 1.57
Shares granted	496,467	—	—	17,532	513,999	$ 4.98
Shares vested and/or issued	(318,657)	—	—	(17,532)	(336,189)	$ 2.35
Shares forfeited	(2,604)				(2,604)	$ 5.02
Outstanding non-vested shares at end of quarter	690,497	435,568	240,000	—	1,366,065	$ 2.66

(1) During the first six months of fiscal 2022, the Company granted RSUs for the achievement of performance metrics under the 2019-2021 LTIP that are subject to additional vesting through August 31, 2022 and time-based RSUs under its 2022-2024 LTIP. See Note 5, *Long-Term Incentive Plans*. As a result of net share settlements, of the 318,657 RSUs that vested, only 232,027 shares of common stock were issued

(2) The outstanding deferred shares will be issued upon the director's separation from service.

(3) Represents the remaining performance stock units ("PSUs") granted to Mr. Kanter in February 2019. The 240,000 PSUs will vest when the trailing 90-day volume-weighted average closing stock price ("VWAP") is $8.00. The PSUs will expire on April 1, 2023 if the $8.00 VWAP is not achieved by that date.

(4) Represents compensation, with a fair value of $80,985, to certain directors, who are required to receive shares, in lieu of cash, in order to satisfy their minimum equity ownership under the Non-Employee Director Plan. Voluntary shares received, in lieu of cash, are reported below under *Non-Employee Director Compensation Plan*.

	Number of shares	Weighted-average exercise price per option	Weighted-average remaining contractual term	Aggregate intrinsic value
Stock Options				
Outstanding options at beginning of year	4,621,550	$ 0.90	8.2 years	$ 16,066,914
Options granted	3,640	$ 4.70	—	—
Options exercised	(48,019)	$ 0.54		211,710
Options expired and canceled	(19,269)	$ 0.63	—	66,641
Outstanding options at end of quarter	4,557,902	$ 0.91	7.6 years	$ 15,006,017
Options exercisable at end of quarter	1,969,767	$ 1.30	6.8 years	$ 5,881,812

For the first six months of fiscal 2022, the Company granted stock options to purchase an aggregate of 3,640 shares of common stock, 496,467 restricted stock units and 17,532 fully-vested shares. For the first six months of fiscal 2021, the Company granted stock options to purchase an aggregate of 1,518,154 shares of common stock and 8,054 restricted stock units.

Non-Employee Director Compensation Plan

The Company granted 36,690 shares of common stock, with a fair value of approximately $169,482, to certain of its non-employee directors as compensation in lieu of cash in the first six months of fiscal 2022. These shares are in addition to any shares that may be granted under the 2016 Plan related to the requirement to receive equity if a director has not yet satisfied his or her minimum equity ownership requirement under the Non-Employee Director Compensation Plan.

Stock Compensation Expense

The Company recognized total stock-based compensation expense of $0.8 million and $0.6 million for the first six months of fiscal 2022 and fiscal 2021, respectively. The total compensation cost related to time-vested stock options and RSU awards not yet recognized as of July 30, 2022 was approximately $2.1 million, net of estimated forfeitures, which will be expensed over a weighted average remaining life of 32 months.

7. Equity and 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 six months ended	
(in thousands)	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Common stock outstanding:				
Basic weighted average common shares outstanding	62,688	63,527	63,384	62,840
Common stock equivalents – stock options, restricted stock units and deferred stock	3,982	4,088	4,135	3,098
Diluted weighted average common shares outstanding	66,670	67,615	67,519	65,938

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 the unearned compensation associated with stock options, restricted stock units, or deferred stock had an anti-dilutive effect.

	For the three months ended		For the six months ended	
(in thousands, except exercise prices)	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Stock options	306	409	306	424
Restricted stock units	490	—	488	—
Range of exercise prices of such options	$4.48-$5.50	$4.49 - $5.50	$4.48 - $5.50	$2.25 - $5.50

The above options, which were outstanding at July 30, 2022, expire from January 31, 2023 to June 12, 2032.

Excluded from the computation of basic and diluted earnings per share were 240,000 shares for the second quarter and first six months of fiscal 2022 and 720,000 shares for the second quarter and first six months of fiscal 2021 of unvested performance stock units. These performance-based awards are included in the computation of basic and diluted earnings per share if, and when, the respective performance targets are achieved. In addition, 435,568 shares of deferred stock at July 30, 2022 and at July 31, 2021 were excluded from basic earnings per share. Outstanding shares of deferred stock are not considered issued and outstanding until the vesting date of the deferral period.

8. Stock Repurchase Program

On March 15, 2022, the Company's Board of Directors approved a stock repurchase program. Under the stock repurchase program, the Company may repurchase up to $15.0 million of its common stock through open market and privately negotiated transactions.

The timing and the amount of any repurchases of common stock will be determined based on the Company's evaluation of market conditions and other factors. The stock repurchase program commenced in the first quarter of fiscal 2022 and will expire on March 15, 2023, but may be suspended, terminated or modified at any time for any reason. The Company expects to finance the repurchases from operating funds and/or periodic borrowings on its credit facility.

For the first six months of fiscal 2022, the Company repurchased 2.9 million shares at an aggregate cost of $12.7 million, including fees, from available cash on hand. Shares of repurchased common stock are held as treasury stock.

9. Income Taxes

Since the end of fiscal 2013, the Company has maintained a full valuation allowance against its deferred tax assets. During the second quarter of fiscal 2022, the Company determined that it was more likely than not that it would be able to realize the benefit of substantially all of its deferred tax assets in the United States. In reaching this determination, the Company considered the cumulative three years of profitability, its expectations regarding the generation of future taxable income as well as the overall improvement in the Company's business and its current market position. As a result, in the second quarter of fiscal 2022, the Company recognized a discrete tax benefit related to the release of approximately $35.5 million in valuation allowance against its deferred tax assets in the United States that are expected to be realized in future years. At July 30, 2022, the Company continued to provide a valuation allowance of $2.4 million primarily against certain state and foreign net operating losses ("NOLs").

During the second quarter and first six months of fiscal 2022, the Company recorded an income tax benefit of $35.1 million and $35.0 million, respectively. Excluding the release of $35.5 million in valuation allowance, the Company recorded income tax expense of $408,000 and $511,000, respectively, primarily related to income tax in states where NOL usage is statutorily limited.

During the second quarter and first six months of fiscal 2021, the Company recorded income tax expense of $426,000 and $454,000, respectively, primarily related to income tax in states where NOL usage is statutorily limited.

For federal income tax purposes, at the end of fiscal 2021, the Company had net operating loss carryforwards of approximately $100.7 million, which will expire from fiscal 2028 through fiscal 2037, and net operating loss carryforwards of $43.1 million that are not subject to expiration. For state purposes, at the end of fiscal 2021, the Company had $90.0 million of net operating losses that are available to offset future taxable income, the majority of which will expire from fiscal 2028 through fiscal 2041.

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 sales trends, marketing costs, gross margin rate, improved inventory levels, our ability to realize our deferred tax assets and our ability to secure sufficient inventory to meet customer demand, increased freight costs, increases in certain raw materials cost, our long-term outlook, expected capital expenditures in 2022, our ability to attract new customers, and our plans with respect to our store portfolio, including anticipated closures, re-brandings, and new and relocated stores. 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 January 29, 2022, included in our Annual Report on Form 10-K for the year ended January 29, 2022, as filed with the Securities and Exchange Commission on March 17, 2022 (our "Fiscal 2021 Annual Report").

Numerous factors could cause our actual results to differ materially from such forward-looking statements. This discussion sets forth certain risks and uncertainties that may have an impact on future results and direction of our Company, including, without limitation, risks related to labor shortages, increased labor costs, changes in consumer spending in response to the economy, the ongoing effects of the COVID-19 pandemic, the economic impact of the war in Ukraine, our ability to navigate supply chain uncertainties, our ability to maintain appropriate inventory levels, our ability to successfully execute on our corporate strategy, our ability to predict customer tastes and fashion trends, our ability to grow market share, and the other risks and uncertainties set forth in the "Risk Factors" section in Part I, Item 1A of our Fiscal 2021 Annual Report.

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 and tall men's clothing with retail and direct operations in the United States. We operate under the trade names of Destination XL®, DXL®, DXL Outlets, Casual Male XL® and Casual Male XL Outlets. At July 30, 2022, we operated 218 Destination XL stores, 16 DXL outlet stores, 31 Casual Male XL retail stores, 19 Casual Male XL outlet stores and a digital business, including an e-commerce site at dxl.com and a mobile site, m.destinationXL.com and mobile app.

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 January 28, 2023, January 29, 2022 and January 30, 2021 as "fiscal 2022," "fiscal 2021" and "fiscal 2020," respectively. All three fiscal years are 52-week periods.

SEGMENT REPORTING

We currently have two principal operating segments: our stores and direct business. We consider our stores and direct business segments to be similar in terms of economic characteristics, production processes and operations, and have therefore aggregated them into one reportable segment, retail segment, consistent with our omni-channel business approach. Our wholesale segment was a third operating segment. In the first quarter of fiscal 2022, we ended the relationship with our primary wholesale customer. Due to the immateriality of the wholesale segment's revenues, profits and assets, its operating results have been aggregated with the retail segment for all periods.

COMPARABLE SALES

Our customer's shopping experience continues to evolve across multiple channels and we are continually adapting to meet the guest's needs. The majority of our 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 completed 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 a store and at curbside. We define store sales as sales that originate and are fulfilled directly at the store level. Digital commerce sales, which we also refer to as direct sales, are defined as sales that originate online, whether through our website, at the store level or through a third-party marketplace.

Stores that have been open for at least 13 months are included in comparable sales. Stores that have been remodeled or re-located during the period are also included in our determination of comparable stores 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.

RESULTS OF OPERATIONS

Executive Summary

	For the three months ended		For the six months ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
(in millions, except percentage of sales and per share data)				
Sales	$ 144.6	$ 138.6	$ 272.3	$ 250.1
Net income	$ 56.9	$ 24.5	$ 70.3	$ 33.1
Adjusted EBITDA (Non-GAAP basis)	$ 25.9	$ 29.8	$ 43.1	$ 43.5
Gross Margin. as a percentage of sales	52.1 %	51.7 %	51.1 %	49.0 %
SG&A expenses, as a percentage of sales	34.2 %	30.1 %	35.3 %	31.5 %
Per diluted share:				
Net income	$ 0.85	$ 0.36	$ 1.04	$ 0.50

We are pleased to report continued earnings and sales growth this quarter, with results exceeding our internal expectations. Comparable sales increased 6.1% for the quarter, with increases across all of our customer channels, driven by higher average order values, our digital transformation, and our brand repositioning. Regionally, all parts of the country performed above their pre-pandemic levels, with the largest gains during the second quarter in New England and Florida, while parts of the Midwest lagged. Dollars per transaction was the primary driver of our sales increase and was attributable to our reduced reliance on promotions, a historically low-level of clearance inventory and a shift in merchandise mix to higher-price items, such as tailored clothing. Our gross margin rate for the second quarter also benefited from the low promotions and clearance enabling us to substantially offset the increase in freight and shipping costs that we continue to experience. In line with our expectations, our selling, general and administrative expenses (SG&A) increased by 410 basis points during the second quarter, primarily due to increased payroll costs to support sales, marketing costs, and accruals for performance-based incentive plans. Our marketing costs for the second quarter of fiscal 2022 represented approximately 170 basis points of this increase. Our marketing plan for fiscal 2022 is 6.2% of sales, which in total is an increase of 150 basis points from fiscal 2021.

During the second quarter of fiscal 2022, we determined that it was more likely than not that we would be able to realize substantially all of our deferred tax assets primarily due to the cumulative three-years of earnings as well as projections for future earnings. As a result, we recorded a non-cash tax benefit of $35.5 million, related to the release of substantially all of the valuation allowance against our deferred tax assets.

Net income for the second quarter was $56.9 million, or $0.85 per diluted share and included a tax benefit of $35.5 million, or $0.53 per diluted share, related to the release of the tax valuation allowance. Net income for the second quarter of fiscal 2021 was $24.5 million, or $0.36 per diluted share.

At July 30, 2022, we had no debt outstanding and we did not make any borrowings under our credit facility during the first six months. Our unused excess availability at July 30, 2022 was $85.1 million. At the end of the second quarter, we are in a strong inventory position and have been able to replenish those categories that were depleted at the end of the second quarter last year. As a result, our inventory level at the end of the second quarter is intentionally up 31.8% from last year, but compared to the end of the second quarter in fiscal 2019 inventory is down 12.7%. In addition, we have improved our inventory turn by almost 40% from fiscal 2019.

As we previously disclosed, the Company's Board of Directors approved a $15.0 million stock repurchase program in March 2022 and, during the first six months of fiscal 2022, we utilized our free cash flow to repurchase 2.9 million shares of our common stock, at an aggregate cost of $12.7 million, including fees.

While we believe our long-term outlook is strong, the current retail environment remains highly volatile, with inflation, rising interest rates, supply chain issues, labor and staffing challenges, the ongoing global pandemic, as well as the war in Ukraine.

Financial Summary

Sales

The following table presents sales by segment for the three and six months ended July 30, 2022 and July 31, 2021:

	For the Three Months Ended				For the Six Months Ended			
(in thousands)	July 30, 2022		July 31, 2021		July 30, 2022		July 31, 2021	
Store sales	$ 100,924	*69.8%*	$ 99,043	*71.9%*	$ 189,203	*69.6%*	$ 173,923	*70.7%*
Direct sales	43,693	*30.2%*	38,664	*28.1%*	82,687	*30.4%*	72,206	*29.3%*
Retail segment	$ 144,617		$ 137,707		$ 271,890		$ 246,129	
Wholesale segment	17		883		399		3,955	
Total sales	$ 144,634		$ 138,590		$ 272,289		$ 250,084	

Total sales for the second quarter of fiscal 2022 were $144.6 million, as compared to $138.6 million in the second quarter of fiscal 2021. Comparable sales for the second quarter were up 6.1% with comparable sales from our stores up 3.6% and our direct business up 12.7%.

Sales for the second quarter exceeded our plan, driven primarily by an increase in dollars per transaction. This increase is attributable to a combination of factors, including less markdowns from fewer promotions, deeper penetration in high-ticket categories such as tailored clothing, less clearance inventory available for sale and, to a lesser extent, targeted price increases. The growth in our direct business of 12.7% was driven by our web and app with continued growth from online marketplaces. Through our digital efforts and marketplace presence, we are continuing to attract a new customer to DXL.

Compared to the second quarter of fiscal 2019, the last normalized selling year, our comparable sales for the second quarter of fiscal 2022 were up 32.6% in May, up 27.8% in June, and up 27.6% in July. We believe the comparison to fiscal 2019 is relevant when evaluating our sales performance given the impact of the pandemic on the past two years. We expect to see a fairly similar comparable sales trend in the second half of fiscal 2022 as compared to fiscal 2019, and we expect comparable sales growth, against fiscal 2021, to be in the low to mid-single digits during the third quarter and high-single digits during the fourth quarter. During the second quarter of fiscal 2022, comparable sales were up 14.0% in May, up 3.6% in June and up 1.1% in July, when compared against fiscal 2021.

For the first six months of fiscal 2022, total sales increased 8.9% to $272.3 million, as compared to $250.1 million for the first six months of fiscal 2021. Comparable sales for the first six months of fiscal 2022, as compared to fiscal 2021, increased 12.0%, with comparable sales from our stores up 11.0% and our direct business up 14.6%.

As we previously disclosed, during the first quarter of fiscal 2022, we ended our relationship with our primary wholesale customer. As a result, our wholesale revenues for the first six months of fiscal 2022 were $0.4 million as compared to $4.0 million for the first six months of fiscal 2021.

Gross Margin Rate

For the second quarter of fiscal 2022, our gross margin rate, inclusive of occupancy costs, was 52.1% as compared to a gross margin rate of 51.7% for second quarter of fiscal 2021.

Our gross margin rate improved by 40 basis points, driven by a 50 basis point improvement in occupancy cost offset by a 10 basis point decrease in merchandise margins as compared to the second quarter of fiscal 2021. The 50 basis point improvement in occupancy costs was due to the increased leverage from sales as well as a decrease of approximately $0.1 million in occupancy costs from closed stores. The 10 basis point decrease in merchandise margin was due to an increase in both inbound and outbound shipping costs of approximately 180 basis points, mostly offset by lower promotional markdowns. We expect that we will continue to experience an increase in freight costs and in the cost of certain raw materials, particularly cotton. Although at the beginning of fiscal 2022, we reported that we expected our gross margin to be 200 points lower than fiscal 2021, we now expect that our gross margin rate for the full fiscal year will be approximately flat to fiscal 2021 based on our current expectations.

For the first six months of fiscal 2022, our gross margin rate, inclusive of occupancy costs, was 51.1%, as compared to a gross margin rate of 49.0% for the first six months of fiscal 2021. The increase of 210 basis points was due to an improvement of 130 basis points in occupancy costs, due to the increased leverage from sales, and an increase in merchandise margins of 80 basis points, due primarily to the lower promotional markdowns partially offset by the increase in freight and shipping costs.

Selling, General and Administrative Expenses

As a percentage of sales, SG&A (selling, general and administrative) expenses for the second quarter of fiscal 2022 were 34.2% as compared to 30.1% for the second quarter of fiscal 2021. The SG&A rate for the second quarter of fiscal 2021 was abnormally low due to the surge in sales from pent-up demand and stimulus money while at the same time experiencing a shortage in store staffing. However, our SG&A rate as a percentage of sales is favorable when compared against 38.5% in the second quarter of fiscal 2019, which was our last normalized second quarter, pre-pandemic.

On a dollar basis, SG&A expenses increased by $7.7 million as compared to the second quarter of fiscal 2021. The increase was primarily due to an increase in marketing costs to drive customer acquisition and engagement, payroll costs to support sales growth, including merit adjustments and filling open positions, and an increase in performance-based incentive accruals. Our marketing costs for the second quarter of fiscal 2022 represented 5.4% of sales as compared to 3.7% in the second quarter of fiscal 2021. For fiscal 2022, the Company is expecting marketing costs to be approximately 6.2% of sales.

For the first six months of fiscal 2022, SG&A expenses were 35.3% of sales as compared to 31.5% of sales for the first six months of fiscal 2021. Similar to the second quarter, the prior year rate was abnormally low. When compared against the first six months of fiscal 2019 when the rate was 39.0% of sales, the savings that we have been able to realize in our SG&A costs is evident. As compared to the first six months of fiscal 2021, SG&A costs increased $17.2 million, or 21.8%, as a result of increased marketing costs, payroll costs to support sales growth, first quarter merit adjustments, filling open positions and an increase in performance-based incentive accruals.

Management views SG&A expenses through two primary cost centers: Customer Facing Costs and Corporate Support Costs. Customer Facing Costs, which include store payroll, marketing and other store and direct operating costs, represented 19.8% of sales in the first six months of fiscal 2022 as compared to 17.4% of sales in the first six months of fiscal 2021. Corporate Support Costs, which include the distribution center and corporate overhead costs, represented 15.5% of sales in the first six months of fiscal 2022 compared to 14.1% of sales in the first six months of fiscal 2021.

Impairment (Gain) of Assets

During the second quarter of fiscal 2022 and fiscal 2021, the Company recorded non-cash gains of $0.1 million and $0.4 million, respectively, and for the first six months of fiscal 2022 and fiscal 2021, the Company recorded non-cash gains of $0.6 million and $1.1 million, respectively, on the reduction of its operating lease liability in connection with its decision to close certain retail stores, which resulted in a revaluation of the lease liability. Of the total non-cash gains, $0.1 million and $0.4 million for the second quarter of fiscal 2022 and fiscal 2021, respectively, and $0.4 million and $1.0 million for the first six months of fiscal 2022 and fiscal 2021 respectively, related to leases where the right-of-use assets had previously been impaired, and therefore, were recorded as a reduction of the previously-recorded impairment and were included in the Impairment (Gain) of Assets line of the Consolidated Statement of Operations for the three months ended July 30, 2022 and July 31, 2021. The remaining gains of $0.2 million and $0.1 million for the first six months of fiscal 2022 and fiscal 2021 were recorded as a reduction to occupancy costs in each period.

Depreciation and Amortization

Depreciation and amortization for the second quarter of fiscal 2022 decreased to $4.0 million as compared to $4.4 million for the second quarter of fiscal 2021. For the first six months of fiscal 2022, depreciation and amortization decreased to $8.0 million as compared to $8.9 million for the first six months of fiscal 2021. The decrease was due to a lower depreciable cost base, especially from our store assets, due to our limited capital spending since fiscal 2020.

Interest Expense, Net

Interest expense for second quarter of fiscal 2022 was $0.1 million, as compared to $0.9 million for the second quarter of fiscal 2021. For the first six months of fiscal 2022, interest expense was $0.2 million as compared to $2.1 million for the first six months of fiscal 2021. The Company had no outstanding debt and no borrowings under its credit facility during the second quarter and first six months of fiscal 2022 resulting in a decrease in interest expense as compared to the second quarter and first six months of fiscal 2021.

Income Taxes

Since the end of fiscal 2013, we have maintained a full valuation allowance against our deferred tax assets. During the second quarter of fiscal 2022, we determined that it was more likely than not that we would be able to realize the benefit of substantially all of our deferred tax assets in the United States. In reaching this determination, we considered the cumulative three years of profitability, our expectations regarding the generation of future taxable income as well as the overall improvement in the Company's business and its current market position. As a result, in the second quarter of fiscal 2022, we recognized a tax benefit related to the release of approximately $35.5 million in valuation allowance against our deferred tax assets in the United States. At July 30, 2022, we continued to provide a valuation allowance of $2.4 million, primarily against certain state and foreign net operating losses ("NOLs").

During the second quarter and first six months of fiscal 2022, we recorded an income tax benefit of $35.1 million and $35.0 million, respectively. Excluding the release of $35.5 million in valuation allowance, we recorded income tax expense of $408,000 and $511,000, respectively, primarily related to income tax in states where NOL usage is statutorily limited.

During the second quarter and first six months of fiscal 2021, we recorded income tax expense of $426,000 and $454,000, respectively, primarily related to income tax in states where NOL usage is statutorily limited.

Net Income

For the second quarter and first six months of fiscal 2022, we recorded net income of $56.9 million, or $0.85 per diluted share, and $70.3 million, or $1.04 per diluted share, respectively. Results for the second quarter and first six months of fiscal 2022 include a non-cash tax benefit of $35.5 million, or $0.53 per diluted share, related to the release of substantially all of the Company's valuation allowance against its deferred tax assets.

For the second quarter and first six months of fiscal 2021 net income was $24.5 million, or $0.36 per diluted share and $33.1 million, or $0.50 per diluted share, respectively.

Inventory

As of July 30, 2022, our inventory increased approximately $23.4 million to $96.7 million, as compared to $73.4 million at July 31, 2021. We are in a stronger inventory position at July 30, 2022 than at the end of the second quarter last year. This increase was purposeful in order to replenish several categories that were depleted last year. Compared to the second quarter of fiscal 2019, our inventory is down 12.7%. Managing our inventory remains a primary focus for us given the potential impact that inflation may have on consumer spending. We believe that we will be able to secure sufficient inventory to support our sales forecasts for fiscal 2022 while also ensuring that we don't have excess inventory levels. At July 30, 2022, our clearance inventory was 6.9% of our total inventory, as compared to 8.9% at July 31, 2021 and 10.9% at August 3, 2019.

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. At July 30, 2022, we had no outstanding debt, including no borrowings under our credit facility during the first six months of fiscal 2022. We believe our cash on hand, availability under our credit facility, and ongoing cash generated from our operations will be sufficient to fund our working capital requirements, our stock repurchase program and capital expenditures for the next 12 months. We believe that cash flows from operating activities and cash on hand will also be sufficient to satisfy our capital requirements in the longer-term, however, to the extent future capital requirements exceed cash on hand plus cash flows from operating activities, we anticipate that working capital will be financed by our credit facility, as discussed below.

For the first six months of fiscal 2022, cash flow from operations decreased to $23.8 million as compared to $42.2 million for the first six months of fiscal 2021. Free cash flow, a non-GAAP measure, decreased to $19.8 million for the first six months of fiscal 2022 as compared to $40.5 million for the first six months of fiscal 2021. The decrease in free cash flow was due to our seasonal inventory build, the payout of incentive-based awards, and an increase in capital expenditures, which were partially offset by our increased earnings.

Cash flow used from financing activities for the first six months of fiscal 2022 improved by $40.5 million as compared to the first six months of fiscal 2021, primarily due to the repayment in the prior year of amounts outstanding under our revolver. This was partially offset by the stock offering in February 2021 and the repurchase of our common stock, as discussed below, in the first six months of fiscal 2022.

Stock Repurchase Program

In March 2022, the Company’s Board of Directors approved a stock repurchase program. Under the stock repurchase program, the Company may repurchase up to $15.0 million of its common stock through open market and privately negotiated transactions. For the first six months of fiscal 2022, the Company repurchased 2.9 million shares at an aggregate cost, including fees, of $12.7 million from available cash on hand. Shares of repurchased common stock are held as treasury stock. The stock repurchase program will expire in March 2023.

Credit Facility

On October 28, 2021, we entered into a $125.0 million revolving credit agreement, which replaced our prior credit facility that was due to expire in May 2023 (the "Credit Facility"). The Credit Facility has a five-year term and provides more favorable terms than the previous credit facility. The 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 Credit Facility will be made pursuant to either a Base Rate loan or LIBOR Rate loan, at the Company's option. Base Rate loans bear interest, at a rate equal to (i) the greater of: (a) the Prime Rate, (b) the Federal Funds effective rate plus 0.50% per annum and (c) the daily LIBOR rate plus 1.00% per annum, plus (ii) a varying percentage, based on the Company's average excess availability, of either 0.25% or 0.50%. LIBOR Rate loans, which may be either for 1 month or 3 months, bear interest at (i) the LIBOR rate, or the Benchmark Rate as defined in the credit agreement plus (ii) a varying percentage based on the Company's average excess availability, of either 1.25% or 1.50%.

We had no outstanding borrowings under the New Credit Facility at July 30, 2022 and no borrowings during the first six months of fiscal 2022. At July 30, 2022, outstanding standby letters of credit were $2.4 million and outstanding documentary letters of credit were $1.0 million. The average unused excess availability during the first six months of fiscal 2022 was approximately $79.9 million and the unused excess availability at July 30, 2022 was $85.1 million.

Capital Expenditures

The following table sets forth the open stores and related square footage at July 30, 2022 and July 31, 2021, respectively:

	July 30, 2022		July 31, 2021	
Store Concept	Number of Stores	Square Footage	Number of Stores	Square Footage
(square footage in thousands)				
DXL Retail	218	1,664	221	1,685
DXL Outlets	16	80	16	80
Casual Male XL Retail	31	103	40	132
Casual Male Outlets	19	57	20	60
Total Stores	284	1,904	297	1,957

Our capital expenditures for the past two years have been very limited due to the pandemic. For fiscal 2022, we expect our capital expenditures will be approximately $10.0-$12.0 million as we make investments in technology related to our marketing and merchandising initiatives. We are also actively pursuing opportunities to relocate or convert our remaining Casual Male XL stores to DXL stores which may require some capital investment in fiscal 2022. During the first six months of fiscal 2022, we closed 4 Casual Male XL retail stores and 2 DXL retail stores.

We are also reviewing white space opportunities in markets where our store footprint is underpenetrated and relocation opportunities where we have an existing Casual Male XL store. We believe that our store portfolio is a vital asset to our business strategy and we expect to continue to invest in stores over the next several years as we further strengthen the store portfolio. Over the next three to five years, based on our preliminary store development plan, we believe that we could potentially open up to 50 new and relocated stores.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes to the critical accounting policies and estimates disclosed in our Fiscal 2021 Annual Report. 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

Free cash flow 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 income 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)*: '

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 six months ended	
(in millions)	July 30, 2022	July 31, 2021
Cash flow from operating activities (GAAP basis)	$ 23.8	$ 42.2
Capital expenditures	(4.1)	(1.7)
Free Cash Flow (non-GAAP basis)	$ 19.8	$ 40.5

Adjusted EBITDA. Adjusted EBITDA is calculated as earnings before interest, taxes, depreciation and amortization and is before any impairment of assets, if any. We believe that adjusted EBITDA is useful to investors in evaluating our performance and is a key metric to measure profitability and economic productivity. The following table reconciles adjusted EBITDA from net income:

	For the three months ended		For the six months ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
(in millions)				
Net income (GAAP basis)	$ 56.9	$ 24.5	$ 70.3	$ 33.1
Add back:				
Impairment (gain) of assets	(0.0)	(0.4)	(0.4)	(1.0)
Provision (benefit) for income taxes	(35.1)	0.4	(35.0)	0.5
Interest expense	0.1	0.9	0.2	2.1
Depreciation and amortization	4.0	4.4	8.0	8.9
Adjusted EBITDA (non-GAAP basis)	$ 25.9	$ 29.8	$ 43.1	$ 43.5

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.

There have not been any material changes to our interest rate or foreign currency risks previously disclosed in Part II, Item 7A of our Fiscal 2021 Annual Report.

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 July 30, 2022. 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 July 30, 2022, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

While the majority of our home office employees continue to work remotely for a portion of the work week, we have not experienced any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended July 30, 2022 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 Fiscal 2021 Annual Report.

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

(c)

On March 15, 2022, the Company's Board of Directors approved a stock repurchase program that allows for the repurchase of up to $15.0 million of our common stock through open market and privately negotiated transactions. The timing and the amount of any repurchases of common stock will be determined based on the Company's evaluation of market conditions and other factors. The stock repurchase program will expire on March 15, 2023, but may be suspended, terminated or modified at any time for any reason. At July 30, 2022, the remaining authorization under the stock repurchase program was approximately $2.3 million.

Stock repurchase activity during the three months ended July 30, 2022 was as follows:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plan	(d) Approximate dollar value of shares that may yet be purchased under the plan
May 1, 2022 to May 28, 2022	555,680	$ 4.18	555,680	$ 7,828,265
May 29, 2022 to July 2, 2022	567,518	$ 4.71	567,518	$ 5,153,032
July 3, 2022 to July 30, 2022	800,000	$ 3.60	800,000	$ 2,271,288
Total	1,923,198	$ 4.10	1,923,198	$ 2,271,288

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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.INS	Inline XBRL Instance Document. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File – The cover page interactive data file does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.

* Filed herewith.

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: August 25, 2022	By:	/s/ John F. Cooney
		John F. Cooney Senior Vice President, Chief Accounting Officer and Corporate Controller (Duly Authorized Officer and Chief Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Harvey S. Kanter, 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: August 25, 2022

By: /s/ Harvey S. Kanter

Harvey S. Kanter
Chief Executive Officer

Exhibit 31.2

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: August 25, 2022

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

Exhibit 32.1

**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 July 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Harvey S. Kanter, 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:	August 25, 2022	By:	/s/ Harvey S. Kanter
			Harvey S. Kanter
			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.

Exhibit 32.2

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 July 30, 2022, 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:	August 25, 2022	By:	/s/ Peter H. Stratton, Jr.
			Peter H. Stratton, Jr.
			Chief Financial 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.