

Burlington Stores, Inc.  
Form 10-Q  
August 24, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 29, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission File Number 001-36107

BURLINGTON STORES, INC.

(Exact name of registrant as specified in its charter)

Delaware	80-0895227
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)
2006 Route 130 North	
Burlington, New Jersey	08016
(Address of Principal Executive Offices)	(Zip Code)

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Registrant's Telephone Number, Including Area Code: (609) 387-7800

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (Do not check if a smaller reporting company) Smaller reporting company  
Emerging growth company

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

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

The registrant had 68,972,042 shares of common stock outstanding as of July 29, 2017.

BURLINGTON STORES, INC.

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## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## BURLINGTON STORES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(All amounts in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
<b>REVENUES:</b>				
Net sales	\$1,363,224	\$1,255,053	\$2,709,769	\$2,537,723
Other revenue	5,756	5,663	11,430	11,877
Total revenue	1,368,980	1,260,716	2,721,199	2,549,600
<b>COSTS AND EXPENSES:</b>				
Cost of sales	808,126	757,622	1,604,522	1,526,303
Selling, general and administrative expenses	437,196	407,102	858,052	810,487
Costs related to debt amendments	—	1,346	—	1,346
Stock option modification expense	42	178	105	414
Depreciation and amortization	48,700	44,613	96,712	90,158
Impairment charges - long-lived assets	988	—	988	109
Other income - net	(3,680 )	(1,717 )	(5,586 )	(5,886 )
Loss on extinguishment of debt	—	3,805	—	3,805
Interest expense	14,544	15,084	28,058	30,036
Total costs and expenses	1,305,916	1,228,033	2,582,851	2,456,772
Income before income tax expense	63,064	32,683	138,348	92,828
Income tax expense	16,162	12,289	39,078	34,920
Net income	\$46,902	\$20,394	\$99,270	\$57,908
Net income per common share:				
Common stock - basic	\$0.68	\$0.29	\$1.44	\$0.82
Common stock - diluted	\$0.66	\$0.28	\$1.40	\$0.80
Weighted average number of common shares:				
Common stock - basic	68,807	70,757	69,070	70,962
Common stock - diluted	70,801	71,987	71,153	72,205

See Notes to Condensed Consolidated Financial Statements.



## BURLINGTON STORES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(All amounts in thousands)

	Three Months		Six Months Ended	
	Ended		July 29, July 30,	July 29, July 30,
	July 29,	July 30,	2017 2016	2017 2016
Net income	\$46,902	\$20,394	\$99,270	\$57,908
Other comprehensive income (loss), net of tax:				
Interest rate cap contracts:				
Net unrealized (losses) arising during the period	(642 )	(2,142 )	(1,098 )	(3,293 )
Reclassification into earnings during the period	895	261	1,745	418
Other comprehensive income (loss), net of tax:	253	(1,881 )	647	(2,875 )
Total comprehensive income	\$47,155	\$18,513	\$99,917	\$55,033

See Notes to Condensed Consolidated Financial Statements.

## BURLINGTON STORES, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(All amounts in thousands, except share and per share data)

	July 29, 2017	January 28, 2017	July 30, 2016
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$32,648	\$81,597	\$30,469
Restricted cash and cash equivalents	27,800	27,800	27,800
Accounts receivable—net	58,941	43,252	41,902
Merchandise inventories	726,985	701,891	744,965
Prepaid and other current assets	102,089	73,784	86,895
Total current assets	948,463	928,324	932,031
Property and equipment—net	1,080,181	1,049,447	1,024,919
Tradenames	238,000	238,000	238,000
Favorable leases—net	201,221	213,180	226,581
Goodwill	47,064	47,064	47,064
Deferred tax assets	7,282	7,973	—
Other assets	89,557	90,495	97,659
Total assets	\$2,611,768	\$2,574,483	\$2,566,254
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>			
Current liabilities:			
Accounts payable	\$603,960	\$640,326	\$546,035
Other current liabilities	317,513	354,870	291,353
Current maturities of long term debt	1,823	1,638	1,512
Total current liabilities	923,296	996,834	838,900
Long term debt	1,276,443	1,128,843	1,351,830
Other liabilities	289,891	290,683	284,083
Deferred tax liabilities	218,038	207,935	195,175
Commitments and contingencies (Notes 2, 9, 10 and 11)			
Stockholders' deficit:			
Preferred stock, \$0.0001 par value: authorized: 50,000,000			
shares; no shares issued and outstanding	—	—	—
Common stock, \$0.0001 par value:			
Authorized: 500,000,000 shares;			
Issued: 78,225,750 shares, 77,653,924 shares and 77,316,292 shares,			
respectively;			
Outstanding: 68,972,042 shares, 70,180,713 shares and 71,340,072			
shares, respectively	7	7	7
Additional paid-in-capital	1,439,231	1,420,581	1,403,085

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Accumulated deficit	(961,246 )	(1,060,099 )	(1,218,064 )
Accumulated other comprehensive loss	(6,544 )	(7,191 )	(11,867 )
Treasury stock, at cost	(567,348 )	(403,110 )	(276,895 )
Total stockholders' deficit	(95,900 )	(49,812 )	(103,734 )
Total liabilities and stockholders' deficit	\$2,611,768	\$2,574,483	\$2,566,254

See Notes to Condensed Consolidated Financial Statements.

## BURLINGTON STORES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(All amounts in thousands)

	Six Months Ended	
	July 29, 2017	July 30, 2016
<b>OPERATING ACTIVITIES</b>		
Net income	\$99,270	\$57,908
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	96,712	90,158
Impairment charges—long-lived assets	988	109
Amortization of deferred financing costs	1,263	1,426
Accretion of long term debt instruments	544	398
Deferred income taxes	10,365	(4,603 )
Non-cash loss on extinguishment of debt—write-off of deferred financing costs		
and original issue discount	—	3,805
Non-cash stock compensation expense	12,487	7,376
Non-cash rent	(13,667 )	(15,712 )
Deferred rent incentives	10,275	9,681
Changes in assets and liabilities:		
Accounts receivable	(11,111 )	(5,034 )
Merchandise inventories	(25,094 )	38,263
Prepaid and other current assets	(28,701 )	(20,374 )
Accounts payable	(35,447 )	(53,238 )
Other current liabilities	(48,934 )	(3,870 )
Other long term assets and long term liabilities	(1,105 )	2,440
Other operating activities	4,332	914
Net cash provided by operating activities	72,177	109,647
<b>INVESTING ACTIVITIES</b>		
Cash paid for property and equipment	(107,800)	(75,949 )
Other investing activities	1,100	203
Net cash (used in) investing activities	(106,700)	(75,746 )
<b>FINANCING ACTIVITIES</b>		
Proceeds from long term debt—ABL Line of Credit	680,900	887,400
Principal payments on long term debt—ABL Line of Credit	(533,500)	(831,500 )
Proceeds from long term debt—Term B-4 Loans	—	1,114,208
Principal payments on long term debt—Term B-3 Loans	—	(1,117,000)
Purchase of treasury shares	(164,238)	(76,155 )
Proceeds from stock option exercises	5,748	2,507
Other financing activities	(3,336 )	(3,807 )
Net cash used in financing activities	(14,426 )	(24,347 )
(Decrease) increase in cash and cash equivalents	(48,949 )	9,554
Cash and cash equivalents at beginning of period	81,597	20,915
Cash and cash equivalents at end of period	\$32,648	\$30,469
Supplemental disclosure of cash flow information:		

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Interest paid	\$22,425	\$29,779
Income tax payments - net	\$96,648	\$50,626
Non-cash investing activities:		
Accrued purchases of property and equipment	\$33,306	\$31,335

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON STORES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

July 29, 2017

(UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Presentation

As of July 29, 2017, Burlington Stores, Inc., a Delaware Corporation, and its subsidiaries (collectively, the Company), through its indirect subsidiary Burlington Coat Factory Warehouse Corporation (BCFWC), has expanded its store base to 600 retail stores, inclusive of an internet store.

These unaudited Condensed Consolidated Financial Statements include the accounts of Burlington Stores, Inc. and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. The Condensed Consolidated Financial Statements are unaudited, but in the opinion of management reflect all adjustments (which are of a normal and recurring nature) necessary for the fair presentation of the results of operations for the interim periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017 (Fiscal 2016 10-K). The balance sheet at January 28, 2017 presented herein has been derived from the audited Consolidated Financial Statements contained in the Fiscal 2016 10-K. Because the Company's business is seasonal in nature, the operating results for the three and six month periods ended July 29, 2017 are not necessarily indicative of results for the fiscal year ending February 3, 2018 (Fiscal 2017).

Accounting policies followed by the Company are described in Note 1 to the Fiscal 2016 10-K, "Summary of Significant Accounting Policies."

Adopted Accounting Standards

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" (ASU 2016-09). ASU 2016-09 changes how companies account for certain aspects of share-based payments to employees including: (i) requiring all income tax effects of awards to be recognized in the income statement, rather than in additional paid in capital, when the awards vest or are settled, (ii) eliminating the requirement that excess tax benefits be realized before companies can recognize them, (iii) requiring companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity, (iv) increasing the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation, (v) requiring an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows and (vi) requiring an employer to elect whether to account for forfeitures of share-based payments by (a) recognizing forfeitures of awards as they occur or (b) estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, as is currently required. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016. The Company adopted this standard effective January 29, 2017.

The primary impact of adoption was the prospective recognition of excess tax benefits in the income statement as an income tax benefit rather than equity, which increased net income per share during the three and six month periods ended July 29, 2017 by \$0.09 and \$0.16, respectively, by lowering the Company's effective tax rate approximately 1,140 basis points and 880 basis points, respectively.

The Company has applied the amendment relating to the presentation of the excess tax benefits on the Condensed Consolidated Statements of Cash Flows retrospectively, resulting in the reclassification of \$6.5 million of excess tax benefits from cash flows from financing activities to cash flows from operating activities for the six month period ended July 30, 2016.

The Company has elected to account for forfeitures of share-based awards as they occur, on a modified retrospective basis, resulting in a \$0.4 million cumulative-effect adjustment to retained earnings as of January 29, 2017.

The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to any of the periods presented in the Company's Condensed Consolidated Statements of Cash Flows since such cash flows have historically been presented as a financing activity.

## Pending Accounting Standards

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which converges revenue recognition under U.S. GAAP and International Financial Reporting Standards. The new guidance supersedes most preexisting revenue recognition guidance, and provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 for public companies to periods beginning after December 15, 2017, with early adoption permitted. The standard shall be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. This ASU will be effective for the Company as of the beginning of the fiscal year ending February 2, 2019 (Fiscal 2018). The Company is in the process of determining the impact of the adoption of this guidance on its consolidated financial statements or notes thereto. The Company believes that there will be no change in the timing or amount of revenue recognized under the new standard as it relates to revenue from point of sale at the registers in our stores, which constitutes more than 99% of the Company's revenue. The new standard will require a change in the presentation of the Company's sales return reserve on the balance sheet, which is currently recorded net. The new standard will require the reserve to be established at the gross sales value with an asset established for the value of the merchandise returned. The Company does not, however, anticipate that the new guidance will have a significant impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases." The standard's core principle is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. This ASU will be effective for the Company as of the beginning of the fiscal year ending February 1, 2020 (Fiscal 2019). Early adoption is permitted. While the Company is continuing to evaluate the impact of the adoption of this guidance on its consolidated financial statements or notes thereto, it does expect that this new guidance will result in a significant increase to the assets and liabilities presented on its consolidated balance sheets. Refer to Note 13 to the Company's Consolidated Financial Statements included in the Fiscal 2016 10-K (entitled "Lease Commitments") for further detail of the Company's future minimum lease payments. This guidance is not expected, however, to have a material impact on the Company's liquidity.

On August 26, 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments." The primary purpose of this ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. This ASU is effective for fiscal years beginning after December 15, 2017. This ASU will be effective for the Company as of the beginning of Fiscal 2018. Early adoption is permitted in any interim or annual period. The Company does not anticipate that the new guidance will have a significant impact on its consolidated financial statements.

On November 17, 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows: Restricted Cash." The primary purpose of this ASU is to reduce the diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. This ASU will require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017. This ASU will be effective for the Company as of the beginning of Fiscal 2018. Early adoption is permitted in any interim or annual period. While the Company is still in the process of determining the impact of the adoption of this guidance on its consolidated financial statements or notes thereto, it does not anticipate that the new guidance will have a significant impact on its consolidated financial statements.

On January 26, 2017, the FASB issued ASU 2017-04, “Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment,” which aims to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the new guidance, goodwill impairment will be measured as the amount by which the carrying value exceeds the fair value. The loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. The new guidance will be effective for annual reporting periods beginning after December 15, 2019, including interim periods. This ASU will be effective for the Company as of the beginning of Fiscal 2020. Early adoption is permitted for annual or interim goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not anticipate that the new guidance will have a significant impact on its consolidated financial statements.

There were no other new accounting standards that had a material impact on the Company’s Condensed Consolidated Financial Statements during the three and six month periods ended July 29, 2017, and there were no other new accounting standards or pronouncements that were issued but not yet effective as of July 29, 2017 that the Company expects to have a material impact on its financial position or results of operations upon becoming effective.

2. Long Term Debt

Long term debt consists of:

	(in thousands)		
	July 29, 2017	January 28, 2017	July 30, 2016
			Incorporated by reference to the comparable exhibit filed with the (16) Company's Report on Form 8-K for the event dated June 22, 2012 and filed June 28, 2012.
(17) Incorporated by reference to the comparable exhibit filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.	2017	2017	2016
(18) Incorporated by reference to the comparable exhibit filed with the Company's Current Report on Form 8-K for the event dated February 15, 2013 and filed February 20, 2013.			
(19) Incorporated by reference to the comparable exhibit filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2009.			
(20) Incorporated by reference to the comparable exhibit filed with the Company's Current Report on Form 8-K for the event dated October 25, 2013 and filed October 31, 2013.			
(21) Incorporated by reference to the comparable exhibit filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2013.			
(22) Incorporated by reference to the comparable exhibit filed with the Company's Current Report on Form 8-K filed on June 6, 2014.			
(23) Incorporated by reference to the comparable exhibit filed with the Company's Current Report on Form 8-K filed on July 7, 2014.			
(24) Incorporated by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed August 12, 2014.			
(25)			

Incorporated by reference to the comparable exhibit filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014.

(26) Filed herewith.

(\*) Denotes Management Compensation Plan, agreement or arrangement.

57

500

\$600,000 ABL senior secured revolving facility, LIBOR plus spread based on average outstanding balance, matures on August 13, 2019

147,400

—

223,300

Capital lease obligations

22,912

23,643

24,296

Unamortized deferred financing costs

(4,634

)

(5,206

)

(5,754

)

Total debt

1,278,266

1,130,481

1,353,342

Less: current maturities

(1,823

)

(1,638

)

(1,512

)

Long term debt, net of current maturities

\$

1,276,443

\$

1,128,843

\$

1,351,830

#### Term Loan Facility

At July 29, 2017 and July 30, 2016, the Company's borrowing rate related to its \$1.2 billion senior secured term loan facility (the Term Loan Facility) was 4.0% and 3.5%, respectively.

#### ABL Line of Credit

At July 29, 2017, the Company had \$363.1 million available under the Second Amended and Restated Credit Agreement, dated September 2, 2011, governing BCFWC's existing senior secured asset-based revolving credit facility (the ABL Line of Credit). The maximum borrowings under the facility during the three and six month periods ended July 29, 2017 amounted to \$180.3 million for both periods. Average borrowings during the three and six month periods ended July 29, 2017 amounted to \$79.0 million and \$55.5 million, respectively, at average interest rates of 2.8% and 2.7%, respectively.

At July 30, 2016, the Company had \$311.5 million available under the ABL Line of Credit. The maximum borrowings under the facility during the three and six month periods ended July 30, 2016 amounted to \$350.0 million. Average borrowings during the three and six month periods ended July 30, 2016 amounted to \$224.1 million and \$224.5 million, respectively, at average interest rates of 1.8% for both periods.

### 3. Derivative Instruments and Hedging Activities

The Company accounts for derivatives and hedging activities in accordance with ASC Topic No. 815 "Derivatives and Hedging" (Topic No. 815). As required by Topic No. 815, the Company records all derivatives on the balance sheet at fair value and adjusts to market on a quarterly basis. In addition, to comply with the provisions of ASC Topic No. 820, "Fair Value Measurements" (Topic No. 820), credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, are incorporated in the fair values to account for potential nonperformance risk. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered any applicable credit enhancements such as collateral postings, thresholds, mutual puts, and guarantees. In accordance with Topic No. 820, the Company made an accounting policy election to measure the credit risk of its derivative

financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. There is no impact of netting because the Company's only derivatives are interest rate cap contracts that are with separate counterparties and are under separate master netting agreements.

#### Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate caps as part of its interest rate risk management strategy. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract.

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The Company did not record any hedge ineffectiveness in its earnings during the three and six month periods ended July 29, 2017 or July 30, 2016. The Company financed the cost of the interest rate cap contracts, which will be amortized through the life of the caps. During the three and six month periods ended July 29, 2017, the Company paid \$0.5 million and \$1.6 million, respectively, net of \$0.4 million and \$1.0 million of taxes, respectively, related to the financing of these interest rate cap contracts. During the three and six month periods ended July 30, 2016, the Company paid \$0.8 million and \$1.6 million, respectively, net of \$0.5 million and \$1.1 million of taxes, respectively, related to the financing of these interest rate cap contracts. These costs were included in the line item "Accumulated other comprehensive loss" on the Company's Condensed Consolidated Balance Sheets. The Company estimates that approximately \$6.2 million will be reclassified into interest expense during the next twelve months.

As of July 29, 2017, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional Aggregate Principal Amount	Interest Cap Rate	Maturity Date
Interest rate cap contracts	Two	\$ 800.0 million	1.0%	May 31, 2019

Tabular Disclosure

The table below presents the fair value of the Company's derivative financial instruments on a gross basis as well as their classification on the Company's Condensed Consolidated Balance Sheets:

(in thousands)						
Fair Values of Derivative Instruments						
Liability Derivatives						
July 29, 2017		January 28, 2017		July 30, 2016		
Balance		Balance		Balance		
Sheet	Fair	Sheet	Fair	Sheet	Fair	
Location	Value	Location	Value	Location	Value	
Derivatives Designated as Hedging Instruments						
Interest rate cap contracts	Other liabilities \$2,409	Other liabilities \$3,183		Other liabilities \$11,267		

The following table presents the unrealized losses deferred to accumulated other comprehensive loss resulting from the Company's derivative instruments designated as cash flow hedging instruments for each of the reporting periods.

(in thousands)				
	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Interest Rate Cap Contracts:				
Unrealized (losses), before taxes	\$(1,070)	\$(3,569)	\$(1,826)	\$(5,488)
Income tax benefit	428	1,427	728	2,195

Unrealized (losses), net of taxes \$(642 ) \$(2,142) \$(1,098) \$(3,293)

The following table presents information about the reclassification of losses from accumulated other comprehensive loss into earnings related to the Company's derivative instruments designated as cash flow hedging instruments for each of the reporting periods.

	(in thousands)			
	Three Months		Six Months	
	Ended		Ended	
	July	July	July	July
	29,	30,	29,	30,
Component of Earnings:	2017	2016	2017	2016
Interest expense	\$1,491	\$434	\$2,902	\$696
Income tax (benefit)	(596 )	(173)	(1,157)	(278)
Net income	\$895	\$261	\$1,745	\$418

## 4. Accumulated Other Comprehensive Loss

Amounts included in accumulated other comprehensive loss are recorded net of the related income tax effects. The following table details the changes in accumulated other comprehensive loss:

	(in thousands) Derivative Instruments
Balance at January 28, 2017	\$ (7,191 )
Unrealized losses, net of related taxes of \$0.7 million	(1,098 )
Amount reclassified into earnings, net of related taxes of \$1.2 million	1,745
Balance at July 29, 2017	\$ (6,544 )

## 5. Fair Value Measurements

The Company accounts for fair value measurements in accordance with Topic No. 820, which defines fair value, establishes a framework for measurement and expands disclosure about fair value measurements. Topic No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price), and classifies the inputs used to measure fair value into the following hierarchy:

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

Level 2: Quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Pricing inputs that are unobservable for the assets and liabilities and include situations where there is little, if any, market activity for the assets and liabilities.

The inputs into the determination of fair value require significant management judgment or estimation.

The carrying amounts of cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments.

Refer to Note 3, "Derivative Instruments and Hedging Activities," for further discussion regarding the fair value of the Company's interest rate cap contracts.

## Financial Assets

The fair values of the Company's financial assets and the hierarchy of the level of inputs as of July 29, 2017, January 28, 2017 and July 30, 2016 are summarized below:

(in thousands)	
Fair Value Measurements at	
January	
July 29,	July 30,
28,	

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	2017	2017	2016
Assets:			
Level 1			
Cash equivalents (including restricted cash)	\$28,211	\$28,167	\$28,139

## Long-Lived Assets

Long-lived assets are measured at fair value on a non-recurring basis for purposes of calculating impairment using the fair value hierarchy of Topic No. 820. The fair value of the Company's long-lived assets is generally calculated using discounted cash flows. During the six month period ended July 29, 2017, the Company recorded impairment charges of \$1.0 million, primarily related to declines in revenues and operating results for one leased store and a decline in the appraised fair value of one of the Company's owned stores. These costs were recorded in the line item "Impairment charges – long-lived assets" in the Company's Condensed Consolidated Statements of Income. One of the stores impaired during the six month period ended July 29, 2017 was fully impaired and therefore had zero fair value as of July 29, 2017, and would be categorized as Level 3 in the fair value hierarchy described above. The table below sets forth the aggregate impairment charges and the remaining fair value, by level within the fair value hierarchy, of the partially-impaired owned store as of July 29, 2017:

	(in thousands)			Total	
	Quoted Prices Significant in Active Other Markets for Observable Identical Inputs (Level 1)	Significant Un- Observable Inputs (Level 2)	Significant Un- Observable Inputs (Level 3)	Total	Losses
Land	\$—	\$ —	\$ 470	\$ —	\$ 247
Buildings	—	—	417	—	227
Store fixtures and equipment	—	—	9	—	203
Leasehold improvements	—	—	—	—	108
Other assets	—	—	—	—	203
Total	\$—	\$ —	\$ 896	\$ —	\$ 988

## Non-financial Assets

Long-lived assets are measured at fair value on a non-recurring basis for purposes of calculating impairment using the fair value hierarchy. The fair value of the Company's long-lived assets is generally calculated using discounted cash flows.

## Financial Liabilities

The fair values of the Company's financial liabilities are summarized below:

	(in thousands)					
	July 29, 2017		January 28, 2017		July 30, 2016	
	Carrying	Fair	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value	Amount	Value
	(b)	(b)	(b)	(b)	(b)	(b)
\$1,200,000 senior secured term loan facility (Term B-4 Loans), LIBOR (with a floor of 0.75%) plus 2.75%, matures on August 13, 2021	\$1,112,588	\$1,119,078	\$1,112,044	\$1,116,678	\$1,111,500	\$1,113,353
	147,400	147,400	—	—	223,300	223,300

\$600,000 ABL senior secured revolving facility, LIBOR plus spread based on average outstanding balance, matures on August 13, 2019(a)

Total debt	\$1,259,988	\$1,266,478	\$1,112,044	\$1,116,678	\$1,334,800	\$1,336,653
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(a) To the extent the Company has any outstanding borrowings under the ABL Line of Credit, the fair value would approximate its reported value because the interest rate is variable and reflects current market rates due to its short term nature (borrowings are typically done in 30 day increments).

(b) Capital lease obligations are excluded from the table above.

The fair values presented herein are based on pertinent information available to management as of the respective period end dates. The estimated fair values of the Company's debt are classified as Level 2 in the fair value hierarchy.

## 6. Income Taxes

Net deferred taxes are as follows:

	(in thousands)		
	July 29, 2017	January 28, 2017	July 30, 2016
Deferred tax asset	\$7,282	\$7,973	\$—
Deferred tax liability	218,038	207,935	195,175
Net deferred tax liability	\$210,756	\$199,962	\$195,175

Deferred tax assets relate to Puerto Rico deferred balances that have a net future benefit for tax purposes. Deferred tax liabilities primarily relate to intangible assets and depreciation expense where the Company has a future obligation for tax purposes.

As of July 29, 2017, January 28, 2017 and July 30, 2016, valuation allowances amounted to \$7.0 million, \$7.4 million and \$7.6 million, respectively, related to state tax net operating losses and state tax credit carry forwards. The Company believes that it is more likely than not that a portion of the benefit of these state tax net operating losses and state tax credit carry forwards will not be realized. As of July 29, 2017, the Company had \$6.1 million of deferred tax assets recorded for state net operating losses, which will expire between 2017 and 2037. In addition, there was no valuation allowance required against the tax benefit associated with Puerto Rico deferred tax assets as of July 29, 2017 and January 28, 2017 compared to a full valuation allowance of \$6.2 million as of July 30, 2016.

## 7. Capital Stock

### Treasury Stock

The Company accounts for treasury stock under the cost method.

During the six month period ended July 29, 2017, the Company acquired 35,882 shares of common stock from employees for approximately \$3.4 million to satisfy their minimum statutory tax withholdings related to the vesting of restricted stock awards.

### Share Repurchase Programs

During the six month period ended July 29, 2017, the Company repurchased 1,744,615 shares of its common stock for \$160.8 million, inclusive of commissions, under the share repurchase program approved by the Company's Board of Directors in November 2016, which is funded using the Company's available cash and is authorized to be executed through November 2018. The amount repurchased during the six month period ended July 29, 2017 was recorded in the line item "Treasury stock" on the Company's Condensed Consolidated Balance Sheets. As of July 29, 2017, the Company had \$38.8 million available for purchase under this share repurchase program.

On August 16, 2017, the Company's Board of Directors approved the repurchase of up to an additional \$300 million of the Company's common stock. This new repurchase program, which is in addition to the share repurchase program approved by the Company's Board of Directors in November 2016, is authorized to be executed through August 2019.

The Company is authorized to repurchase, from time to time, shares of its outstanding common stock on the open market or in privately negotiated transactions under its repurchase programs. The timing and amount of stock repurchases will depend on a variety of factors, including the market conditions as well as corporate and regulatory considerations. The share repurchase programs may be suspended, modified or discontinued at any time and the Company has no obligation to repurchase any amount of the Company's common stock under the programs.



## 8. Net Income Per Share

Basic net income per share is calculated by dividing net income by the weighted-average number of common shares outstanding. Dilutive net income per share is calculated by dividing net income by the weighted-average number of common shares and potentially dilutive securities outstanding during the period using the treasury stock method.

	(in thousands, except per share data)			
	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Basic net income per share				
Net income	\$46,902	\$20,394	\$99,270	\$57,908
Weighted average number of common shares – basic	68,807	70,757	69,070	70,962
Net income per common share – basic	\$0.68	\$0.29	\$1.44	\$0.82
Diluted net income per share				
Net income	\$46,902	\$20,394	\$99,270	\$57,908
Shares for basic and diluted net income per share:				
Weighted average number of common shares – basic	68,807	70,757	69,070	70,962
Assumed exercise of stock options and vesting of restricted stock	1,994	1,230	2,083	1,243
Weighted average number of common shares – diluted	70,801	71,987	71,153	72,205
Net income per common share – diluted	\$0.66	\$0.28	\$1.40	\$0.80

Approximately 170,000 and less than 100,000 shares were excluded from diluted net income per share for the three and six month periods ended July 29, 2017, respectively, since their effect was anti-dilutive.

Approximately 170,000 and 145,000 shares were excluded from diluted net income per share for the three and six month periods ended July 30, 2016, respectively, since their effect was anti-dilutive.

## 9. Stock-Based Compensation

As of July 29, 2017, there were 5,007,307 shares of common stock available for issuance under the Company's 2013 Omnibus Incentive Plan (the 2013 Plan). On May 17, 2017, the Company's stockholders approved an amendment and restatement of the 2013 Plan (the Amended Plan). Among other changes, the Amended Plan includes a new method of reducing the plan's share reserve, commonly referred to as "fungible share" counting. Under this method, restricted stock units, performance awards or other stock-based awards (collectively, Full Value Awards), reduce the share reserve at a ratio of 2 shares for every share subject to the full value award. Prior to the amendment, Full Value Awards reduced the share reserve on a 1-for-1 basis. Stock options and stock appreciation rights continue to reduce the share reserve on a 1-for-1 basis under the Amended Plan. A description of the terms and conditions of the Amended Plan is set forth in the Company's definitive proxy statement on Schedule 14A filed with the Securities and Exchange Commission on March 31, 2017.

Non-cash stock compensation expense is as follows:

Type of Non-Cash Stock Compensation	(in thousands)			
	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Restricted stock grants (a)	\$4,276	\$2,234	\$7,434	\$3,992
Stock option grants (a)	3,089	1,725	4,955	3,049
Stock option modification (b)	40	134	98	335
Total (c)	\$7,405	\$4,093	\$12,487	\$7,376

(a) Included in the line item "Selling, general and administrative expenses" in the Company's Condensed Consolidated Statements of Income.

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- (b) Represents non-cash compensation related to the May 2013 stock option modification. Amounts are included in the line item "Stock option modification expense" in the Company's Condensed Consolidated Statements of Income. Refer to Note 12 to the Company's Consolidated Financial Statements included in the Fiscal 2016 10-K (entitled "Stock-Based Compensation") for further detail of the Company's May 2013 stock option modification.
- (c) The amounts presented in the table above exclude taxes. For the three and six month periods ended July 29, 2017, the tax benefit related to the Company's non-cash stock compensation was approximately \$1.9 million and \$3.5 million, respectively. For the three and six month periods ended July 30, 2016, the tax benefit related to the Company's non-cash stock compensation was approximately \$1.5 million and \$2.8 million, respectively.
- Stock Options

Stock option transactions during the six month period ended July 29, 2017 are summarized as follows:

	Weighted	
	Average	
	Exercise	
	Number of	Price Per
	Shares	Share
Options outstanding, January 28, 2017	2,646,123	\$ 22.41
Options granted	566,664	97.48
Options exercised (a)	(369,858 )	15.54
Options forfeited	(58,996 )	56.48
Options outstanding, July 29, 2017	2,783,933	37.88

(a) Options exercised during the six month period ended July 29, 2017 had a total intrinsic value of \$30.0 million. The following table summarizes information about the stock options vested and expected to vest during the contractual term as of July 29, 2017:

	Options	Weighted		Aggregate
		Average	Remaining	Intrinsic
		Contractual	Average	Value
		Life	Exercise	(in
	Options	(Years)	Price	millions)
Vested and expected to vest	2,783,933	7.3	\$ 37.88	\$ 140.0

The fair value of each stock option granted during the six month period ended July 29, 2017 was estimated using the Black Scholes option pricing model using the following assumptions:

	Six Months Ended July 29, 2017
Risk-free interest rate	1.43% - 2.13%
Expected volatility	34% - 37%
Expected life (years)	6.15 - 6.25
Contractual life (years)	10.0
Expected dividend yield	0.0%
Weighted average grant date fair value of options issued	\$ 36.54

The expected dividend yield was based on the Company's expectation of not paying dividends in the foreseeable future. Since the Company completed its initial public offering in October 2013, it does not have sufficient history as a publicly traded company to evaluate its volatility factor. As such, the expected stock price volatility is based upon the historical volatility of the stock price over the expected life of the options of peer companies that are publicly traded. The risk free interest rate was based on the U.S. Treasury rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the awards being valued. For grants issued during the six month period ended July 29, 2017, the expected life of the options was calculated using the simplified method. The simplified method defines the life as the average of the contractual term of the options and the weighted average vesting period for all option tranches. This methodology was utilized due to the short length of time the Company's common stock has been publicly traded.

## Restricted Stock Awards

Restricted stock transactions during the six month period ended July 29, 2017 are summarized as follows:

	Number of Shares	Weighted Average Grant Date Fair Value Per Awards
Non-vested awards outstanding, January 28, 2017	744,634	\$ 54.28
Awards granted	219,361	95.46
Awards vested (a)	(110,710)	48.90
Awards forfeited	(17,393 )	57.56
Non-vested awards outstanding, July 29, 2017	835,892	65.76

(a) Restricted stock awards vested during the six month period ended July 29, 2017 had a total intrinsic value of \$10.6 million.

The fair value of each share of restricted stock granted during Fiscal 2017 was based upon (a) the closing price of the Company's common stock on the date prior to the grant date for grants before May 17, 2017 (the date on which the Company's stockholders approved the Amended Plan) and (b) the closing price of the Company's common stock on the date of grant made from and after May 17, 2017.

## 10. Other Liabilities

Other liabilities primarily consist of deferred lease incentives, the long term portion of self-insurance reserves, the excess of straight-line rent expense over actual rental payments and tax liabilities associated with the uncertain tax positions recognized by the Company in accordance with ASC Topic No. 740, "Income Taxes."

Deferred lease incentives are funds received or receivable from landlords used primarily to offset costs incurred for leasehold improvements and fixturing of new and remodeled stores. These deferred lease incentives are amortized over the expected lease term including rent holiday periods and option periods, where the exercise of the option can be reasonably assured. Amortization of deferred lease incentives is included in the line item "Selling, general and administrative expenses" on the Company's Condensed Consolidated Statements of Income. At July 29, 2017, January 28, 2017 and July 30, 2016, deferred lease incentives were \$179.6 million, \$180.9 million and \$171.6 million, respectively, and are recorded in the line item "Other liabilities" on the Company's Condensed Consolidated Balance Sheets.

## 11. Commitments and Contingencies

### Legal

The Company establishes accruals relating to legal claims in connection with litigation to which the Company is party from time to time in the ordinary course of business. Like many retailers, the Company has been named in class or collective actions on behalf of various groups alleging violations of federal and state wage and hour and other labor statutes, and alleged violation of state consumer and/or privacy protection statutes. In the normal course of business, we are also party to various other lawsuits and regulatory proceedings including, among others, commercial, product, product safety, employee, customer, intellectual property and other claims. Actions against us are in various procedural stages. Many of these proceedings raise factual and legal issues and are subject to uncertainties. To determine the likelihood of a loss and/or the measurement of any loss can be complex. Consequently, we are unable to estimate the range of reasonably possible loss in excess of amounts accrued. The Company's assessments are based on estimates and assumptions that have been deemed reasonable by management, but the assessment process relies heavily on estimates and assumptions that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions. While no assurance can be given as to the ultimate outcome of these matters, the Company believes that the final resolution of these actions will not have a material adverse effect on the Company's results of operations, financial position, liquidity or capital resources.

### Lease Agreements

The Company enters into lease agreements during the ordinary course of business in order to secure favorable store locations. The Company's minimum lease payments for all operating leases are expected to be \$164.7 million for the remainder of Fiscal 2017 and \$357.8 million, \$335.0 million, \$311.7 million, \$285.7 million and \$1,394.0 million for the fiscal years ended February 2, 2019, February 1, 2020, January 30, 2021, January 29, 2022 and all subsequent years thereafter, respectively. Total future

minimum lease payments include \$313.8 million related to options to extend lease terms that are reasonably assured of being exercised and \$500.5 million of minimum lease payments for 68 stores that the Company has committed to open or relocate.

#### Letters of Credit

The Company had letter of credit arrangements with various banks in the aggregate amount of \$53.0 million, \$53.1 million and \$40.0 million as of July 29, 2017, January 28, 2017 and July 30, 2016, respectively. Among these arrangements, as of July 29, 2017, January 28, 2017 and July 30, 2016, the Company had letters of credit in the amount of \$43.6 million, \$44.2 million and \$31.9 million, respectively, guaranteeing performance under various insurance contracts and utility agreements. In addition, the Company had outstanding letters of credit agreements in the amounts of \$9.4 million, \$8.9 million and \$8.1 million at July 29, 2017, January 28, 2017 and July 30, 2016, respectively, related to certain merchandising agreements. Based on the terms of the agreement governing the ABL Line of Credit, the Company had the ability to enter into letters of credit up to \$363.1 million, \$427.8 million and \$311.5 million as of July 29, 2017, January 28, 2017 and July 30, 2016, respectively.

#### Purchase Commitments

The Company had \$976.7 million of purchase commitments related to goods that were not received as of July 29, 2017.

#### Death Benefits

In November 2005, the Company entered into agreements with three of the Company's former executives whereby upon each of their deaths the Company will pay \$1.0 million to each respective designated beneficiary.

## 12. Related Parties

The brother-in-law of one of the Company's Executive Vice Presidents is an independent sales representative of one of the Company's suppliers of merchandise inventory. This relationship predated the commencement of the Executive Vice President's employment with the Company. The Company has determined that the dollar amount of purchases through such supplier represents an insignificant amount of its inventory purchases.

BURLINGTON STORES, INC.

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

The following discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flows as of and for the periods presented below. The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this report and in our Annual Report on Form 10-K related to the fiscal year ended January 28, 2017.

In addition to historical information, this discussion and analysis contains forward-looking statements based on current expectations that involve risks, uncertainties and assumptions, such as our plans, objectives, expectations, and intentions. Our actual results and the timing of events may differ materially from those anticipated in these forward-looking statements due to various factors, including those discussed under the section of this Item 2 entitled "Safe Harbor Statement."

Executive Summary

Introduction and Overview of Operating Results

We are a nationally recognized off-price retailer of high-quality, branded apparel at everyday low prices. We opened our first store in Burlington, New Jersey in 1972, selling primarily coats and outerwear. Since then, we have expanded our store base to 600 stores as of July 29, 2017, inclusive of an internet store, in 45 states and Puerto Rico, and diversified our product categories by offering an extensive selection of in-season, fashion-focused merchandise, including women's ready-to-wear apparel, menswear, youth apparel, baby, footwear, accessories, home and coats. We acquire a broad selection of desirable, first-quality, current-brand, labeled merchandise directly from nationally-recognized manufacturers and other suppliers.

Highlights from the three month period ended July 29, 2017 compared with the three month period ended July 30, 2016 include the following:

- We generated total revenues of \$1,369.0 million compared with \$1,260.7 million.
- Net sales improved \$108.2 million to \$1,363.2 million (inclusive of a 3.5% comparable store sales increase).
- Gross margin as a percentage of net sales improved to 40.7% compared with 39.6%. This is in addition to an approximate 10 basis point improvement in product sourcing costs, which are included in selling, general and administrative expenses.
- Selling, general and administrative expenses as a percentage of net sales improved to 32.1% compared with 32.4%, inclusive of the 10 basis point improvement in product sourcing costs.
- We earned net income of \$46.9 million compared with net income of \$20.4 million.
  - Adjusted Net Income (as subsequently defined in this Form 10-Q) improved \$23.0 million to \$51.3 million.
- Adjusted EBITDA (as subsequently defined in this Form 10-Q) improved \$28.2 million to \$127.3 million.
- Adjusted Operating Margin (as subsequently defined in this Form 10-Q) improved \$24.2 million to \$84.5 million.

Highlights from the six month period ended July 29, 2017 compared with the six month period ended July 30, 2016 include the following:

- We generated total revenues of \$2,721.2 million compared with \$2,549.6 million.
- Net sales improved \$172.0 million to \$2,709.8 million (inclusive of a 2.0% comparable store sales increase).
- Gross margin as a percentage of net sales improved to 40.8% compared with 39.9%. This is on top of an approximate 10 basis point improvement in product sourcing costs, which are included in selling, general and administrative expenses.
-

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Selling, general and administrative expenses as a percentage of net sales improved to 31.7% compared with 31.9%, inclusive of an approximate 10 basis point improvement in product sourcing costs.

• We earned net income of \$99.3 million compared with net income of \$57.9 million.

• Adjusted Net Income improved \$37.6 million to \$107.5 million.

• Adjusted EBITDA improved \$44.1 million to \$264.1 million.

• Adjusted Operating Margin improved \$37.4 million to \$179.4 million.

## Fiscal Year

Fiscal 2017 is defined as the 53 week year ended February 3, 2018. Fiscal 2016 is defined as the 52 week year ending January 28, 2017.

## Store Openings, Closings, and Relocations

During the six month period ended July 29, 2017, we opened 11 new stores and closed three stores, bringing our store count as of July 29, 2017 to 600 stores, inclusive of an internet store.

## Newly Adopted Accounting Standards

During the first quarter of Fiscal 2017, we adopted the new share based accounting standard. As a result of this standard, we now recognize excess tax benefits as a reduction to the line item "Income tax expense" in our Condensed Consolidated Statements of Income. The adoption of the new standard improved our net income per share during the three and six month periods ended July 29, 2017 by \$0.09 and \$0.16, respectively, driven by a lower effective tax rate of 1,140 basis points and 880 basis points, respectively. Refer to Note 1 to our Condensed Consolidated Financial Statements, "Summary of Significant Accounting Policies," for a discussion of recent accounting pronouncements and their impact on our Condensed Consolidated Financial Statements.

## Ongoing Initiatives for Fiscal 2017

We continue to focus on a number of ongoing initiatives aimed at increasing our overall profitability by improving our comparable store sales trends, increasing total sales growth and reducing expenses. These initiatives include, but are not limited to:

### Driving Comparable Store Sales Growth.

We intend to continue to increase comparable store sales through the following initiatives:

**Continuing to Enhance Execution of the Off-Price Model.** We plan to drive comparable store sales by focusing on product freshness to ensure that we consistently deliver newness to the selling floors. We plan to continue to reduce comparable store inventories which we believe will result in faster inventory turnover. We maintain our ability to leverage our "pack and hold" program which is designed to take advantage of terrific buys of either highly desirable branded product or key seasonal merchandise for the next year. While the amount of goods we purchase on pack and hold is purely based on the right opportunities in the marketplace, this continues to be a great avenue to source product. We also intend to use our business intelligence systems to identify sell-through rates by product, capitalize on strong performing categories, identify and buy into new fashion trends and opportunistically acquire products in the marketplace.

**Sharpening Focus on Our Core Female Customer.** We have focused on better serving our core female customer, a brand-conscious fashion enthusiast, aged 25-49, with an average annual household income of \$25,000-\$75,000, by improving our product offering, store merchandising and marketing focus on women's ready-to-wear apparel and accessories to capture incremental sales from our core female customer and become a destination for her across all categories. We believe that these efforts will increase the frequency of her visits and her average spend, further improving the comparable store sales performance in women's categories.

**Continuing to Improve Our Customer Experience.** We have significantly enhanced the store experience and ease of shopping at all of our stores by implementing a comprehensive program focused on offering more brands and styles and simplifying store navigation. We have accomplished this by utilizing clear way-finding signs and distinct product signage, highlighting key brands and new arrivals, improving organization of the floor space, reducing rack density, facilitating quicker checkouts and delivering better customer service. We have made particular improvements in product size visibility, queuing and fitting rooms. To ensure consistent execution of our customer experience priorities, we have improved our store associate training and reorganized and strengthened our field management

organization. Our much improved store experience continues to resonate with our customers. We continue to refine our online customer survey to provide more actionable customer feedback to stores. Stores develop action plans to address clearly identified areas of focus. Store managers have the ability to review immediate feedback from their customers, and react accordingly.

