

Burlington Stores, Inc.
Form 10-Q
November 24, 2015

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 October 31, 2015

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 (State or Other Jurisdiction of Incorporation or Organization)	80-0895227 (I.R.S. Employer Identification No.)
2006 Route 130 North Burlington, New Jersey (Address of Principal Executive Offices)	08016 (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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting 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

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

The number of shares of registrant's common stock outstanding as of November 20, 2015: 75,952,146.

BURLINGTON STORES, INC.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

BURLINGTON STORES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

	October 31, 2015	January 31, 2015	November 1, 2014
ASSETS			
Current assets:			
Cash and cash equivalents	\$28,847	\$25,349	\$29,437
Restricted cash and cash equivalents	27,800	27,800	32,100
Accounts receivable—net of allowance for doubtful accounts	49,018	49,716	53,484
Merchandise inventories	934,011	788,708	899,880
Deferred tax assets	36,934	37,229	18,216
Prepaid and other current assets	68,721	58,681	123,382
Total current assets	1,145,331	987,483	1,156,499
Property and equipment—net of accumulated depreciation and amortization	1,018,188	970,419	964,217
Tradenames	238,000	238,000	238,000
Favorable leases—net of accumulated amortization	248,210	266,397	272,807
Goodwill	47,064	47,064	47,064
Other assets	108,524	115,206	118,314
Total assets	\$2,805,317	\$2,624,569	\$2,796,901
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current liabilities:			
Accounts payable	\$704,187	\$621,682	\$766,510
Other current liabilities	327,156	310,268	299,122
Current maturities of long term debt	1,376	1,167	13,275
Total current liabilities	1,032,719	933,117	1,078,907
Long term debt	1,412,431	1,249,276	1,410,838
Other liabilities	272,774	273,767	257,832
Deferred tax liabilities	209,330	234,360	217,189
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 at October 31, 2015, January 31, 2015 and November 1, 2014	—	—	—
Common stock, \$0.0001 par value: authorized: 500,000,000 shares			

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at October 31, 2015, January 31, 2015 and November 1, 2014;
 Issued: 76,597,066 shares at October 31, 2015, 75,925,507 shares at

January 31, 2015 and 75,241,724 shares at November 1, 2014
 Outstanding: 73,560,207 shares at October 31, 2015, 75,254,682

shares at January 31, 2015 and 74,590,114 shares at November 1, 2014	7	7	7
Additional paid-in-capital	1,391,034	1,370,498	1,361,603
Accumulated deficit	(1,374,745)	(1,426,454)	(1,521,319)
Accumulated other comprehensive loss	(5,844)	(1,744)	(745)
Treasury stock, at cost	(132,389)	(8,258)	(7,411)
Total stockholders' deficit	(121,937)	(65,951)	(167,865)
Total liabilities and stockholders' deficit	\$2,805,317	\$2,624,569	\$2,796,901

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON STORES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(All amounts in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	October	November	October	November
	31,	1,	31,	1,
	2015	2014	2015	2014
REVENUES:				
Net sales	\$1,230,886	\$1,157,292	\$3,558,162	\$3,329,142
Other revenue	7,783	8,816	22,998	23,950
Total revenue	1,238,669	1,166,108	3,581,160	3,353,092
COSTS AND EXPENSES:				
Cost of sales	741,584	698,590	2,150,430	2,042,079
Selling, general and administrative expenses	416,205	396,713	1,175,491	1,093,760
Costs related to debt amendments, secondary offerings and other	—	589	247	1,930
Stock option modification expense	324	628	1,120	2,419
Depreciation and amortization	43,186	42,584	127,087	124,341
Impairment charges-long-lived assets	—	6	1,903	853
Other income—net	(1,680)	(1,705)	(4,142)	(5,569)
Loss on extinguishment of debt	—	70,302	649	73,983
Interest expense (inclusive of gain (loss) on interest rate cap agreements)	14,792	16,624	44,192	68,722
Total cost and expenses	1,214,411	1,224,331	3,496,977	3,402,518
Income (loss) before income tax expense (benefit)	24,258	(58,223)	84,183	(49,426)
Income tax expense (benefit)	9,142	(24,009)	32,474	(20,516)
Net income (loss)	\$15,116	\$(34,214)	\$51,709	\$(28,910)
Net income (loss) per common share				
Common stock - basic	\$0.20	\$(0.46)	\$0.69	\$(0.39)
Common stock - diluted	\$0.20	\$(0.46)	\$0.68	\$(0.39)
Weighted average number of common shares:				
Common stock - basic	74,115	74,218	74,759	73,943
Common stock - diluted	75,394	74,218	76,135	73,943

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON STORES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(All amounts in thousands)

	Three Months		Nine Months Ended	
	Ended October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Net income (loss)	\$15,116	\$(34,214)	\$51,709	\$(28,910)
Other comprehensive (loss) income, net of tax:				
Interest rate cap contracts:				
Unrealized losses, net of related tax benefit of \$2.2 million and				
\$2.8 million for the three and nine months ended October 31,				
2015, respectively, and \$0.5 million for the three and nine				
months ended November 1, 2014, respectively.	(3,358)	(745)	(4,179)	(745)
Amount reclassified into earnings, net of related taxes of less than				
\$0.1 million and \$0.1 million for the three and nine months ended				
October 31, 2015, respectively.	55	—	79	—
Other comprehensive (loss), net of tax:	(3,303)	(745)	(4,100)	(745)
Total comprehensive income (loss)	\$11,813	\$(34,959)	\$47,609	\$(29,655)

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON STORES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(All amounts in thousands)

	Nine Months Ended	
	October 31, 2015	November 1, 2014
OPERATING ACTIVITIES		
Net income (loss)	\$51,709	\$(28,910)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	127,087	124,341
Impairment charges—long-lived assets	1,903	853
Amortization of deferred financing costs	2,156	5,303
Accretion of long-term debt instruments	609	1,358
Deferred income tax (benefit)	(22,001)	(29,764)
Non-cash loss on extinguishment of debt—write-off of deferred financing costs and original issue discount	649	27,687
Non-cash stock compensation expense	8,237	4,616
Non-cash rent expense	(17,354)	(13,819)
Deferred rent incentives	18,481	21,673
Excess tax benefit from stock based compensation	(10,211)	(9,144)
Changes in assets and liabilities:		
Accounts receivable	(7,430)	(19,967)
Merchandise inventories	(145,303)	(179,828)
Prepaid and other current assets	(13,008)	(40,372)
Accounts payable	82,505	223,523
Other current liabilities	21,094	(979)
Other long term assets and long term liabilities	3,251	1,282
Other	1,325	651
Net cash provided by operating activities	103,699	88,504
INVESTING ACTIVITIES		
Cash paid for property and equipment	(153,720)	(164,525)
Proceeds from sale of property and equipment and assets held for sale	4,213	161
Net cash used in investing activities	(149,507)	(164,364)
FINANCING ACTIVITIES		
Proceeds from long term debt—ABL Line of Credit	1,173,200	728,300
Principal payments on long term debt—ABL Line of Credit	(960,300)	(523,100)
Proceeds from long term debt—Term B-3 Loans	—	1,194,000
Principal payments on long term debt—Term B-3 Loans	(50,000)	(3,000)
Principal payments on long term debt—Term B-2 Loans	—	(834,507)
Principal payments on long term debt—Holdco Notes	—	(128,223)
Principal payments on long term debt—Senior Notes	—	(450,000)
Cash payments for interest rate cap contracts	—	(4,478)
Proceeds from sale of interest rate cap contracts	1,169	—
Repayment of capital lease obligations	(779)	(737)

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Purchase of treasury shares	(124,131)	(3,086)
Proceeds from stock option exercises	1,926	1,585
Excess tax benefit from stock based compensation	10,211	9,144
Deferred financing costs	(2,399)	(13,585)
Other	409	—
Net cash provided by (used in) financing activities	49,306	(27,687)
Increase (decrease) in cash and cash equivalents	3,498	(103,547)
Cash and cash equivalents at beginning of period	25,349	132,984
Cash and cash equivalents at end of period	\$28,847	\$29,437
Supplemental disclosure of cash flow information:		
Interest paid	\$43,499	\$83,849
Income tax payments - net	\$54,264	\$72,670
Non-cash investing activities:		
Accrued purchases of property and equipment	\$27,256	\$26,865
Acquisition of capital lease	\$—	\$5,621

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON STORES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2015

(UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Presentation

As of October 31, 2015, Burlington Stores, Inc. and its subsidiaries (the Company), a Delaware Corporation, through its indirect subsidiary Burlington Coat Factory Warehouse Corporation (BCFWC), operated 566 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. It is suggested that these Condensed Consolidated Financial Statements 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 31, 2015 (Fiscal 2014 10-K). The balance sheet at January 31, 2015 presented herein has been derived from the audited Consolidated Financial Statements contained in the Fiscal 2014 10-K. Because the Company's business is seasonal in nature, the operating results for the three and nine month periods ended October 31, 2015 are not necessarily indicative of results for the fiscal year ending January 30, 2016 (Fiscal 2015).

Accounting policies followed by the Company are described in Note 1 to the Fiscal 2014 10-K, "Summary of Significant Accounting Policies."

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers," which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration included in the transaction price and allocating the transaction price to each separate performance obligation. At its July 9, 2015 meeting, the FASB affirmed its proposal to defer the effective date of this ASU for reporting periods beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning on or after December 15, 2016, and interim periods within those annual periods. The effective date of this ASU for the Company is February 4, 2018. The Company is currently in the process of evaluating the impact of adoption of this ASU on its Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability. This ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The Company intends to

adopt this ASU during the fiscal year beginning on January 31, 2016. The Company does not expect this standard to have a significant effect 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 nine month periods ended October 31, 2015, and there were no other new accounting standards or pronouncements that were issued but not yet effective as of October 31, 2015 that the Company expects to have a material impact on its financial position or results of operations upon becoming effective.

Secondary Offering

On April 7, 2015, the Company closed a secondary public offering of 12,490,154 shares of its common stock (the Secondary Offering). All of the shares sold in the Secondary Offering were offered by selling stockholders. The Company did not receive any of the proceeds from the Secondary Offering. The Company incurred \$0.2 million in offering costs related to the Secondary Offering, which are included in the line item "Costs related to debt amendments, secondary offerings and other" on the Company's Condensed Consolidated Statements of Operations.

2. Long Term Debt

Long term debt consists of:

	(in thousands)		
	October 31, 2015	January 31, 2015	November 1, 2014
\$1,200,000 senior secured term loan facility (Term B-3 Loans), LIBOR (with a floor of 1.0%) plus 3.25%, matures on August 13, 2021	\$1,112,376	\$1,161,541	\$1,191,194
\$600,000 ABL senior secured revolving facility, LIBOR plus spread based on average outstanding balance, matures August 13, 2019	276,200	63,300	205,200
Capital lease obligations	25,231	25,602	27,719
Total debt	1,413,807	1,250,443	1,424,113
Less: current maturities	(1,376)	(1,167)	(13,275)
Long term debt, net of current maturities	\$1,412,431	\$1,249,276	\$1,410,838

Term Loan Facility

On August 13, 2014, BCFWC entered into Amendment No. 4 (the Fourth Amendment) to the Term Loan Credit Agreement (as amended by the Fourth Amendment, the Amended Term Loan Credit Agreement) governing its senior secured term loan facility (the Term Loan Facility). The Fourth Amendment, among other things, (i) increased the available incremental amount to \$400.0 million plus unlimited amounts so long as BCFWC's pro forma consolidated secured leverage ratio does not exceed 3.50 to 1.00 and (ii) gave BCFWC and its restricted subsidiaries additional flexibility to make investments, restricted payments (including dividends), incur additional debt, grant liens and otherwise comply with its covenants under the Amended Term Loan Credit Agreement. The interest rate margin applicable under the Amended Term Loan Credit Agreement is 3.25% in the case of loans drawn at LIBOR and 2.25% in the case of loans drawn under the prime rate (as determined by the Term Loan Facility Administrative Agent). The Fourth Amendment removed the variable pricing mechanism that was formerly in place, which was based on BCFWC's pro forma consolidated secured leverage ratio. The Term Loan Facility is collateralized by a first lien on our favorable leases, real estate and property & equipment and a second lien on our inventory and receivables.

The Term B-3 Loans outstanding under the Term Loan Facility mature on August 13, 2021. Mandatory quarterly payments of \$3.0 million were payable as of the last day of each quarter, beginning with the quarter ended July 29, 2017. The Company elected to make a prepayment of \$50.0 million on May 1, 2015, which offset the mandatory quarterly payments through May 1, 2021. In accordance with ASC Topic No. 470-50, "Debt Modifications and Extinguishments" (Topic No. 470), the Company recognized a non-cash loss on the partial extinguishment of debt of \$0.6 million, representing the write-off of \$0.4 million and \$0.2 million in deferred financing costs and unamortized original issue discount, respectively, which was recorded in the line item "Loss on extinguishment of debt" in the Company's Condensed Consolidated Statements of Operations.

Interest rates for the Term Loan Facility are based on: (i) for LIBOR rate loans for any interest period, at a rate per annum equal to the greater of (x) the LIBOR rate, as determined by the Term Loan Facility Administrative Agent, for such interest period multiplied by the Statutory Reserve Rate (as defined in the Term Loan Credit Agreement) and (y) 1.00% (the Term Loan Adjusted LIBOR Rate), plus an applicable margin; and (ii) for prime rate loans, a rate per annum equal to the highest of (a) the variable annual rate of interest then announced by JPMorgan Chase Bank, N.A. at its head office as its "prime rate," (b) the federal funds rate in effect on such date plus 0.50% per annum, and (c) the Term Loan Adjusted LIBOR Rate for the applicable class of term loans for one-month plus 1.00%, plus, in each case,

an applicable margin. At October 31, 2015, the Company's borrowing rate related to the Term Loan Facility was 4.25%.

ABL Line of Credit

On August 13, 2014, BCFWC also entered into Amendment No. 1 (the ABL Amendment) to the Second Amended and Restated Credit Agreement, dated September 2, 2011 (as amended, supplemented and otherwise modified, the Amended ABL Credit Agreement) governing BCFWC's existing senior secured asset-based revolving credit facility (the ABL Line of Credit). The ABL Amendment, among other things, provided BCFWC and certain of its subsidiaries with additional flexibility to make investments, restricted payments (including dividends), incur additional debt, grant liens and otherwise comply with its covenants under the Amended ABL Credit Agreement. The Company believes that the Amended ABL Credit Agreement provides the liquidity and flexibility to meet its operating and capital requirements over the remaining term of the ABL Line of Credit. Further, the calculation of the borrowing base under the amended and restated credit agreement has been amended to allow for increased availability, particularly during the September 1st through December 15th period of each year.

The ABL Line of Credit matures on August 13, 2019. The aggregate amount of commitments under the Amended ABL Credit Agreement is \$600.0 million and, subject to the satisfaction of certain conditions, the Company can increase the aggregate amount of

commitments up to \$900.0 million. Interest rate margin applicable under the Amended ABL Credit Agreement in the case of loans drawn at LIBOR is 1.25% - 1.50% (based on total commitments or borrowing base availability), and the fee on the average daily balance of unused loan commitments is 0.25%. The ABL Line of Credit is collateralized by a first lien on the Company's inventory and receivables and a second lien on the Company's real estate and property and equipment.

At October 31, 2015, the Company had \$278.2 million available under the Amended ABL Line of Credit and \$276.2 million of outstanding borrowings. The maximum borrowings under the facility during the three and nine month periods ended October 31, 2015 amounted to \$330.7 million. Average borrowings during the three and nine month periods ended October 31, 2015 amounted to \$270.2 million and \$199.7 million, respectively, at average interest rates of 1.6%. The Company had outstanding borrowings under the Amended ABL Line of Credit of \$63.3 million as of January 31, 2015.

At November 1, 2014, the Company had \$346.3 million available under the ABL Line of Credit and \$205.2 million of outstanding borrowings. The maximum borrowings under the facility during the three and nine month periods ended November 1, 2014 amounted to \$297.0 million. Average borrowings during the three and nine month periods ended November 1, 2014 amounted to \$226.5 million and \$83.8 million, respectively at average interest rates of 1.7%.

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). Topic No. 815 provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why an entity uses derivative instruments, (ii) how the entity accounts for derivative instruments and related hedged items, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

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. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

The Company uses interest rate cap contracts to manage interest rate risk. The fair value of the Company's interest rate cap contracts is determined using the market standard methodology of discounted future variable cash flows. The variable cash flows are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps in conjunction with the cash payments related to financing the premium of the interest rate caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. 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.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of October 31, 2015, January 31, 2015 and November 1, 2014, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustment is not significant to the overall valuation of its derivative portfolios. As a result, the Company classifies its derivative valuations in Level 2 of the fair value hierarchy.

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash payments principally related to the Company's borrowings.

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 this objective, 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.

On August 19, 2014, the Company entered into four interest rate cap contracts which were designated as cash flow hedges (the Previous Interest Rate Cap Contracts). On April 24, 2015, the Company terminated and sold the Previous Interest Rate Cap Contracts. The Company received \$1.2 million in cash in connection with the termination and sale of the Previous Interest Rate Cap Contracts. As a result of these transactions, the amount of loss previously deferred in accumulated other comprehensive loss related to these caps was \$2.0 million, net of taxes of \$1.3 million. The Company will amortize this loss from accumulated other comprehensive loss into interest expense over the original life of each respective cap through April 2019. Also on April 24, 2015, the Company entered into two new interest rate cap contracts (the New Interest Rate Cap Contracts) which were designated as cash flow hedges. The Company financed the cost of the New Interest Rate Cap Contracts, which will be amortized through the life of the caps. Through the nine month period ended October 31, 2015, the Company paid \$2.2 million related to the financing of the New Interest Rate Cap Contracts, which is included in the line item "Deferred financing costs" in the Company's Condensed Consolidated Statements of Cash Flows.

During the nine month period ended October 31, 2015, such derivatives were used to hedge the variable cash flows associated with existing (or anticipated) variable-rate debt. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in the line item "Accumulated other comprehensive loss" on the Company's Condensed Consolidated Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Amounts reported in accumulated other comprehensive loss related to the New Interest Rate Cap Contracts will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the three and nine month periods ended October 31, 2015, the Company reclassified \$0.1 million out of accumulated other comprehensive loss into interest expense. As of October 31, 2015, the Company estimates that approximately \$1.6 million will be reclassified into interest expense during the next twelve months.

The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The Company did not record any hedge ineffectiveness in its earnings during the three or nine month periods ended October 31, 2015.

As of October 31, 2015, 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	Effective Date	Maturity Date
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			Cap Rate		
Interest rate cap contracts	Two	\$ 800.0 million	1.0%	May 29, 2015	May 31, 2019

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Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements or the Company elected not to designate these derivatives as hedges. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. The Company had two interest rate cap contracts which limited our interest rate exposure to 7.0% on our first \$900.0 million of borrowings under our variable rate debt obligations that expired on May 31, 2015. As of October 31, 2015, the Company no longer has any outstanding derivatives that were not designated as hedges in qualifying hedging relationships.

Tabular Disclosure

The tables below present 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						
Asset Derivatives						
October 31, 2015		January 31, 2015		November 1, 2014		
Balance		Balance		Balance		
Sheet	Fair	Sheet	Fair	Sheet	Fair	
Derivatives Designated as Hedging Instruments	Location	Value	Location	Value	Location	Value
Interest rate cap contracts	N/A	\$—	Other assets	\$1,572	Other assets	\$3,237

(in thousands)						
Fair Values of Derivative Instruments						
Liability Derivatives						
October 31, 2015		January 31, 2015		November 1, 2014		
Balance		Balance		Balance		
Sheet	Fair	Sheet	Fair	Sheet	Fair	
Derivatives Designated as Hedging Instruments	Location	Value	Location	Value	Location	Value
Interest rate cap contracts	Other liabilities	\$4,331	N/A	\$—	N/A	\$—

The tables below present the amounts of losses recognized in other comprehensive loss, net of taxes, and the classification of losses reclassified into earnings related to the Company's derivative instruments designated as cash flow hedging instruments for each of the reporting periods.

(in thousands)	
Amount of Losses Recognized in Other	
Comprehensive	
Loss Related to Derivatives	

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Derivatives Designated as	Three Months Ended		Nine Months Ended	
	October	November	October	November
Hedging Instruments	31, 2015	1, 2014	31, 2015	1, 2014
Interest rate cap contracts	\$ (3,358)	\$ (745)	\$ (4,179)	\$ (745)

(in thousands)

Amount of Loss Reclassified from

Accumulated Other Comprehensive

Loss into Earnings Related to

Derivatives Designated as	Derivatives		Derivatives		Component of
	Three Months Ended		Nine Months Ended		
	October	November	October	November	
Hedging Instruments	31, 2015	1, 2014	31, 2015	1, 2014	Earnings
Interest rate cap contracts	\$ 55	\$ —	\$ 79	\$ —	Interest expense

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The table below presents the classification of losses recognized within our statements of operations for the Company's derivative instruments not designated as hedging instruments for each of the reporting periods.

		(in thousands)			
		Amount of Loss Recognized in			
		Earnings Related to Derivatives			
		Three Months	Nine Months		
		Ended	Ended		
		October	October		
		31,	31,	November	November
		2015	2015	1, 2014	1, 2014
Derivatives Not Designated as Hedging Instruments	Location of Loss Recognized in Earnings Related to Derivatives				
Interest rate cap contracts	Interest expense	\$ —	\$ —	\$ —	\$ 1

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	
		Instrument	Total
Balance at January 31, 2015		\$(1,744)	\$(1,744)
Unrealized losses arising during the period, net of related tax			
benefit of \$2.8 million for the nine months ended October 31, 2015		(4,179)	(4,179)
Amount reclassified into earnings, net of related taxes of			
\$0.1 million for the nine months ended October 31, 2015		79	79
Balance at October 31, 2015		\$(5,844)	\$(5,844)

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.

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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 October 31, 2015, January 31, 2015 and November 1, 2014 are summarized below:

	(in thousands)		
	Fair Value Measurements at		
	October	January	November
	31,	31,	1,
	2015	2015	2014
Assets:			
Level 1			
Cash equivalents (including restricted cash)	\$28,109	\$28,094	\$ 32,349

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 nine month period ended October 31, 2015, the Company recorded impairment charges of \$1.7 million, primarily related to declines in revenues and operating results for two stores, which was recorded in the line item "Impairment charges – long-lived assets" in the Company's Condensed Consolidated Statements of Operations. During the nine month period ended October 31, 2015, the Company also recorded impairment charges for capital expenditures for previously impaired stores of approximately \$0.2 million. One of the stores impaired during the nine month period ended October 31, 2015 was fully impaired and therefore had zero fair value as of October 31, 2015, and would be categorized as Level 3 in the fair value hierarchy described above. The table below sets forth, by level within the fair value hierarchy, the fair value of the remaining, partially-impaired store, subsequent to impairment charges as of October 31, 2015:

	(in thousands)					
	Quoted Prices		Significant		Significant	
	in Active		Un-		Total	
	Other		Markets for		Total	
	Markets for		Observable		Observable	
	Observable		Identical Assets		Impairment	
	Inputs		Inputs		Losses	
	(Level		(Level 3)		Total	
	1)	(Level 2)	(Level 3)	Total	Losses	
Leasehold improvements	\$—	\$—	\$ 388	\$388	\$ 766	
Building/Building Improvements	—	—	—	—	12	
Furniture and fixtures	—	—	341	341	645	
Other assets	—	—	237	237	320	
Other property and equipment	—	—	19	19	160	
Total	\$—	\$—	\$ 985	\$985	\$ 1,903	

Financial Liabilities

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

	(in thousands)					
	October 31, 2015		January 31, 2015		November 1, 2014	
	Carrying		Carrying		Carrying	
	Fair		Fair		Fair	
	Amount	Fair	Amount	Fair	Amount	Fair
	(b)	Value (b)	(b)	Value (b)	(b)	Value (b)
\$1,200,000 senior secured term loan facility	\$1,112,376	\$1,114,210	\$1,161,541	\$1,150,410	\$1,191,194	\$1,185,715
(Term B-3 Loans), LIBOR (with a floor of 1.0%)						

plus 3.25%, matures on August 13,
2021

\$600,000 ABL senior secured
revolving facility,

LIBOR plus spread based on
average outstanding

balance, expires August 13, 2019(a)	276,200	276,200	63,300	63,300	205,200	205,200
Total debt	\$1,388,576	\$1,390,410	\$1,224,841	\$1,213,710	\$1,396,394	\$1,390,915

(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. Although management is not aware of any factors that could significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these Condensed Consolidated Financial Statements since October 31, 2015, and current estimates of fair value may differ from amounts presented herein.

6. Income Taxes

Net deferred taxes are as follows:

	(in thousands)		
	October 31, 2015	January 31, 2015	November 1, 2014
Current deferred tax asset	\$36,934	\$37,229	\$18,216
Non-current deferred tax liability	209,330	234,360	217,189
Net deferred tax liability	\$172,396	\$197,131	\$198,973

Current deferred tax assets consisted primarily of certain operating costs and inventory-related costs not currently deductible for tax purposes. Non-current deferred tax liabilities primarily relate to rent expense, intangible assets, and depreciation expense where the Company has a future obligation for tax purposes.

As of October 31, 2015, January 31, 2015 and November 1, 2014, valuation allowances amounted to \$6.2 million, \$6.1 million and \$5.7 million, respectively, primarily 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 the state tax net operating losses will not be realized. As of October 31, 2015, the Company had \$7.4 million of deferred tax assets recorded for state net operating losses of which \$5.6 million will expire between 2015 and 2025.

In addition, management also determined that a full valuation allowance of \$5.4 million, \$4.5 million and \$3.8 million were required against the tax benefit associated with Puerto Rico deferred tax assets as of October 31, 2015, January 31, 2015 and November 1, 2014, respectively.

7. Capital Stock

Treasury Stock

The Company accounts for treasury stock under the cost method.

During the nine month period ended October 31, 2015, the Company acquired 23,620 shares of common stock from employees for \$1.2 million to satisfy their minimum statutory tax withholdings related to the vesting of restricted stock awards. These shares are considered treasury shares which are available for reissuance under the 2006 Management Incentive Plan.

Share Repurchase Programs

On June 9, 2015, the Company announced that its Board of Directors had authorized the repurchase of up to \$200 million of its common stock. The repurchase program will be funded using the Company's available cash and is authorized to be executed through June 2017.

During the nine month period ended October 31, 2015, the Company repurchased 2,342,414 shares of its common stock for \$123.0 million, inclusive of commissions, under this share repurchase program, which was recorded in the line item "Treasury stock" on the Company's Condensed Consolidated Balance Sheet. As of October 31, 2015, the Company had \$77.0 million available for purchase under this share repurchase program.

On November 24, 2015, the Company announced that its Board of Directors had authorized the repurchase of up to an additional \$200 million of its common stock. This repurchase program will be funded using the Company's available cash and is authorized to be executed through November 2017. Refer to Note 13, "Subsequent Events," for further discussion.

8. Net Income (Loss) Per Share

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

	(in thousands, except per share data)			
	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Basic net income (loss) per share				
Net income (loss)	\$15,116	\$(34,214)	\$51,709	\$(28,910)
Weighted average number of common shares – basic	74,115	74,218	74,759	73,943
Net income (loss) per common share – basic	\$0.20	\$(0.46)	\$0.69	\$(0.39)
Diluted net income (loss) per share				
Net income (loss)	\$15,116	\$(34,214)	\$51,709	\$(28,910)
Shares for basic and diluted net income (loss) per share:				
Weighted average number of common shares – basic	74,115	74,218	74,759	73,943
Assumed exercise of stock options and vesting of restricted stock	1,279	—	1,376	—
Weighted average number of common shares – diluted	75,394	74,218	76,135	73,943
Net income (loss) per common share – diluted	\$0.20	\$(0.46)	\$0.68	\$(0.39)

Approximately 150,000 and less than 100,000 options to purchase shares of common stock and unvested restricted stock awards were excluded from diluted net income (loss) per share for the three and nine month periods ended October 31, 2015, respectively, since their effect was anti-dilutive.

As of November 1, 2014, there were 3,777,194 outstanding options to purchase shares of common stock and 163,278 shares of unvested restricted stock awards that were excluded from diluted earnings per share since their effect was anti-dilutive.

9. Stock Option and Award Plans and Stock-Based Compensation

As of October 31, 2015, there were 10,125,258 shares of common stock authorized for issuance under the 2006 Management Incentive Plan (the 2006 Plan) and 6,000,000 shares of common stock authorized for issuance under the 2013 Omnibus Incentive Plan (the 2013 Plan and, together with the 2006 Plan, the Plans).

Stock Options

The Company accounts for awards issued under the Plans in accordance with ASC Topic No. 718, “Stock Compensation.” Options granted during the nine month period ended October 31, 2015 were all service-based awards

and were granted under the 2006 Plan at exercise prices ranging from \$51.81 to \$55.75 per share. Options granted during the nine month period ended November 1, 2014 were all service-based awards and were granted under the 2006 Plan at exercise prices ranging from \$27.40 to \$38.66 per share. All service-based awards granted during the nine month period ended October 31, 2015 vest 25% on each of the first four anniversaries of the grant date. The final exercise date for any option granted is the tenth anniversary of the grant date.

In order to mitigate the impact of the \$336.0 million dividend paid in connection with the issuance of the

\$350.0 million aggregate principal amount of Senior Notes (Holdco Notes) in February 2013, the Company's Board of Directors in May 2013 approved a modification to all then outstanding options through a combination of exercise price reductions and cash payments to option holders. The modification did not affect the existing vesting schedules. The Company recorded \$0.3 million and \$1.1 million of incremental compensation expense during the three and nine month periods ended October 31, 2015, respectively, of which less than \$0.1 million and \$0.2 million, respectively, will be paid in cash. The Company recorded \$0.6 million and \$2.4 million of incremental compensation expense during the three and nine month periods ended November 1, 2014, respectively, of which \$0.1 million and \$0.5 million, respectively, was paid in cash. These costs were recorded in the line item "Stock option modification expense" in the Company's Condensed Consolidated Statements of Operations. As of October 31, 2015, the Company expects to recognize \$1.0 million of incremental compensation expense to be recorded over the remaining vesting periods through the fiscal year ended February 3, 2018, of which \$0.1 million will be paid in cash.

During the second quarter of Fiscal 2013, the Company made a special one-time grant of options to purchase shares of common stock under the 2006 Plan to certain members of its management team. These one-time grants vest 20% on each of the first five

anniversaries of the Trigger Date. The Trigger Date is defined as the date after the vesting of all other options held by the grantee which were granted to the grantee prior to May 2013 and remain outstanding and unvested as of the date of the one-time grant.

With the exception of the special one-time grants made during Fiscal 2013, all options awarded pursuant to the 2006 Plan become exercisable upon a change of control. The vesting of special one-time grants will not be accelerated in the event of a change of control, provided, however, that in the event that within two years after a change of control, the grantee's employment is terminated without cause or the grantee resigns with good reason, then an incremental 20% of the special one-time grants shall be deemed vested as of the date of termination of grantee's employment, but in no event more than the total number of special one-time grants granted to such grantee. Unless determined otherwise by the plan administrator, upon cessation of employment, the majority of options that have not vested will terminate immediately (subject to the potential acceleration of special one-time grants in the event of a change of control, as described above) and unexercised vested options will be exercisable for a period of 60 days. The final exercise date for any option granted is the tenth anniversary of the grant date.

Non-cash stock compensation expense is as follows:

Type of Non-Cash Stock Compensation	(in thousands)			
	Three Months		Nine Months	
	Ended		Ended	
	October	November	October	November
	31,	1,	31,	1,
	2015	2014	2015	2014
Restricted stock grants (a)	\$1,623	\$ 247	\$4,574	\$ 528
Stock option grants (a)	1,099	730	2,764	2,201
Stock option modification (b)	257	487	899	1,887
Total (c)	\$2,979	\$ 1,464	\$8,237	\$ 4,616

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

(b) Represents non-cash compensation related to the May 2013 stock option modification as discussed above. Amounts are included in the line item "Stock option modification expense" in the Company's Condensed Consolidated Statements of Operations.

(c) The amounts presented in the table above exclude taxes. For the three and nine month periods ended October 31, 2015, the tax benefit related to the Company's non-cash stock compensation was approximately \$1.1 million and \$3.2 million, respectively. For the three and nine month periods ended November 1, 2014, the tax benefit related to the Company's non-cash stock compensation was approximately \$0.6 million and \$1.9 million, respectively.

As of October 31, 2015, the Company had 2,829,551 options outstanding to purchase shares of common stock, all of which are service-based awards issued under the 2006 Plan. As of October 31, 2015, no options were outstanding under the 2013 Plan.

Stock option transactions during the nine month period ended October 31, 2015 are summarized as follows:

Number of	Weighted
Shares	Average
	Exercise

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		Price Per
		Share
Options outstanding, January 31, 2015	3,218,845	\$ 4.93
Options granted	411,060	52.31
Options exercised (a)	(538,043)	3.58
Options forfeited	(262,311)	4.30
Options outstanding, October 31, 2015	2,829,551	\$ 12.12

(a) Options exercised during the nine month period ended October 31, 2015 had a total intrinsic value of \$28.2 million. The following table summarizes information about the stock options vested and expected to vest during the contractual term as of October 31, 2015:

	Options	Weighted		
		Average	Weighted	
		Remaining	Average	
		Contractual	Exercise	Aggregate Intrinsic
		Life	Price	Value
		(Years)		
Vested and expected to vest	2,475,965	7.43	\$ 11.87	\$ 91.1 million

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The fair value of each stock option granted during the nine month period ended October 31, 2015 was estimated using the Black Scholes option pricing model using the following assumptions:

	Nine Months Ended October 31, 2015
Risk-free interest rate	1.81%
Expected volatility	36.0%
Expected life (years)	6.25
Contractual life (years)	10.0
Expected dividend yield	0.0%
Weighted average grant date fair value of options issued	\$ 19.99

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 nine month period ended October 31, 2015 and November 1, 2014, 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 our common stock has been publicly traded.

Restricted Stock Awards

Under the 2006 Plan, the Company also has the ability to grant shares of restricted stock. All shares of restricted stock granted to date under the 2006 Plan are service-based awards that cliff vest at the end of the requisite service period that typically ranges from three to four years. Following a change of control, all unvested shares of restricted stock shall remain unvested, provided, however, that 100% of such shares shall vest if, following such change of control, the employment of the recipient is terminated without cause or the recipient resigns with good reason.

Restricted stock transactions during the nine month period ended October 31, 2015 are summarized as follows:

	Weighted Average Grant Date Fair Value Per
	Number of Shares
Non-vested awards outstanding, January 31, 2015	392,178 \$ 38.56

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Awards granted	172,276	52.07
Awards vested	(62,683)	40.76
Awards forfeited	(38,760)	13.81
Non-vested awards outstanding, October 31, 2015	463,011	\$ 45.36

The fair value of each share of restricted stock granted during the nine month period ended October 31, 2015 was based upon the closing price of the Company's common stock on the date of grant.

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 Topic No. 740.

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 Operations. At October 31, 2015, January 31, 2015 and November 1, 2014, deferred lease incentives were \$165.7 million, \$176.3 million and \$158.8 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. Our 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. The ultimate outcome of these cases could have a material adverse effect on the Company's results of operations.

In the matter of Burlington Coat Factory Song Beverly Cases which is currently pending in the Superior Court of the State of California, Complex Division, County of Orange (Case No. JCCP No. 4681), plaintiff, on behalf of herself and others similarly situated, alleges that the Company is in violation of the Song Beverly Credit Card Act of 1971, California Civil Code section 1747.08 for collecting personal information from customers in connection with the use of credit cards by such customers to pay for merchandise at the Company's stores. At trial held in January 2015, the Superior Court held that the Company was in violation of California law.

In October 2015, the Company entered into a settlement agreement providing for a maximum settlement payment of \$29.4 million (including attorneys' fees and claims administration fees). On November 6, 2015, the court granted preliminary approval for the settlement and authorized the parties to provide a notice to class members about the settlement. The notice period is currently under way. Because of the claims-made aspect of the settlement, it is likely that a significant portion of the total settlement amount will go unclaimed and remain the property of the Company, thereby causing it to pay less than \$29.4 million under the settlement. There have been no changes to the Company's accrual related to this matter during the quarter ended October 31, 2015.

This settlement, if it is approved by the Court, will result in the dismissal of all Song-Beverly claims that arose through January 28, 2015 (except for those class members who opt out of the settlement). If this settlement is rejected by the Court, the parties will likely return to the litigation of both lawsuits, and, in such event, the Company cannot predict the outcome of these matters, and cannot predict whether or not the outcome will have a material adverse effect on the Company's financial condition or results of operations.

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 \$73.7 million for the remainder of Fiscal 2015 and \$305.0 million, \$298.2 million, \$273.9 million, \$229.0 million and \$1,072.2 million for the fiscal years ended January 28, 2017, February 3, 2018, February 2, 2019, February 1, 2020 and all subsequent years thereafter, respectively. Total future minimum lease payments include \$105.3 million related to options to extend lease terms that are reasonably assured of being exercised and also includes \$236.8 million of minimum lease payments for 16 stores that the Company has committed to open or relocate.

Letters of Credit

The Company had letters of credit arrangements with various banks in the aggregate amount of \$45.6 million, \$48.1 million and \$48.5 million as of October 31, 2015, January 31, 2015 and November 1, 2014, respectively. Among these arrangements as of October 31, 2015, January 31, 2015 and November 1, 2014, the Company had letters of credit in the amount of \$35.3 million, \$33.4 million and \$34.4 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 \$10.3 million, \$14.7 million and \$14.1 million at October 31, 2015, January 31, 2015 and November 1, 2014, respectively, related to certain merchandising agreements. Based on the terms of the credit agreement related to the ABL Line of Credit, the Company had the ability to enter into letters of credit up to \$278.2 million, \$386.9 million and \$346.3 million as of October 31, 2015, January 31, 2015 and November 1, 2014, respectively.

Purchase Commitments

The Company had \$643.8 million of purchase commitments related to goods that were not received as of October 31, 2015.

Death Benefits

In November of 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.

13. Subsequent Events

On November 24, 2015, the Company announced that its Board of Directors had approved the repurchase of up to an additional \$200 million of the Company's common stock. This repurchase program, which is in addition to the share repurchase program announced by the Company in June 2015, will be funded using the Company's available cash and is authorized to be executed through November 2017. 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.

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 31, 2015.

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 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 566 stores, 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 October 31, 2015 compared with the three month period ended November 1, 2014 include the following:

- We generated total revenues of \$1,238.7 million compared with \$1,166.1 million.
- Net sales improved \$73.6 million to \$1,230.9 million (inclusive of a 2.8% comparable store sales increase).
- Gross margin as a percentage of net sales improved to 39.8% compared with 39.6%.
- Selling, general and administrative expenses as a percentage of net sales improved to 33.8% compared with 34.3%.
- We earned net income of \$15.1 million compared with a net loss of \$34.2 million.
 - Adjusted Net Income (as subsequently defined in this Form 10-Q) improved \$7.1 million to \$19.0 million.
- Adjusted EBITDA (as subsequently defined in this Form 10-Q) improved \$10.0 million to \$82.5 million.

Highlights from the nine month period ended October 31, 2015 compared with the nine month period ended November 1, 2014 include the following:

- We generated total revenues of \$3,581.2 million compared with \$3,353.1 million.
- Net sales improved \$229.0 million to \$3,558.2 million (inclusive of a 3.0% comparable store sales increase).
- Gross margin as a percentage of net sales improved to 39.6% compared with 38.7%, which was partially offset by an approximate 40 basis point increase in product sourcing costs which are included in selling, general and administrative expenses.
- Selling, general and administrative expenses as a percentage of net sales increased to 33.0% compared with 32.9%, inclusive of the 40 basis point increase in product sourcing costs noted above.
- We earned net income of \$51.7 million compared with a net loss of \$28.9 million.
 - Adjusted Net Income (as subsequently defined in this Form 10-Q) improved \$35.6 million to \$65.3 million.

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• Adjusted EBITDA (as subsequently defined in this Form 10-Q) improved \$36.4 million to \$259.4 million.
Fiscal Year

Fiscal 2015 is defined as the 52 week year ending January 30, 2016. We define the 2014 fiscal year (Fiscal 2014) as the 52 week year ending January 31, 2015.

Store Openings, Closings, and Relocations

During the nine month period ended October 31, 2015, we opened 27 new stores under the name “Burlington Stores” and closed two Burlington Stores and one MJM Store. We continue to pursue our growth plans and invest in capital projects that meet our financial requirements. We expect to open one net new store during the fourth quarter of Fiscal 2015 to bring our total to 25 net new stores during Fiscal 2015.

Hedging Transactions

On August 19, 2014, we entered into four interest rate cap contracts which were designated as cash flow hedges (the Previous Interest Rate Cap Contracts). On April 24, 2015 we received \$1.2 million in cash in connection with the termination and sale of the Previous Interest Rate Cap Contracts. As a result of these transactions, the amount of loss deferred in accumulated other comprehensive loss related to these caps was \$2.0 million, net of taxes. As the hedged transactions associated with the Previous Interest Rate Cap Contracts are still probable of occurring, we will amortize this loss from accumulated other comprehensive loss into interest expense over the original life of each respective cap through April 2019. Also on April 24, 2015, we entered into two new interest rate cap contracts (the New Interest Rate Cap Contracts) which were designated as cash flow hedges. Refer to Note 3 to our Condensed Consolidated Financial Statements, “Derivative Instruments and Hedging Activities,” for further details.

Secondary Offerings

On April 7, 2015, we closed a secondary public offering of 12,490,154 shares of our common stock (the Secondary Offering). All of the shares sold in the Secondary Offering were offered by selling stockholders. We did not receive any of the proceeds from the Secondary Offering. We incurred \$0.2 million in offering costs related to the Secondary Offering, which are included in the line item “Costs related to debt amendments, secondary offerings and other” on our Condensed Consolidated Statements of Operations.

Share Repurchase Programs

On June 9, 2015, we announced that our Board of Directors had authorized the repurchase of up to \$200 million of our common stock. The repurchase program will be funded using our available cash and is authorized to be executed through June 2017. During the nine month period ended October 31, 2015, we repurchased 2,342,414 shares of common stock for \$123.0 million under this share repurchase program. As of October 31, 2015, we had \$77.0 million available for purchase under this share repurchase program.

On November 24, 2015, we announced that our Board of Directors had authorized the repurchase of up to an additional \$200 million of our common stock. This repurchase program will be funded using the Company’s available cash and is authorized to be executed through November 2017. Refer to note 13 to our Condensed Consolidated Financial Statements, “Subsequent Events,” for further discussion.

We are authorized to repurchase shares of our outstanding common stock from time to time on the open market or in privately negotiated transactions under our 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. Our share repurchase programs may be suspended, modified or discontinued at any time and we have no obligation to repurchase any amount of our common stock under the programs.

Ongoing Initiatives for Fiscal 2015

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. We have also implemented operational audits to measure performance against clearly articulated operational standards. To date, stores that have achieved superior audit scores have generated materially higher comparable store sales.

Increasing Our e-Commerce Sales. We have been selling to our customers online for more than a decade. We plan to leverage this heritage, along with our renewed focus on e-commerce, to expand our online assortment and utilize e-commerce strategies to drive incremental traffic to our stores.

Enhancing Existing Categories and Introducing New Categories. We have opportunities to expand the depth and breadth of certain existing categories such as ladies' apparel, children's products and housewares and décor for the home, while continuing to remain the destination for coats, and maintaining the flexibility to introduce new categories such as bath and cosmetic merchandise.

Expanding and Enhancing Our Retail Store Base.

We intend to expand and enhance our retail store base through the following initiatives:

Adhering to a Market Focused and Financially Disciplined Real Estate Strategy. We have grown our store base consistently since our founding in 1972, developing more than 99% of our stores organically rather than through acquisition. We believe there is significant opportunity to expand our retail store base in the United States. In line with recent growth, our goal is to open approximately 25 net new stores annually and continue to do so for the foreseeable future.

Maintaining Focus on Unit Economics and Returns. We have adopted a market focused approach to new store openings with a specific focus on maximizing sales while achieving attractive unit economics and returns. This focus is demonstrated by the fact that the vast majority of our existing stores had positive Adjusted EBITDA for Fiscal 2014. By focusing on opening stores with attractive unit economics we are able to achieve attractive returns on capital and continue to grow our margins. We continue to explore the potential for modified store formats to provide incremental growth.

Enhancing the Store Experience Through Store Refreshes and Remodels. Since 2006, the majority of our stores are either new, refreshed, remodeled or relocated. In our refreshed and remodeled stores, we have incorporated new flooring, painting, lighting and graphics, relocated our fitting rooms to maximize productive selling space and made various other improvements as appropriate by location. We continue to invest in store refreshes and remodels on a store-by-store basis where appropriate, taking into consideration the age, sales and profitability of a store, as well as the potential impact to the customer shopping experience.

Enhancing Operating Margins.

We intend to increase our operating margins through the following initiatives:

Optimize Markdowns. We believe that our markdown system allows us to maximize sales and gross margin dollars based on forward-looking sales forecasts, sell-through targets, and exit dates. This allows us to optimize markdowns

at the style and color level by store cluster.

◆ **Enhance Purchasing Power.** We believe that our growth and West Coast buying office provide us with the opportunity to capture incremental buying opportunities and realize economies of scale in our merchandising and non-merchandising purchasing activities.

◆ **Drive Operating Leverage.** We believe that we will be able to leverage our growing sales over the fixed costs of our business. In addition, we are focused on continuing to improve the efficiency of our corporate and in-store operations.

Uncertainties and Challenges

As management strives to increase profitability through achieving positive comparable store sales and leveraging productivity initiatives focused on improving the in-store experience, more efficient movement of products from the vendors to the selling floors, and modifying our marketing plans to increase our core customer base and increase our share of our current customers' spending, there are uncertainties and challenges that we face as an off-price retailer of apparel and accessories for men, women and children and home furnishings that could have a material impact on our revenues or income.

Seasonality of Sales and Weather Conditions. Our sales, like most other retailers, are subject to seasonal influences, with the majority of our sales and net income derived during the months of September through January, which includes the back-to-school and holiday seasons.

Weather continues to be a contributing factor to the sale of our clothing. Generally, our sales are higher if the weather is cold during the Fall and warm during the early Spring. Sales of cold weather clothing are increased by early cold weather during the Fall, while sales of warm weather clothing are improved by early warm weather conditions in the Spring. Although we have diversified our product offerings, we believe traffic to our stores is still driven, in part, by weather patterns.

General Economic Conditions. Consumer spending habits, including spending for the merchandise that we sell, are affected by, among other things, prevailing global economic conditions, inflation, levels of employment, salaries and wage rates, prevailing interest rates, housing costs, energy costs, commodities pricing, income tax rates and policies, consumer confidence and consumer perception of economic conditions. In addition, consumer purchasing patterns may be influenced by consumers' disposable income, credit availability and debt levels.

An incremental slowdown in the U.S. economy, an uncertain global economic outlook or an expanded credit crisis could adversely affect consumer spending habits resulting in lower net sales and profits than expected on a quarterly or annual basis. Consumer confidence is also affected by the domestic and international political situation. Our financial condition and operations could be impacted by changes in government regulations in areas including, but not limited to, taxes and healthcare. The outbreak or escalation of war, or the occurrence of terrorist acts or other hostilities in or affecting the U.S., could lead to a decrease in spending by consumers. In addition, natural disasters, industrial accidents and acts of war in various parts of the world could have the effect of disrupting supplies and raising prices globally which, in turn, may have adverse effects on the world and U.S. economies and lead to a downturn in consumer confidence and spending.

We closely monitor our net sales, gross margin, expenses and working capital. We have performed scenario planning such that if our net sales decline, we have identified variable costs that could be reduced to partially mitigate the impact of these declines. If we were to experience adverse economic trends and/or if our efforts to counteract the impacts of these trends are not sufficiently effective, there could be a negative impact on our financial performance and position in future fiscal periods.

Competition and Margin Pressure. We believe that in order to remain competitive with off-price retailers and discount stores, we must continue to offer brand-name merchandise at a discount from traditional department stores as well as an assortment of merchandise that is appealing to our customers.

The U.S. retail apparel and home furnishings markets are highly fragmented and competitive. We compete for business with department stores, off-price retailers, specialty stores, discount stores, wholesale clubs, and outlet stores. At various times throughout the year, traditional full-price department store chains and specialty shops offer brand-name merchandise at substantial markdowns, which can result in prices approximating those offered by us at our Burlington Stores. We anticipate that competition will increase in the future. Therefore, we will continue to look for ways to differentiate our stores from those of our competitors.

The U.S. retail industry continues to face increased pressure on margins as overall challenging retail conditions have led consumers to be more value conscious. Our “open to buy” paradigm, in which we purchase both pre-season and in-season merchandise, allows us the flexibility to purchase less pre-season with the balance purchased in-season and opportunistically. It also provides us with the flexibility to shift purchases between suppliers and categories. This enables us to obtain better terms with our suppliers, which we expect to help offset any rising costs of goods.

Changes to import and export laws could have a direct impact on our operating expenses and an indirect impact on consumer prices and we cannot predict any future changes in such laws.

Key Performance Measures

We consider numerous factors in assessing our performance. Key performance measures used by management include Adjusted Net Income, Adjusted EBITDA, comparable store sales, gross margin, inventory, store payroll as a percentage of net sales and liquidity.

Adjusted Net Income and Adjusted EBITDA: Adjusted Net Income and Adjusted EBITDA are non-GAAP financial measures of our performance.

We present Adjusted Net Income and Adjusted EBITDA because we believe they are useful supplemental measures in evaluating the performance of our business and provide greater transparency into our results of operations. In particular, we believe that excluding certain items that may vary substantially in frequency and magnitude from operating income are useful supplemental measures that assist in evaluating our ability to generate earnings and leverage sales and to more readily compare these metrics between past and future periods.

Adjusted Net Income has limitations as an analytical tool, and should not be considered either in isolation or as a substitute for net income (loss) or other data prepared in accordance with GAAP. Some of these limitations include:

- Adjusted Net Income does not reflect the amortization of net favorable leases which are amortized over the life of the lease;
- Adjusted Net Income does not reflect costs related to debt amendments or secondary offerings that were expensed during the fiscal periods;
- Adjusted Net Income does not reflect expenses related to our May 2013 stock option modification;
- Adjusted Net Income does not reflect losses on the extinguishment of debt;
- Adjusted Net Income does not reflect impairment charges on long-lived assets;
- Adjusted Net Income does not reflect other unusual, non-recurring or extraordinary expenses, losses or charges; and
- Adjusted Net Income does not reflect the annual advisory fees paid to Bain Capital pursuant to the Advisory Agreement that were expensed during the fiscal periods.

During the three and nine months ended October 31, 2015, Adjusted Net Income improved \$7.1 million and \$35.6 million, respectively, to \$19.0 million and \$65.3 million, respectively. These improvements in Adjusted Net Income were driven by our improved gross margin and a reduction in our interest expense, partially offset by increased costs, primarily selling, general and administrative expenses and income tax expense, net of the tax effect of the adjustments cited above. Refer to the section below entitled “Results of Operations” for further explanation.

The following table shows our reconciliation of net income (loss) to Adjusted Net Income for the three and nine months ended October 31, 2015 compared with the three and nine months ended November 1, 2014:

	Three Months		Nine Months Ended	
	Ended October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
	(in thousands)			
Reconciliation of net income (loss) to Adjusted Net Income:				
Net income (loss)	\$15,116	\$(34,214)	\$51,709	\$(28,910)
Net favorable lease amortization (a)	5,992	6,493	18,040	19,599
Costs related to debt amendments, secondary offerings				
and other (b)	—	589	247	1,930
Stock option modification expense (c)	324	628	1,120	2,419
Loss on extinguishment of debt (d)	—	70,302	649	73,983

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Impairment charges (e)	—	6	1,903	853
Advisory fees (f)	16	28	88	154
Tax effect (g)	(2,400)	(31,921)	(8,466)	(40,382)
Adjusted Net Income	\$19,048	\$11,911	\$65,290	\$29,646

(a) Net favorable lease amortization represents the non-cash amortization expense associated with favorable and unfavorable leases that were recorded as a result of purchase accounting related to the acquisition of our indirect subsidiary Burlington Coat Factory Warehouse Corporation (BCFWC) on April 13, 2006 by affiliates of Bain Capital Partners, LLC (along with its associated

investment funds, or any successor to its investment management business, Bain Capital) in a take private transaction, and are recorded in the line item "Depreciation and amortization" in our Condensed Consolidated Statements of Operations.

(b) Costs are primarily related to our secondary offerings.

(c) Represents expenses incurred as a result of our May 2013 stock option modification.

(d) For Fiscal 2015, amounts relate to the May 2015 prepayment on our Term Loan Facility. For Fiscal 2014, amounts relate to our August 2014 debt refinancing, our April 2014 partial redemption of our \$350.0 million aggregate principal amount of Senior Notes (Holdco Notes) and excess cash flow payment of our Term Loan Facility.

(e) Represents impairment charges on long-lived assets.

(f) Amounts represent reimbursement for out-of-pocket expenses that were paid to Bain Capital. Amounts are recorded in the line item "Selling, general and administrative expenses" in our Condensed Consolidated Statements of Operations.

(g) Tax effect is calculated based on the effective tax rates (before discrete items) for the respective periods, adjusted for the tax effect for the impact of items (a) through (f).

Adjusted EBITDA has limitations as an analytical tool, and should not be considered either in isolation or as a substitute for net income (loss) or other data prepared in accordance with GAAP. Some of these limitations include:

- Adjusted EBITDA does not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- Adjusted EBITDA does not reflect losses on the extinguishment of debt;
- Adjusted EBITDA does not reflect costs related to debt amendments or secondary offerings that were expensed during the fiscal periods;
- Adjusted EBITDA does not reflect expenses related to our May 2013 stock option modification;
- Adjusted EBITDA does not reflect the annual advisory fees paid to Bain Capital pursuant to the Advisory Agreement that were expensed during the fiscal periods;
- Adjusted EBITDA does not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will likely have to be replaced in the future, and Adjusted EBITDA measures do not reflect any cash requirements for such replacements;
- Adjusted EBITDA does not reflect impairment charges on long-lived assets;
- Adjusted EBITDA does not reflect other unusual, non-recurring or extraordinary expenses, losses or charges; and
- Adjusted EBITDA does not reflect our income tax expense or the cash requirements to pay our taxes.

During the three and nine months ended October 31, 2015, Adjusted EBITDA improved \$10.0 million and \$36.4 million, respectively, to \$82.5 million and \$259.4 million, respectively. These improvements were the result of our improved gross margin, partially offset by increased selling, general and administrative expenses (refer to the section below entitled "Results of Operations" for further explanation).

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The following table shows our reconciliation of net income (loss) to Adjusted EBITDA for the three and nine months ended October 31, 2015 compared with the three and nine months ended November 1, 2014:

	Three Months		Nine Months Ended	
	Ended October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
	(in thousands)			
Reconciliation of net income (loss) to Adjusted EBITDA:				
Net income (loss)	\$15,116	\$(34,214)	\$51,709	\$(28,910)
Interest expense	14,792	16,624	44,192	68,722
Interest income	(31)	(8)	(92)	(31)
Loss on extinguishment of debt (a)	—	70,302	649	73,983
Costs related to debt amendments, secondary offerings and other (b)	—	589	247	1,930
Stock option modification expense (c)	324	628	1,120	2,419
Advisory fees (d)	16	28	88	154
Depreciation and amortization	43,186	42,584	127,087	124,341
Impairment charges (e)	—	6	1,903	853
Tax expense (benefit)	9,142	(24,009)	32,474	(20,516)
Adjusted EBITDA	\$82,545	\$72,530	\$259,377	\$222,945

(a) For Fiscal 2015, amounts relate to the May 2015 prepayment on our Term Loan Facility. For Fiscal 2014, amounts relate to our August 2014 debt refinancing, our April 2014 partial redemption of our Holdco Notes and excess cash flow payment of our Term Loan Facility.

(b) Costs are primarily related to our secondary offerings.

(c) Represents expenses incurred as a result of our May 2013 stock option modification.

(d) Amounts represent reimbursement for out-of-pocket expenses that were paid to Bain Capital. Amounts are recorded in the line item "Selling, general and administrative expenses" in our Condensed Consolidated Statements of Operations.

(e) Represents impairment charges on long-lived assets.

Comparable Store Sales. Comparable store sales measure performance of a store during the current reporting period against the performance of the same store in the corresponding period of the previous year. The method of calculating comparable store sales varies across the retail industry. As a result, our definition of comparable store sales may differ from other retailers.

We define comparable store sales as sales of those stores, including online sales, commencing on the first day of the fiscal month one year after the end of their grand opening activities, which normally conclude within the first two months of operations. For the three and nine months ended October 31, 2015, we experienced an increase in comparable store sales of 2.8% and 3.0%, respectively.

Various factors affect comparable store sales, including, but not limited to, weather conditions, current economic conditions, the timing of our releases of new merchandise and promotional events, the general retail sales environment, consumer preferences and buying trends, changes in sales mix among distribution channels, competition, and the success of marketing programs.

Gross Margin. Gross margin is the difference between net sales and the cost of sales. Our cost of sales and gross margin may not be comparable to those of other entities, since some entities include all of the costs related to their buying and distribution functions, and other costs, in cost of sales. We include certain of these costs in the line items "Selling, general and administrative expenses" and "Depreciation and amortization" in our Condensed Consolidated

Statements of Operations. We include in our “Cost of sales” line item all costs of merchandise (net of purchase discounts and certain vendor allowances), inbound freight, distribution center outbound freight and certain merchandise acquisition costs, primarily commissions and import fees. Gross margin as a percentage of net sales expanded approximately 10 basis points to 39.8% during the three month period ended October 31, 2015. Product sourcing costs, which are included in the line item “Selling, general and administrative expenses” in our Condensed Consolidated Statements of Operations, remained consistent at 4.9% of net sales. Gross margin as a percentage of net sales expanded approximately 90 basis points to 39.6% during the nine month period ended October 31, 2015, driven by a reduction in markdown rate. The improvement in gross margin for the nine month period ended October 31, 2015 more than offset the approximate 40 basis point increase in product sourcing costs.

Inventory. Inventory at October 31, 2015 increased to \$934.0 million compared with \$899.9 million at November 1, 2014. This was primarily driven by our 27 net new stores opened since November 1, 2014 and an increase in our pack-and-hold inventory of approximately \$11 million. This increase was partially offset by a decrease in our comparable store inventory of approximately 7% as a result of our ongoing initiative to reduce inventory levels and increase inventory turnover.

Inventory at January 31, 2015 was \$788.7 million. The increase in inventory from January 31, 2015 was primarily driven by the seasonality of our business and our 24 net new stores opened since January 31, 2015.

In order to better serve our customers and maximize sales, we continue to refine our merchandising mix and inventory levels within our stores. By appropriately managing our inventories, we believe we will be better able to deliver a continual flow of fresh merchandise to our customers. We continue to move toward more productive inventories by increasing the amount of current inventory as a percent of total inventory.

Comparable store inventory turnover is a measure that indicates how efficiently inventory is bought and sold. It measures the length of time that we own our inventory. This is significant because usually the longer the inventory is owned, the more likely markdowns may be required to sell the inventory. Comparable store inventory turnover is calculated by dividing comparable store sales by the average comparable store retail value of inventory for the period being measured. Our comparable store inventory turnover improved by approximately 10% for the third quarter of Fiscal 2015 compared with the third quarter of Fiscal 2014.

Store Payroll as a Percentage of Net Sales. Store payroll as a percentage of net sales measures our ability to manage our payroll in accordance with increases or decreases in net sales. The method of calculating store payroll varies across the retail industry. As a result, our store payroll as a percentage of net sales may differ from other retailers. We define store payroll as regular and overtime payroll for all store personnel as well as regional and territory personnel, exclusive of payroll charges related to corporate and warehouse employees. Store payroll as a percentage of net sales was 9.3% and 9.1% for the three and nine months ended October 31, 2015, respectively, compared with 9.4% and 9.2% for the three and nine months ended November 1, 2014, respectively. The improvement in store payroll as a percentage of net sales was primarily driven by the benefit from efficiencies realized in our stores as we continue to simplify operating procedures and improve the execution within store operations.

Liquidity. Liquidity measures our ability to generate cash. Management measures liquidity through cash flow and working capital position. Cash flow is the measure of cash generated from or used in operating, financing, and investing activities. Cash and cash equivalents increased \$3.5 million during the nine months ended October 31, 2015 resulting in a cash and cash equivalent balance of \$28.8 million compared with a decrease in cash and cash equivalents of \$103.5 million during the nine months ended November 1, 2014. The improvement in our cash flows was driven by the net change in our debt obligations resulting from our August 2014 debt refinancing, our May term loan repayment and our improved operating results. In addition, there was a reduction in our capital expenditures related to our new corporate headquarters, partially offset by store expenditures (new stores, store refreshes and remodels and other store expenditures). These increases were partially offset by changes in our accounts payable resulting from the timing of our inventory purchases and repurchases of our common stock. Refer to the section below entitled "Liquidity and Capital Resources" for further explanation.

Changes in working capital also impact our cash flows. Working capital equals current assets (exclusive of restricted cash) minus current liabilities. Working capital at October 31, 2015 was \$84.8 million compared with \$45.5 million at November 1, 2014. The improvement in our working capital from November 1, 2014 was primarily attributable to fluctuations in our accounts payable resulting from the timing of our inventory purchases, partially offset by changes in our prepaid income taxes and income taxes payable as well as an increase in our legal accrual. Refer to Note 11 to our Condensed Consolidated Financial Statements, "Commitments and Contingencies," for discussion on our legal accrual.

Results of Operations

The following table sets forth certain items in the Condensed Consolidated Statements of Operations as a percentage of net sales for the three and nine months ended October 31, 2015 and the three and nine months ended November 1, 2014.

	Percentage of Net Sales					
	Three Months Ended		Nine Months Ended			
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014		
Net sales	100.0%	100.0	%	100.0%	100.0	%
Other revenue	0.6	0.8		0.6	0.7	
Total revenue	100.6	100.8		100.6	100.7	
Cost of sales	60.2	60.4		60.4	61.3	
Selling, general and administrative expenses	33.8	34.3		33.0	32.9	
Costs related to debt amendments, secondary offerings and other	—	0.1		—	0.1	
Stock option modification expense	—	0.1		0.1	0.1	
Depreciation and amortization	3.5	3.6		3.6	3.7	
Impairment charges – long-lived assets	—	—		0.1	—	
Other (income) expense, net	(0.1)	(0.2)		(0.1)	(0.2)	
Loss on extinguishment of debt	—	6.1		—	2.2	
Interest expense	1.2	1.4		1.2	2.1	
Total expense	98.6	105.8		98.3	102.2	
Income (loss) before income tax expense (benefit)	2.0	(5.0)		2.3	(1.5)	
Income tax expense (benefit)	0.7	(2.1)		0.9	(0.6)	
Net income (loss)	1.3 %	(2.9)%		1.4 %	(0.9)%	

Three Month Period Ended October 31, 2015 Compared With the Three Month Period Ended November 1, 2014

Net sales

Net sales improved approximately \$73.6 million, or 6.4%, to \$1,230.9 million during the third quarter of Fiscal 2015, driven primarily by the following:

- an increase in net sales of \$44.3 million from new stores opened during Fiscal 2015 and stores previously opened that were not included in our comparable store sales; and
- an increase in comparable store sales of \$32.1 million, or 2.8%, to \$1,163.5 million; partially offset by
- a \$2.8 million decrease related to the net impact of closed stores and other sales adjustments.

We believe that the comparable store sales increase was primarily due to our improved execution of our off-price model.

Cost of sales

Cost of sales as a percentage of net sales expanded approximately 10 basis points to 60.2% during the third quarter of Fiscal 2015. Product sourcing costs, which are included in the line item “Selling, general and administrative expenses” in our Condensed Consolidated Statements of Operations, remained consistent at 4.9% of net sales.

On a dollar basis, cost of sales increased \$43.0 million, or 6.2%, for the third quarter of Fiscal 2015, primarily driven by our overall increase in sales.

Selling, general and administrative expenses

Selling, general and administrative expenses as a percentage of net sales improved approximately 50 basis points for the third quarter of Fiscal 2015 as referenced to the table below:

	(in millions)							
	Three Months Ended							
	Percentage		Percentage					
October		November						
31,	of	1,	of			\$	%	
2015	Net Sales	2014	Net Sales	Variance	Change			
Store related costs	274.3	22.3 %	\$ 259.0	22.4 %	\$ 15.3	5.9 %		
Product sourcing costs	60.3	4.9 %	56.9	4.9 %	3.4	6.0 %		
Corporate costs	37.3	3.0 %	37.6	3.2 %	(0.3)	(0.8)		
Marketing and strategy costs	28.6	2.3 %	28.2	2.4 %	0.4	1.4 %		
Other selling, general and administrative expenses	15.7	1.3 %	15.0	1.4 %	0.7	4.7 %		
Selling, general and administrative expenses	\$416.2	33.8 %	\$ 396.7	34.3 %	\$ 19.5	4.9 %		

Store related costs as a percentage of net sales improved approximately 10 basis points during the third quarter of Fiscal 2015, driven by a reduction in incentive compensation and improved leverage in occupancy costs. On a dollar basis, the \$15.3 million increase in store related costs was primarily driven by our 27 net new stores that have opened since November 1, 2014, as well as stores that opened during the third quarter of Fiscal 2014 that did not operate for a full 13 weeks.

Product sourcing costs as a percentage of net sales remained consistent at 4.9%. The \$3.4 million increase in product sourcing costs was driven by an increase in our supply chain and merchandising costs.

Corporate costs as a percentage of net sales improved approximately 20 basis points during the third quarter of Fiscal 2015 primarily driven by a reduction in incentive compensation, partially offset by an increase in stock based compensation.

Depreciation and amortization

Depreciation and amortization expense related to the depreciation of fixed assets and the amortization of favorable and unfavorable leases amounted to \$43.2 million during the third quarter of Fiscal 2015 compared with \$42.6 million during the comparative period. The increase in depreciation and amortization expense was primarily driven by our 27 net new stores opened since November 1, 2014 and stores that opened during the third quarter of Fiscal 2014 that did not operate for a full 13 weeks, as well as our new corporate headquarters.

Loss on extinguishment of debt

We did not record any loss on extinguishment of debt during the third quarter of Fiscal 2015. During the third quarter of Fiscal 2014, we recorded a loss on extinguishment of debt of \$70.3 million as a result of our August 2014 debt refinancing.

Interest expense

Interest expense improved \$1.8 million to \$14.8 million, primarily driven by our August 2014 debt refinancing and our \$30.0 million and \$50.0 million principal payments on our Term Loan Facility in January 2015 and May 2015, respectively. These improvements were partially offset by an increase in the outstanding borrowings on our ABL Line of Credit during the respective periods.

Our average interest rates and average balances related to our Term Loan Facility and our ABL Line of Credit, for the third quarter of Fiscal 2015 compared with the prior year's quarter, are summarized in the table below:

	Three Months Ended			
	October		November 1,	
	31,		2014	
	2015		2014	
Average interest rate – ABL Line of Credit	1.6	%	1.7	%
Average interest rate – Term Loan Facility	4.3	%	4.3	%
	\$			
Average balance – ABL Line of Credit	270.2 million		226.5 million	
Average balance – Term Loan Facility	\$ 1,117.0 million		\$ 1,155.3 million	

Income tax expense (benefit)

Income tax expense was \$9.1 million during the third quarter of Fiscal 2015 compared with an income tax benefit of \$24.0 million during the third quarter of Fiscal 2014. The effective tax rate for the third quarter of Fiscal 2015 was 37.7% compared with 41.2% during the third quarter of Fiscal 2014. The decrease in the effective tax rate was primarily the result of state credits available to the Company for its new corporate headquarters and the benefit of federal hiring credits from prior years realized during Fiscal 2015.

In accordance with ASC Topic No. 270, "Interim Reporting" (Topic No. 270), and ASC Topic No. 740, "Income Taxes" (Topic No. 740), at the end of each interim period we are required to determine the best estimate of our annual effective tax rate and then apply that rate in providing for income taxes on a current year-to-date (interim period) basis. We used this methodology during the third quarter of Fiscal 2015, resulting in the annual effective income tax rate of 38.2% (before discrete items) being our best estimate. The projected annual effective income tax rate for the third quarter of Fiscal 2014 was 40.8% (before discrete items). The decrease in the annual effective tax rate was primarily driven by a lower state rate due to the benefit from state credits related to our corporate headquarters and our initiative to enhance our legal structure to more closely align with our operating structure. In addition, if certain hiring credits are legislatively approved during the fourth quarter of Fiscal 2015, our projected annual effective tax rate would be further reduced by approximately 50 to 100 basis points.

Net income (loss)

We earned net income of \$15.1 million for the third quarter of Fiscal 2015 compared with a net loss of \$34.2 million for the comparative quarter. The improvement in our net income was primarily driven by a decrease in losses incurred on the extinguishment of our debt and our improved gross margin, partially offset by increases in our income tax expense and selling, general and administrative expenses.

Nine Month Period Ended October 31, 2015 Compared With the Nine Month Period Ended November 1, 2014

Net sales

Net sales improved \$229.0 million, or 6.9%, to \$3,558.2 million during the nine month period ended October 31, 2015, driven primarily by the following:

- an increase in net sales of \$140.2 million from new stores opened during Fiscal 2015 and stores previously opened that were not included in our comparable store sales; and
- an increase in comparable store sales of \$99.4 million, or 3.0%, to \$3,390.3 million; partially offset by
- a \$10.6 million decrease related to the net impact of closed stores and other sales adjustments.

We believe that the comparable store sales increase was primarily due to our improved execution of our off-price model.

Cost of sales

Cost of sales as a percentage of net sales expanded approximately 90 basis points to 60.4% during the nine month period ended October 31, 2015, primarily driven by a reduction in markdown rate. This improvement was partially offset by an approximate 40 basis point increase in product sourcing costs, which are included in the line item "Selling, general and administrative expenses" in our Condensed Consolidated Statements of Operations. On a dollar basis, cost of sales increased \$108.4 million, or 5.3%, primarily driven by our overall increase in sales.

Selling, general and administrative expenses

Selling, general and administrative expenses as a percentage of net sales increased approximately 10 basis points during the nine month period ended October 31, 2015 as referenced to the table below:

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	(in millions)							
	Nine Months Ended							
	October		November					
31,	of	1,	of			\$	%	
2015	Net Sales	2014	Net Sales	Variance	Change			
Store related costs	\$785.3	22.1 %	\$ 739.0	22.2 %	\$ 46.3	6.3 %		
Product sourcing costs	171.4	4.8	147.1	4.4	24.3	16.5		
Corporate costs	117.0	3.3	108.7	3.3	8.3	7.6		
Marketing and strategy costs	60.2	1.7	59.2	1.8	1.0	1.7		
Other selling, general and administrative expenses	41.6	1.1	39.8	1.2	1.8	4.5		
Selling, general and administrative expenses	\$1,175.5	33.0 %	\$ 1,093.8	32.9 %	\$ 81.7	7.5 %		

Store related costs as a percentage of net sales improved approximately 10 basis points during the nine month period ended October 31, 2015, driven by improved leverage in occupancy costs. On a dollar basis, the \$46.3 million increase in store related costs was primarily driven by our 27 net new stores that have opened since November 1, 2014 as well as stores that opened during the first nine months of Fiscal 2014 that did not operate for a full 39 weeks.

Product sourcing costs as a percentage of net sales increased approximately 40 basis points during the nine month period ended October 31, 2015, which partially offset the improvement in cost of sales as noted above. The increase in product sourcing costs as a percentage of net sales was driven by an increase in our supply chain and merchandising costs of approximately \$23.4 million.

Corporate costs as a percentage of net sales remained consistent at 3.3% driven by a reduction of incentive compensation, offset by an increase in stock based compensation. On a dollar basis, the increase in corporate costs was primarily driven by an increase in our stock compensation of approximately \$4.5 million and a \$2.3 million increase in business insurance attributable to our general business expansion.

Depreciation and amortization

Depreciation and amortization expense related to the depreciation of fixed assets and the amortization of favorable and unfavorable leases amounted to \$127.1 million during the nine month period ended October 31, 2015 compared with \$124.3 million during the comparative period. The increase in depreciation and amortization expense was primarily driven by our 27 net new stores opened since November 1, 2014 and stores that opened during the first nine months of Fiscal 2014 that did not operate for a full 39 weeks, as well as our new corporate headquarters.

Loss on extinguishment of debt

During the nine month period ended October 31, 2015, we recorded a loss on extinguishment of debt of \$0.6 million as a result of our May 1, 2015 prepayment on our Term Loan Facility. Refer to Note 2 to our Condensed Consolidated Financial Statements, "Long Term Debt," for further details on our refinancing transaction.

During the nine month period ended November 1, 2014, we recorded a loss on the extinguishment of debt of \$74.0 million, primarily related to our August 2014 debt refinancing and our April 2014 prepayment on our Holdco Notes.

Interest expense

Interest expense improved \$24.5 million to \$44.2 million. This improvement was primarily driven by our August 2014 debt refinancing, our \$58.0 million prepayment on our Holdco Notes in April 2014 and our \$30.0 million and \$50.0 million principal payments on our Term Loan Facility in January 2015 and May 2015, respectively. These improvements were partially offset by an increase in the outstanding borrowings on our ABL Line of Credit during the respective periods.

Our average interest rates and average balances related to our Term Loan Facility and our ABL Line of Credit, for the nine month period ended October 31, 2015 compared with the prior year's quarter are summarized in the table below:

	Nine Months Ended			
	October		November 1,	
	31,		2014	
	2015		2014	
Average interest rate – ABL Line of Credit	1.6	%	1.7	%
Average interest rate – Term Loan Facility	4.3	%	4.3	%
	\$		\$	
Average balance – ABL Line of Credit	199.7 million		83.8 million	
Average balance – Term Loan Facility	\$ 1,133.5 million		\$ 1,194.1 million	

Income tax expense (benefit)

Income tax expense was \$32.5 million during the nine month period ended October 31, 2015 compared with a tax benefit of \$20.5 million during the nine month period ended November 1, 2014. The effective tax rate for the nine month period ended October 31, 2015 was 38.6% compared with 41.5% during the nine month period ended November 1, 2014. The decrease in the effective tax rate was primarily the result of state credits available to the Company for its new corporate headquarters and the benefit of federal hiring credits from prior years realized during Fiscal 2015.

In accordance with Topic No. 270 and Topic No. 740, at the end of each interim period we are required to determine the best estimate of our annual effective tax rate and then apply that rate in providing for income taxes on a current year-to-date (interim period) basis. We used this methodology during the nine month period ended October 31, 2015, resulting in the annual effective income tax rate of 38.2% (before discrete items) being our best estimate. The projected annual effective income tax rate for the nine month period ended November 1, 2014 was 40.8% (before discrete items). The decrease in the annual effective tax rate was primarily driven by a lower state rate due to the benefit from state credits related to our corporate headquarters and our initiative to enhance our legal structure to more closely align with our operating structure. In addition, if certain hiring credits are legislatively approved during the fourth quarter of Fiscal 2015, our projected annual effective tax rate would be further reduced by approximately 50 to 100 basis points.

Net income (loss)

We earned net income of \$51.7 million for the nine month period ended October 31, 2015 compared with a net loss of \$28.9 million for the comparative period. The improvement in our net income was primarily driven by our improved gross margin, a decrease in losses incurred on the extinguishment of our debt and a decrease in our interest expense, partially offset by increased selling, general and administrative expenses and income tax expense.

Liquidity and Capital Resources

Our ability to satisfy interest payment obligations on our outstanding debt will depend largely on our future performance which, in turn, is subject to prevailing economic conditions and to financial, business and other factors

beyond our control. If we do not have sufficient cash flow to service interest payment obligations on our outstanding indebtedness and if we cannot borrow or obtain equity financing to satisfy those obligations, our business and results of operations will be materially adversely affected. We cannot be assured that any replacement borrowing or equity financing could be successfully completed on terms similar to our current financing agreements, or at all.

We believe that cash generated from operations, along with our existing cash and our ABL Line of Credit, will be sufficient to fund our expected cash flow requirements and planned capital expenditures for at least the next twelve months as well as the foreseeable future. However, there can be no assurance that we would be able to offset declines in our comparable store sales with savings initiatives in the event that the economy declines.

Cash Flow for the Nine Month Period Ended October 31, 2015 Compared With the Nine Month Period Ended November 1, 2014

We generated \$3.5 million of cash flow during the nine month period ended October 31, 2015 compared with a use of \$103.5 million during the comparative period.

Net cash provided by operating activities amounted to \$103.7 million during the nine month period ended October 31, 2015 compared with \$88.5 million during the nine month period ended November 1, 2014. The improvement in our operating cash flow was primarily driven by our improved operating results, inclusive of our August 2014 debt refinancing. Partially offsetting these increases were changes in our accounts payable resulting from the timing of our inventory purchases.

Net cash used in investing activities was \$149.5 million during the nine month period ended November 1, 2014 compared with \$164.4 million during the nine month period ended November 1, 2014. This change was primarily the result of a reduction in capital expenditures related to our new corporate headquarters, partially offset by store expenditures (new stores, store refreshes and remodels and other store expenditures).

Net cash provided by financing activities was \$49.3 million during the nine month period ended November 1, 2014 compared with a use of \$27.7 million during the nine month period ended November 1, 2014. This change was primarily related to the net change in our debt obligations resulting from our August 2014 debt refinancing and May 2015 term loan repayment and a reduction in our deferred financing costs, partially offset by repurchases of our common stock.

Cash flow and working capital levels assist management in measuring our ability to meet our cash requirements. Changes in working capital also impact our cash flows. Working capital at October 31, 2015 increased \$39.3 million to \$84.8 million compared with \$45.5 million at November 1, 2014, primarily driven by fluctuations in our accounts payable resulting from the timing of our inventory purchases, partially offset by changes in our prepaid and payable income taxes as well as an increase in our legal accrual. Refer to Note 11 to our Condensed Consolidated Financial Statements, "Commitments and Contingencies," for discussion on our legal accrual. Working capital at January 31, 2015 was \$26.6 million.

Capital Expenditures

For the nine month period ended October 31, 2015, cash spend for capital expenditures, net of \$18.5 million of landlord allowances, amounted to \$135.2 million. We estimate that we will spend approximately \$160 million, net of approximately \$35 million of landlord allowances, in capital expenditures during Fiscal 2015, including approximately \$65 million, net of the landlord allowances, for store expenditures (new stores, store refreshes and remodels and other store expenditures). In addition, we estimate that we will spend approximately \$50 million to support our supply chain initiatives and approximately \$12 million to renovate our previous corporate headquarters as part of the build-out of our corporate campus. We expect to use the remaining capital to support information technology and other initiatives.

Share Repurchase Programs

On June 9, 2015, we announced that our Board of Directors had authorized the repurchase of up to \$200 million of our common stock. The repurchase program will be funded using our available cash and is authorized to be executed through June 2017. During the nine month period ended October 31, 2015, we repurchased 2,342,414 shares of common stock for \$123.0 million under this share repurchase program. As of October 31, 2015, we had \$77.0 million available for purchase under this share repurchase program.

On November 24, 2015, we announced that our Board of Directors had authorized the repurchase of up to an additional \$200 million of our common stock. This repurchase program will be funded using the Company's available cash and is authorized to be executed through November 2017. Refer to note 13 to our Condensed Consolidated Financial Statements, "Subsequent Events," for further discussion.

We are authorized to repurchase shares of our outstanding common stock from time to time on the open market or in privately negotiated transactions under our 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. Our share repurchase programs may be suspended, modified or discontinued at any time and we have no obligation to repurchase any amount of our common stock under the programs.

Dividends

We currently do, and intend to continue to, retain all available funds and any future earnings to fund all of the Company's capital expenditures, business initiatives, and to support any potential opportunistic capital structure initiatives. Therefore, at this time, we do not anticipate paying cash dividends in the near term. Our ability to pay dividends on our common stock will be limited by restrictions on the ability of our subsidiaries and us to pay dividends or make distributions under the terms of current and any future agreements governing our indebtedness. Any future determination to pay dividends will be at the discretion of our Board of Directors, subject to compliance with covenants in our current and future agreements governing our indebtedness, and will depend upon our results of operations, financial condition, capital requirements and other factors that our Board of Directors deems relevant.

In addition, since we are a holding company, substantially all of the assets shown on our consolidated balance sheets are held by our subsidiaries. Accordingly, our earnings, cash flow and ability to pay dividends are largely dependent upon the earnings and cash flows of our subsidiaries and the distribution or other payment of such earnings to us in the form of dividends.

Operational Growth

As of October 31, 2015, we operated 566 stores primarily under the name “Burlington Stores.” During the nine month period ended October 31, 2015, we opened 27 new Burlington Stores and closed two Burlington Stores and one MJM Store. We expect to open one net new store during the fourth quarter of Fiscal 2015 to bring our total to 25 net new stores during Fiscal 2015.

We monitor the availability of desirable locations for our stores by, among other things, presentations by brokers, real estate developers and existing landlords, evaluating dispositions by other retail chains and bankruptcy auctions. Most of our stores are located in malls, strip shopping centers, regional power centers or are freestanding. We also lease existing space and have opened a limited number of built-to-suit locations. For most of our new leases, we provide for a minimum initial ten year term with a number of five year options thereafter. Typically, our lease strategy includes obtaining landlord allowances for leasehold improvements. We believe our lease model makes us competitive with other retailers for desirable locations. We may seek to acquire a number of such locations either through transactions to acquire individual locations or transactions that involve the acquisition of multiple locations simultaneously.

Debt

As of October 31, 2015, our obligations include \$1,112.4 million, inclusive of original issue discount, under our Term Loan Facility and \$276.2 million under our ABL Line of Credit.

Term Loan Facility

We elected to make a prepayment of \$50.0 million on our Term Loan Facility on May 1, 2015, which offset the mandatory quarterly payments through May 1, 2021. As a result of this transaction, we recognized a non-cash loss on the partial extinguishment of debt of \$0.6 million, representing the write-off of \$0.4 million and \$0.2 million in deferred financing costs and unamortized original issue discount, respectively, which was recorded in the line item “Loss on extinguishment of debt” in our Condensed Consolidated Statements of Operations.

At October 31, 2015, our borrowing rate related to the Term Loan Facility was 4.25%.

ABL Line of Credit

During the nine month period ended October 31, 2015, we made net borrowings on our ABL Line of Credit of \$212.9 million to make our \$50.0 million prepayment on our Term Loan Facility, our \$123.0 million of share repurchases and for general working capital requirements.

At October 31, 2015, we had \$278.2 million available under the Amended ABL Line of Credit and \$276.2 million of outstanding borrowings. The maximum borrowings under the facility during the nine month period ended October 31, 2015 amounted to \$330.7 million. Average borrowings during the nine month period ended October 31, 2015 amounted to \$199.7 million at an average interest rate of 1.6%.

Certain Information Concerning Contractual Obligations

The Company had \$643.8 million of purchase commitments related to goods that were not received as of October 31, 2015. There were no other significant changes regarding our obligations to make future payments under current

contracts since January 31, 2015.

Critical Accounting Policies and Estimates

Our Condensed Consolidated Financial Statements have been prepared in accordance with GAAP. We believe there are several accounting policies that are critical to understanding our historical and future performance as these policies affect the reported amounts of revenues and other significant areas that involve management's judgments and estimates. The preparation of our Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities; (ii) the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements; and (iii) the reported amounts of revenues and expenses during the reporting period. On an ongoing basis,

management evaluates its estimates and judgments, including those related to revenue recognition, inventories, long-lived assets, intangible assets, goodwill, insurance reserves and income taxes. Historical experience and various other factors that are believed to be reasonable under the circumstances form the basis for making estimates and judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. A critical accounting estimate meets two criteria: (1) it requires assumptions about highly uncertain matters and (2) there would be a material effect on the consolidated financial statements from either using a different, although reasonable, amount within the range of the estimate in the current period or from reasonably likely period-to-period changes in the estimate.

Our critical accounting policies and estimates are consistent with those disclosed in Note 1 to the audited Consolidated Financial Statements, "Summary of Significant Accounting Policies," and notes included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

Safe Harbor Statement

This report contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, the industry in which we operate and other matters, as well as management's beliefs and assumptions and other statements regarding matters that are not historical facts. For example, when we use words such as "projects," "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "should," "would," "could," "will," "potential" or "may," variations of such words or other words that convey uncertainty of future events or outcomes, we are making forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (Securities Act) and Section 21E of the Securities Exchange Act of 1934 (Exchange Act). Our forward-looking statements are subject to risks and uncertainties. Such statements include but are not limited to, proposed store openings and closings, proposed capital expenditures, projected financing requirements, proposed developmental projects, projected sales and earnings, our ability to maintain selling margins, and the effect of the adoption of recent accounting pronouncements on our consolidated financial position, results of operations and cash flows. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include: competition in the retail industry, seasonality of our business, adverse weather conditions, changes in consumer preferences and consumer spending patterns, import risks, inflation, general economic conditions, our ability to implement our strategy, our substantial level of indebtedness and related debt-service obligations, restrictions imposed by covenants in our debt agreements, availability of adequate financing, our dependence on vendors for our merchandise, events affecting the delivery of merchandise to our stores, existence of adverse litigation, availability of desirable locations on suitable terms, and other risks discussed from time to time in our filings with the Securities and Exchange Commission (SEC).

Many of these factors are beyond our ability to predict or control. In addition, as a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. The cautionary statements referred to in this section also should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report might not occur. Furthermore, we cannot guarantee future results, events, levels of activity, performance or achievements.

Recent Accounting Pronouncements

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 in our Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks as part of our ongoing business operations. Primary exposures include (i) changes in interest rates, as borrowings under our ABL Line of Credit and Term Loan Facility bear interest at floating rates based on LIBOR or the base rate, in each case plus an applicable borrowing margin and (ii) investing activities. The interest rate of our Term Loan Facility is also dependent on the LIBOR, prime rate, and the federal funds rate as further discussed in Note 2 to our Condensed Consolidated Financial Statements, "Long Term Debt."

We manage our interest rate risk through the use of interest rate cap contracts. For our floating-rate debt, interest rate changes generally impact our earnings and cash flows, assuming other factors are held constant.

On April 24, 2015 we entered into two interest rate cap contracts which were designated as cash flow hedges. These interest rate cap contracts have an aggregate notional principal amount of \$800.0 million, cap rates of 1.0%, are effective May 29, 2015 and mature

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on May 31, 2019. We had two interest rate cap contracts which limited our interest rate exposure to 7.0% on our first \$900.0 million of borrowings under our variable rate debt obligations that expired on May 31, 2015. Currently, we have unlimited interest rate risk related to borrowings on our variable rate debt in excess of the notional principal amount of our interest rate cap contracts.

At October 31, 2015, we had \$1,393.2 million of floating-rate debt, exclusive of original issue discount. Based on \$1,393.2 million outstanding as floating-rate debt, a one percentage point increase as of October 31, 2015 (after considering our 1.0% interest rate cap contracts), would cause an increase to cash interest expense of \$6.0 million per year, resulting in \$6.0 million less in our pre-tax earnings. This sensitivity analysis assumes our mix of financial instruments and all other variables will remain constant in future periods. These assumptions are made in order to facilitate the analysis and are not necessarily indicative of our future intentions.

If a one percentage point increase in interest rates were to occur as of October 31, 2015, such an increase would result in the following additional interest expenses (assuming current borrowing level remains constant):

	(in millions)				
	Principal	Additional	Additional	Additional	Additional
	Outstanding	Interest	Interest	Interest	Interest
	at	Expense	Expense	Expense	Expense
	October	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Floating Rate Debt	31, 2015	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8
Term Loan Facility (a)	\$1,117.0	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8
ABL Line of Credit	276.2	0.7	0.7	0.7	0.7
	\$1,393.2	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5

(a)Principal balance represents carrying value of our Term Loan Facility exclusive original issue discount.

Our ability to satisfy our interest payment obligations on our outstanding debt will depend largely on our future performance, which, in turn, is in part subject to prevailing economic conditions and to financial, business and other factors beyond our control. If we do not have sufficient cash flow to service our interest payment obligations on our outstanding indebtedness and if we cannot borrow or obtain equity financing to satisfy those obligations, our business and results of operations will be materially adversely affected. We cannot be assured that any replacement borrowing or equity financing could be successfully completed.

A change in interest rates generally does not have an impact upon our future earnings and cash flow for fixed-rate debt instruments. As fixed-rate debt matures, however, and if additional debt is acquired to fund the debt repayment, future earnings and cash flow may be affected by changes in interest rates. This effect would be realized in the periods subsequent to the periods when the debt matures.

Item 4. Controls and Procedures.

Our management team, under the supervision and with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), as of the last day of the fiscal period covered by this report, October 31, 2015. The term disclosure controls and procedures means our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information

required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of October 31, 2015.

During the quarter ended October 31, 2015, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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. Our 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. The ultimate outcome of these cases could have a material adverse effect on the Company's results of operations.

In the matter of Burlington Coat Factory Song Beverly Cases which is currently pending in the Superior Court of the State of California, Complex Division, County of Orange (Case No. JCCP No. 4681), plaintiff, on behalf of herself and others similarly situated, alleges that the Company is in violation of the Song Beverly Credit Card Act of 1971, California Civil Code section 1747.08, for collecting personal information from customers in connection with the use of credit cards by such customers to pay for merchandise at the Company's stores. At trial held in January 2015, the Superior Court held that the Company was in violation of California law.

In October 2015, the Company entered into a settlement agreement providing for a maximum settlement payment of \$29.4 million (including attorneys' fees and claims administration fees). On November 6, 2015, the court granted preliminary approval for the settlement and authorized the parties to provide a notice to class members about the settlement. The notice period is currently under way. Because of the claims-made aspect of the settlement, it is likely that a significant portion of the total settlement amount will go unclaimed and remain the property of the Company, thereby causing it to pay less than \$29.4 million under the settlement. There have been no changes to the Company's accrual related to this matter during the quarter ended October 31, 2015

This settlement, if it is approved by the Court, will result in the dismissal of all Song-Beverly claims that arose through January 28, 2015 (except for those class members who opt out of the settlement). If this settlement is rejected by the Court, the parties will likely return to the litigation of both lawsuits, and, in such event, the Company cannot predict the outcome of these matters, and cannot predict whether or not the outcome will have a material adverse effect on the Company's financial condition or results of operations.

Item 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information regarding our purchases of common stock during the three fiscal months ended October 31, 2015:

Month	Total Number of Shares Purchased(1)	Average Price Paid Per Share(2)	Total Number of Shares Purchased as Part of Publicly	Approximate Dollar Value of Shares That May Yet Be Purchased

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			Announced Plans or Programs(3)	Under the Plans or Programs
August 2, 2015 through August 29, 2015	665	\$ 54.06	—	\$174,642,500
August 30, 2015 through October 3, 2015	1,093,924	\$ 53.04	1,079,458	117,350,798
October 4, 2015 through October 31, 2015	813,175	\$ 49.58	812,956	77,044,566
Total	1,907,764		1,892,414	

- (1) Includes 15,350 shares that were not part of our publicly announced share repurchase program. These shares represent shares which were withheld for tax payments due upon the vesting of employee restricted stock awards, and do not reduce the dollar value that may yet be purchased under our publicly announced share repurchase program.
- (2) Includes commissions for the shares repurchased under our publicly announced share repurchase program.
- (3) On June 9, 2015, we announced that our Board of Directors had authorized the repurchase of up to \$200 million of our common stock. As of October 31, 2015, we had \$77.0 million available for purchase under this share repurchase program. This share repurchase program will be funded using the Company's available cash and is authorized to be executed through June 2017. On November 24, 2015, we announced that our Board of Directors had authorized the repurchase of up to an additional \$200 million of our common stock. This share repurchase program will be funded using the Company's available cash and is

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authorized to be executed through November 2017. For a further discussion of our share repurchase programs, see “Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Share Repurchase Program.”

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

The Company’s 2016 Annual Meeting of Stockholders (the “2016 Annual Meeting”) has been scheduled for May 18, 2016. Because the date of the 2016 Annual Meeting is more than 30 days before the anniversary date of the Company’s 2015 Annual Meeting of Stockholders, in accordance with Rule 14a-5 (f) under the Exchange Act, the Company is informing stockholders of the change. For stockholders who wish to present a proposal to be considered for inclusion in our proxy statement and for consideration at the 2016 Annual Meeting, pursuant to Rule 14a-8 under the Exchange Act, the proposal must have been received by our Corporate Secretary at 2006 Route 130 North, Burlington, New Jersey 08016 no later than January 19, 2016. Stockholder proposals must otherwise comply with the requirements of Rule 14a-8 of the Exchange Act. This date of the 2016 Annual Meeting also affects the notification deadline for stockholders who wish to nominate candidates for director or propose other business for consideration at the 2016 Annual Meeting. In such case, our bylaws currently provide that, in order for a stockholder to bring nominations or business at the 2016 Annual Meeting, certain conditions set forth therein must be satisfied, including delivery of notice of such nomination or proposal to our Corporate Secretary at the address above no earlier than January 19, 2016 and no later than February 18, 2016.

Item 6. Exhibits.

Exhibit	Description
31.1†	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2†	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1†	Certification of Principal Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2†	Certification of Principal Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS†	XBRL Instance Document
101.SCH†	XBRL Taxonomy Extension Schema

101.CAL†XBRL Taxonomy Extension Calculation Linkbase

101.DEF†XBRL Taxonomy Extension Definition Linkbase

101.LAB†XBRL Taxonomy Extension Label Linkbase

101.PRE†XBRL Taxonomy Extension Presentation Linkbase

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.

BURLINGTON STORES, INC.

/s/ Thomas A. Kingsbury
Thomas A. Kingsbury

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

/s/ Marc Katz
Marc Katz

Executive Vice President—Chief Financial Officer

(Principal Financial Officer)

Date: November 24, 2015

INDEX TO EXHIBITS

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