

**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 November 2, 2019

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)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock	BURL	New York Stock Exchange

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

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

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

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

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

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

The registrant had 66,249,941 shares of common stock outstanding as of November 2, 2019.

BURLINGTON STORES, INC.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

BURLINGTON STORES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(All amounts in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	November 2,	November 3,	November 2,	November 3,
	2019	2018	2019	2018
REVENUES:				
Net sales	\$ 1,774,949	\$ 1,634,489	\$ 5,059,860	\$ 4,651,568
Other revenue	6,634	6,469	17,939	18,840
Total revenue	1,781,583	1,640,958	5,077,799	4,670,408
COSTS AND EXPENSES:				
Cost of sales	1,022,912	942,009	2,954,651	2,712,165
Selling, general and administrative expenses	583,641	538,120	1,632,862	1,485,545
Costs related to debt amendments	—	2,418	(375)	2,496
Depreciation and amortization	52,729	53,770	155,631	161,201
Other income - net	(9,264)	(2,336)	(13,017)	(7,708)
Loss on extinguishment of debt	—	462	—	1,823
Interest expense	12,149	14,460	38,954	43,563
Total costs and expenses	1,662,167	1,548,903	4,768,706	4,399,085
Income before income tax expense	119,416	92,055	309,093	271,323
Income tax expense	22,957	15,206	50,302	40,929
Net income	\$ 96,459	\$ 76,849	\$ 258,791	\$ 230,394
Net income per common share:				
Common stock - basic	\$ 1.46	\$ 1.15	\$ 3.92	\$ 3.44
Common stock - diluted	\$ 1.44	\$ 1.12	\$ 3.84	\$ 3.35
Weighted average number of common shares:				
Common stock - basic	65,959	66,780	65,994	66,885
Common stock - diluted	67,159	68,628	67,387	68,789

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON STORES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(All amounts in thousands)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>November 2, 2019</u>	<u>November 3, 2018</u>	<u>November 2, 2019</u>	<u>November 3, 2018</u>
Net income	\$ 96,459	\$ 76,849	\$ 258,791	\$ 230,394
Other comprehensive (loss) income, net of tax:				
Interest rate derivative contracts:				
Net unrealized (losses) gains arising during the period	(1,003)	232	(14,497)	1,204
Reclassification into earnings during the period	500	289	465	1,307
Other comprehensive (loss) income, net of tax	(503)	521	(14,032)	2,511
Total comprehensive income	<u>\$ 95,956</u>	<u>\$ 77,370</u>	<u>\$ 244,759</u>	<u>\$ 232,905</u>

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON STORES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(All amounts in thousands, except share and per share data)

	November 2, 2019	February 2, 2019	November 3, 2018
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 140,514	\$ 112,274	\$ 85,377
Restricted cash and cash equivalents	6,582	21,882	21,882
Accounts receivable—net	117,493	58,752	86,069
Merchandise inventories	1,004,386	954,183	1,056,596
Prepaid and other current assets	146,170	124,809	148,703
Total current assets	<u>1,415,145</u>	<u>1,271,900</u>	<u>1,398,627</u>
Property and equipment—net	1,375,484	1,253,705	1,239,483
Operating lease assets	2,338,179	—	—
Tradenames	238,000	238,000	238,000
Favorable leases—net	780	164,324	173,149
Goodwill	47,064	47,064	47,064
Deferred tax assets	4,066	4,361	5,004
Other assets	88,869	99,818	105,587
Total assets	<u>\$ 5,507,587</u>	<u>\$ 3,079,172</u>	<u>\$ 3,206,914</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 888,434	\$ 848,561	\$ 967,236
Current operating lease liabilities	293,756	—	—
Other current liabilities	422,154	396,257	433,360
Current maturities of long term debt	3,302	2,924	2,800
Total current liabilities	<u>1,607,646</u>	<u>1,247,742</u>	<u>1,403,396</u>
Long term debt	982,348	983,643	1,089,114
Long term operating lease liabilities	2,258,130	—	—
Other liabilities	96,249	346,298	340,866
Deferred tax liabilities	171,626	178,779	180,155
Commitments and contingencies (Note 13)			
Stockholders' equity:			
Preferred stock, \$0.0001 par value: authorized: 50,000,000 shares; no shares issued and outstanding	—	—	—
Common stock, \$0.0001 par value:			
Authorized: 500,000,000 shares;			
Issued: 79,808,306 shares, 79,224,669 shares and 79,114,834 shares, respectively;			
Outstanding: 66,249,941 shares, 67,145,097 shares and 67,407,897 shares, respectively	7	7	7
Additional paid-in-capital	1,568,538	1,508,996	1,497,878
Accumulated deficit	(1,528)	(260,919)	(445,270)
Accumulated other comprehensive (loss) income	(17,645)	(3,613)	624
Treasury stock, at cost	(1,157,784)	(921,761)	(859,856)
Total stockholders' equity	<u>391,588</u>	<u>322,710</u>	<u>193,383</u>
Total liabilities and stockholders' equity	<u>\$ 5,507,587</u>	<u>\$ 3,079,172</u>	<u>\$ 3,206,914</u>

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON STORES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(All amounts in thousands)

	Nine Months Ended	
	November 2, 2019	November 3, 2018
OPERATING ACTIVITIES		
Net income	\$ 258,791	\$ 230,394
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	155,631	161,201
Amortization of deferred financing costs	945	1,262
Accretion of long term debt instruments	610	551
Deferred income taxes	(1,484)	1,657
Non-cash loss on extinguishment of debt	—	1,823
Non-cash stock compensation expense	30,542	26,215
Non-cash lease expense	10,905	—
Non-cash rent	—	(17,677)
Cash received from landlord allowances	36,006	33,612
Changes in assets and liabilities:		
Accounts receivable	(27,441)	(14,292)
Merchandise inventories	(50,709)	(304,033)
Prepaid and other current assets	(23,067)	(29,178)
Accounts payable	36,014	231,325
Other current liabilities	52,412	39,237
Other long term assets and long term liabilities	3,362	9,042
Other operating activities	(5,644)	4,214
Net cash provided by operating activities	476,873	375,353
INVESTING ACTIVITIES		
Cash paid for property and equipment	(259,699)	(222,501)
Lease acquisition costs	(959)	(8,543)
Proceeds from insurance recoveries related to property and equipment	5,131	2,602
Other investing activities	(521)	3,152
Net cash (used in) investing activities	(256,048)	(225,290)
FINANCING ACTIVITIES		
Proceeds from long term debt—ABL Line of Credit	1,294,400	1,090,100
Principal payments on long term debt—ABL Line of Credit	(1,294,400)	(985,100)
Principal payments on long term debt—Term B-5 Loans	—	(152,793)
Purchase of treasury shares	(236,023)	(166,969)
Proceeds from stock option exercises	29,001	14,459
Other financing activities	(863)	(3,587)
Net cash (used in) financing activities	(207,885)	(203,890)
Increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents	12,940	(53,827)
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	134,156	161,086
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$ 147,096	\$ 107,259
Supplemental disclosure of cash flow information:		
Interest paid	\$ 36,823	\$ 41,551
Income tax payments - net	\$ 89,559	\$ 61,369
Non-cash investing activities:		
Accrued purchases of property and equipment	\$ 63,350	\$ 53,220
Acquisition of finance leases	\$ —	\$ 13,538

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON STORES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
November 2, 2019
(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

As of November 2, 2019, Burlington Stores, Inc., a Delaware corporation (collectively with its subsidiaries, the Company), through its indirect subsidiary Burlington Coat Factory Warehouse Corporation (BCFWC), has expanded its store base to 726 retail stores, inclusive of an internet store.

These unaudited Condensed Consolidated Financial Statements include the accounts of Burlington Stores, Inc. and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. The Condensed Consolidated Financial Statements are unaudited, but in the opinion of management reflect all adjustments (which are of a normal and recurring nature) necessary for the fair presentation of the results of operations for the interim periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2019 (Fiscal 2018 10-K). The balance sheet at February 2, 2019 presented herein has been derived from the audited Consolidated Financial Statements contained in the Fiscal 2018 10-K. Because the Company's business is seasonal in nature, the operating results for the three and nine month periods ended November 2, 2019 are not necessarily indicative of results for the fiscal year.

Accounting policies followed by the Company are described in Note 1, "Summary of Significant Accounting Policies," included in Part II, Item 8 of the Fiscal 2018 10-K.

Fiscal Year

The Company defines its fiscal year as the 52- or 53-week period ending on the Saturday closest to January 31. The current fiscal year ending February 1, 2020 (Fiscal 2019) and the prior fiscal year ended February 2, 2019 (Fiscal 2018) both consist of 52 weeks.

Casualty Losses and Insurance Proceeds

During the third quarter of Fiscal 2019, the Company received \$12.5 million of insurance proceeds related to weather-related incidents that occurred during Fiscal 2017. These proceeds resulted in a gain on insurance recovery of \$8.1 million, which is included in "Other income – net" on the Company's Condensed Consolidated Statements of Income for the three and nine month periods ended November 2, 2019. The Company allocated \$5.1 million of these proceeds to property and equipment, which was included in the line item "Proceeds from insurance recoveries related to property and equipment," a component of cash flows from investing activities, on the Company's Condensed Consolidated Statement of Cash Flows for the nine month period ended November 2, 2019.

The Company incurred losses during Fiscal 2019 of \$3.1 million, related to several stores that sustained damages and were temporarily closed during the year. These losses primarily relate to merchandise held at these stores, and the losses are included in the line item "Cost of sales" in the Company's Condensed Consolidated Statement of Income for the nine month period ended November 2, 2019.

Adopted Accounting Standards

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, "Leases" (ASU 2016-02). The standard's core principle is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. The Company adopted this ASU as of the beginning of Fiscal 2019.

The Company applied the changes from the new guidance at the adoption date and recognized a cumulative effect adjustment to retained earnings in the period of adoption, as allowed under ASU 2018-11, "Leases: Targeted Improvements." The Company did not adjust prior periods. The Company made an accounting policy election not to capitalize leases with an initial term of twelve months or less. The Company elected the transition package of practical expedients, which allows the Company to carry forward for its existing leases: (i) the historical lease classification as either operating or capital; (ii) assessment of whether any expired or existing contracts are or contain leases; and (iii) capitalization of initial direct costs. Additionally, the Company elected the practical expedients to not separate lease and non-lease components for both its real estate and non-real estate leases, to not assess whether existing or expired land easements contain a lease, and to employ hindsight when determining lease terms for existing leases on the date of adoption.

As a result of this standard, the Company has recognized approximately \$2.3 billion of additional right-of-use assets and approximately \$2.6 billion of additional lease liabilities (current and long-term combined) on its Condensed Consolidated Balance Sheet as of November 2, 2019. The right-of-use lease liability for operating leases is based on the net present value of future minimum lease payments. The right-of-use asset for operating leases is based on the lease liability adjusted for the reclassification of certain balance sheet amounts such as favorable leases, the long term portion of straight line rent liability, purchased lease rights and landlord allowances. In addition, the Company also recorded an approximate \$0.6 million cumulative-effect adjustment to retained earnings, related to a deferred gain on a previous sale-leaseback transaction that was being recognized into the line item "Other income" over a 13 year period.

Adoption of this standard also resulted in a change in the timing of certain expense recognition, primarily related to net favorable lease cost, as well as a reclassification of favorable lease cost from "Depreciation and amortization" to "Selling, general and administrative expenses" on the Company's Condensed Consolidated Statements of Income for the three and nine months ended November 2, 2019. This guidance did not have a material impact on the Company's liquidity. Refer to Note 3, "Lease Commitments," for further detail of the Company's future minimum lease payments.

Pending Accounting Standards

Intangible Assets

On January 26, 2017, the FASB issued ASU 2017-04, "Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment," which aims to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the new guidance, goodwill impairment will be measured as the amount by which the carrying value exceeds the fair value. The loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. The new guidance will be effective for annual reporting periods beginning after December 15, 2019, including interim periods. This ASU will be effective for the Company as of the beginning of the fiscal year ending January 30, 2021 (Fiscal 2020). Early adoption is permitted for annual or interim goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not anticipate that the new guidance will have a significant impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "Intangibles—Goodwill and Other—Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." This ASU requires that implementation costs incurred in a hosting arrangement that is a service contract be assessed in accordance with the existing guidance in Subtopic 350-40, "Internal-Use Software." Accordingly, costs incurred during the preliminary project stage must be expensed as incurred, while costs incurred during the application development stage must be capitalized. Capitalized implementation costs associated with a hosting arrangement that is a service contract must be expensed over the term of the hosting arrangement. Additionally, the new guidance requires that the expense of these capitalized costs be presented in the same line item in the statement of income as the fees associated with the hosting element of the arrangement. The new guidance will be effective for annual reporting periods beginning after December 15, 2019, including interim periods. This ASU will be effective for the Company as of the beginning of Fiscal 2020. Early adoption is permitted for annual or interim periods. While the Company is still in the process of determining the impact of the adoption of this guidance on its consolidated financial statements, it does not anticipate that the new guidance will have a significant impact on its consolidated financial statements.

There were no other new accounting standards that had a material impact on the Company's Condensed Consolidated Financial Statements during the three and nine month periods ended November 2, 2019, and there were no other new accounting standards or pronouncements that were issued but not yet effective as of November 2, 2019 that the Company expects to have a material impact on its financial position or results of operations upon becoming effective.

2. Stockholders' Equity

Activity for the three and nine month periods ended November 2, 2019 and November 3, 2018 in the Company's stockholders' equity are summarized below:

	<i>(in thousands, except share data)</i>							
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance at February 2, 2019	79,224,669	\$ 7	\$ 1,508,996	\$ (260,919)	\$ (3,613)	(12,079,572)	\$ (921,761)	\$ 322,710
Net income	—	—	—	77,765	—	—	—	77,765
Stock options exercised	110,493	—	1,821	—	—	—	—	1,821
Shares used for tax withholding	—	—	—	—	—	(45,447)	(7,538)	(7,538)
Shares purchased as part of publicly announced programs	—	—	—	—	—	(841,460)	(122,780)	(122,780)
Forfeiture of restricted shares, net of issuance of 1,759 restricted shares	(2,585)	—	—	—	—	—	—	—
Stock based compensation	—	—	9,427	—	—	—	—	9,427
Unrealized losses on interest rate derivative contracts, net of related tax benefit of \$1.3 million	—	—	—	—	(3,272)	—	—	(3,272)
Amount reclassified into earnings, net of related taxes of \$0.1 million	—	—	—	—	(185)	—	—	(185)
Cumulative-effect adjustment	—	—	—	600	—	—	—	600
Balance at May 4, 2019	79,332,577	7	1,520,244	(182,554)	(7,070)	(12,966,479)	(1,052,079)	278,548
Net income	—	—	—	84,567	—	—	—	84,567
Stock options exercised	280,955	—	13,394	—	—	—	—	13,394
Shares used for tax withholding	—	—	—	—	—	(67,539)	(11,521)	(11,521)
Shares purchased as part of publicly announced programs	—	—	—	—	—	(300,742)	(51,326)	(51,326)
Forfeiture of restricted shares	(8,164)	—	—	—	—	—	—	—
Stock based compensation	—	—	11,547	—	—	—	—	11,547
Unrealized losses on interest rate derivative contracts, net of related tax benefit of \$3.9 million	—	—	—	—	(10,222)	—	—	(10,222)
Amount reclassified into earnings, net of related taxes of \$0.1 million	—	—	—	—	150	—	—	150
Balance at August 3, 2019	79,605,368	7	1,545,185	(97,987)	(17,142)	(13,334,760)	(1,114,926)	315,137
Net income	—	—	—	96,459	—	—	—	96,459
Stock options exercised	244,805	—	13,785	—	—	—	—	13,785
Shares used for tax withholding	—	—	—	—	—	(596)	(112)	(112)
Shares purchased as part of publicly announced programs	—	—	—	—	—	(223,009)	(42,746)	(42,746)
Forfeiture of restricted shares	(41,867)	—	—	—	—	—	—	—
Stock based compensation	—	—	9,568	—	—	—	—	9,568
Unrealized losses on interest rate derivative contracts, net of related tax benefit of \$0.4 million	—	—	—	—	(1,003)	—	—	(1,003)
Amount reclassified into earnings, net of related taxes of \$0.2 million	—	—	—	—	500	—	—	500
Balance at November 2, 2019	<u>79,808,306</u>	<u>\$ 7</u>	<u>\$ 1,568,538</u>	<u>\$ (1,528)</u>	<u>\$ (17,645)</u>	<u>(13,558,365)</u>	<u>\$(1,157,784)</u>	<u>\$ 391,588</u>

(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance at February 3, 2018	78,421,947	\$ 7	\$ 1,457,205	\$ (675,664)	\$ (1,887)	(10,550,222)	\$ (692,887)	\$ 86,774
Net income	—	—	—	82,588	—	—	—	82,588
Stock options exercised	150,502	—	3,498	—	—	—	—	3,498
Shares used for tax withholding	—	—	—	—	—	(47,132)	(6,376)	(6,376)
Shares purchased as part of publicly announced programs	—	—	—	—	—	(488,468)	(63,878)	(63,878)
Issuance of restricted shares, net of forfeitures of 3,318 restricted shares	125,780	—	—	—	—	—	—	—
Stock based compensation	—	—	7,023	—	—	—	—	7,023
Unrealized gains on interest rate cap contracts, net of related taxes of \$0.4 million	—	—	—	—	986	—	—	986
Amount reclassified into earnings, net of related taxes of \$0.3 million	—	—	—	—	657	—	—	657
Balance at May 5, 2018 (a)	78,698,229	7	1,467,726	(593,077)	(244)	(11,085,822)	(763,141)	111,271
Net income	—	—	—	70,957	—	—	—	70,957
Stock options exercised	245,854	—	7,966	—	—	—	—	7,966
Shares used for tax withholding	—	—	—	—	—	(3,208)	(410)	(410)
Shares purchased as part of publicly announced programs	—	—	—	—	—	(310,796)	(46,563)	(46,563)
Issuance of restricted shares, net of forfeitures of 5,579 restricted shares	6,453	—	—	—	—	—	—	—
Stock based compensation	—	—	9,726	—	—	—	—	9,726
Unrealized gains on interest rate cap contracts, net of related taxes of less than \$0.1 million	—	—	—	—	(14)	—	—	(14)
Amount reclassified into earnings, net of related taxes of \$0.1 million	—	—	—	—	360	—	—	360
Balance at August 4, 2018 (a)	78,950,536	7	1,485,418	(522,120)	102	(11,399,826)	(810,114)	153,293
Net income	—	—	—	76,849	—	—	—	76,849
Stock options exercised	171,129	—	2,994	—	—	—	—	2,994
Shares used for tax withholding	—	—	—	—	—	(359)	(148)	(148)
Shares purchased as part of publicly announced programs	—	—	—	—	—	(306,752)	(49,594)	(49,594)
Forfeiture of restricted shares, net of issuance of 1,111 restricted shares	(6,831)	—	—	—	—	—	—	—
Stock based compensation	—	—	9,466	—	—	—	—	9,466
Unrealized gains on interest rate cap contracts, net of related taxes of \$0.1 million	—	—	—	—	232	—	—	232
Amount reclassified into earnings, net of related taxes of \$0.1 million	—	—	—	—	289	—	—	289
Balance at November 3, 2018 (a)	79,114,834	7	1,497,878	(445,270)	624	(11,706,937)	(859,856)	193,383

(a) Amounts may not foot due to rounding.

3. Lease Commitments

The Company's leases primarily consist of stores, distribution facilities and office space under operating and finance leases that will expire principally during the next 30 years. The leases typically include renewal options at five year intervals and escalation clauses. Lease renewals are only included in the lease liability to the extent that they are reasonably assured of being exercised. The

Company's leases typically provide for contingent rentals based on a percentage of gross sales. Contingent rentals are not included in the lease liability, and they are recognized as variable lease cost when incurred.

The following is a schedule of the Company's future lease payments:

Fiscal Year	<i>(in thousands)</i>	
	Operating Leases	Finance Leases
2019 (remainder)	\$ 105,976	\$ 1,390
2020	422,923	5,634
2021	403,204	5,646
2022	386,679	5,773
2023	364,911	5,849
2024	326,006	5,677
Thereafter	1,209,908	10,716
Total future minimum lease payments	3,219,607	40,685
Amount representing interest	(667,721)	(9,870)
Total lease liabilities	2,551,886	30,815
Less: current portion of lease liabilities	(293,756)	(3,302)
Total long term lease liabilities	\$ 2,258,130	\$ 27,513
Weighted average discount rate	5.4%	8.3%
Weighted average remaining lease term (years)	8.6	7.4

The above schedule excludes approximately \$389.6 million for 51 stores that the Company has committed to open or relocate but has not yet taken possession of the space. The discount rates used in valuing the Company's leases are not readily determinable, and are based on the Company's incremental borrowing rate on a fully collateralized basis.

The following is a schedule of net lease costs for the periods indicated:

	<i>(in thousands)</i>	
	Three Months Ended November 2, 2019	Nine Months Ended November 2, 2019
Finance lease cost:		
Amortization of finance lease asset (a)	\$ 973	\$ 2,918
Interest on lease liabilities (b)	625	1,921
Operating lease cost (c)	104,988	307,416
Variable lease cost (c)	1,397	4,418
Total lease cost	107,983	316,673
Less all rental income(d)	(1,265)	(3,738)
Total net rent expense (e)	\$ 106,718	\$ 312,935

- (a) Included in the line item "Depreciation and amortization" in the Company's Condensed Consolidated Statements of Income.
- (b) Included in the line item "Interest expense" in the Company's Condensed Consolidated Statements of Income.
- (c) Included in the line item "Selling, general and administrative expenses" in the Company's Condensed Consolidated Statements of Income.
- (d) Included in the line item "Other revenue" in the Company's Condensed Consolidated Statements of Income.
- (e) Excludes an immaterial amount of short-term lease cost.

Supplemental cash flow disclosures related to leases are as follows:

	<i>(in thousands)</i>	
	Nine Months Ended November 2, 2019	
Cash paid for amounts included in the measurement of lease liabilities:		
Cash payments arising from operating lease liabilities (a)	\$	296,511
Cash payments for the principal portion of finance lease liabilities (b)	\$	2,133
Cash payments for the interest portion of finance lease liabilities (a)	\$	1,921
Supplemental non-cash information:		
Operating lease liabilities arising from obtaining right-of-use assets	\$	546,702

- (a) Included within operating activities in the Company's Condensed Consolidated Statements of Cash Flows.
(b) Included within financing activities in the Company's Condensed Consolidated Statements of Cash Flows.

The following is a schedule of net rent expense for the periods indicated under Accounting Standards Codification (ASC) 840, "Leases." Prior periods have not been adjusted for adoption of ASU 2016-02:

	<i>(in thousands)</i>	
	Three Months Ended November 3, 2018	Nine Months Ended November 3, 2018
Rent expense:		
Minimum rental payments	\$ 91,606	\$ 269,990
Contingent rental payments	1,782	4,249
Straight-line rent expense	3,373	7,795
Lease incentives amortization	(8,736)	(25,958)
Total rent expense(a)	88,025	256,076
Less all rental income(b)	(1,235)	(4,763)
Total net rent expense	<u>\$ 86,790</u>	<u>\$ 251,313</u>

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

As previously disclosed in the Company's Fiscal 2018 Form 10-K and under the previous lease accounting standard, future minimum lease payments due under non-cancelable operating leases as of February 2, 2019 would have been as follows:

	<i>(in thousands)</i>	
Fiscal Year	Operating Leases	Capital Leases
2019	\$ 383,877	\$ 5,414
2020	405,370	5,120
2021	387,140	5,597
2022	369,068	5,725
2023	346,175	6,291
Thereafter	1,475,301	15,849
Total minimum lease payments	3,366,931	43,996
Amount representing interest	—	(11,290)
Total future minimum lease payments	<u>\$ 3,366,931</u>	<u>\$ 32,706</u>

The above schedule included \$278.9 million related to options to extend lease terms that were reasonably assured of being exercised and \$22.4 million of minimum lease payments for 76 stores that the Company had committed to open or relocate.

4. Long Term Debt

Long term debt consists of:

	<i>(in thousands)</i>		
	November 2, 2019	February 2, 2019	November 3, 2018
\$1,200,000 senior secured term loan facility (Term B-5 Loans), LIBOR (with a floor of 0.00%) plus 2.00%, matures on November 17, 2024	\$ 957,302	\$ 956,693	\$ 956,490
\$600,000 ABL senior secured revolving facility, LIBOR plus spread based on average outstanding balance, matures on June 29, 2023	—	—	105,000
Finance lease obligations	30,815	32,706	33,378
Unamortized deferred financing costs	(2,467)	(2,832)	(2,954)
Total debt	985,650	986,567	1,091,914
Less: current maturities	(3,302)	(2,924)	(2,800)
Long term debt, net of current maturities	<u>\$ 982,348</u>	<u>\$ 983,643</u>	<u>\$ 1,089,114</u>

Term Loan Facility

At November 2, 2019 and November 3, 2018, the Company's interest rate related to its senior secured term loan facility (the Term Loan Facility) was 3.9% and 4.3%, respectively.

ABL Line of Credit

At November 2, 2019, the Company had \$540.8 million available under the ABL senior secured revolving facility (the ABL Line of Credit). The maximum borrowings under the ABL Line of Credit during the three and nine month periods ended November 2, 2019 amounted to \$120.0 million and \$255.0 million, respectively. Average borrowings during the three and nine month periods ended November 2, 2019 amounted to \$32.6 million and \$108.7 million, respectively, at average interest rates of 3.5% and 3.7%, respectively.

At November 3, 2018, the Company had \$434.1 million available under the ABL Line of Credit. The maximum borrowings under the ABL Line of Credit during the three and nine month periods ended November 3, 2018 amounted to \$265.0 million for both periods. Average borrowings during the three and nine month periods ended November 3, 2018 amounted to \$166.5 million and \$103.4 million, respectively, at an average interest rate of 3.4% in both periods.

5. Derivative Instruments and Hedging Activities

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

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 November 2, 2019, 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 it is not significant. As a result, the Company classifies its derivative valuations in Level 2 of the fair value hierarchy.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate caps and interest rate swaps 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. Interest rate swaps designated as cash flow hedges

involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

As of November 2, 2019, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional Aggregate Principal Amount	Interest Cap/Swap Rate	Maturity Date
Interest rate swap contract	One	\$ 450.0 million	2.72%	December 29, 2023

Tabular Disclosure

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

Derivatives Designated as Hedging Instruments	<i>(in thousands)</i>					
	Fair Values of Derivative Instruments					
	November 2, 2019		February 2, 2019		November 3, 2018	
Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	
			Prepaid and other current assets		Prepaid and other current assets	
Interest rate cap contracts	N/A	N/A	\$ 2,213		\$ 4,390	
Interest rate swap contract	Other liabilities	\$ 24,410	Other liabilities	\$ 5,239	N/A	

The following table presents the unrealized gains and losses deferred to accumulated other comprehensive income (loss) resulting from the Company's derivative financial instruments for each of the reporting periods.

Interest Rate Derivatives:	<i>(in thousands)</i>			
	Three Months Ended		Nine Months Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Unrealized (losses) gains, before taxes	\$ (1,387)	\$ 321	\$ (20,043)	\$ 1,665
Income tax benefit (expense)	384	(89)	5,546	(461)
Unrealized (losses) gains, net of taxes	\$ (1,003)	\$ 232	\$ (14,497)	\$ 1,204

The following table presents information about the reclassification of gains and losses from accumulated other comprehensive income (loss) into earnings related to the Company's derivative instruments for each of the reporting periods.

Component of Earnings:	<i>(in thousands)</i>			
	Three Months Ended		Nine Months Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Interest expense	\$ 691	\$ 400	\$ 635	\$ 1,807
Income tax expense	(191)	(111)	(170)	(500)
Net income	\$ 500	\$ 289	\$ 465	\$ 1,307

The Company estimates that approximately \$5.3 million will be reclassified from accumulated other comprehensive loss into interest expense during the next twelve months.

6. Accumulated Other Comprehensive Income (Loss)

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

	<i>(in thousands)</i>
	<u>Derivative Instruments</u>
Balance at February 2, 2019	\$ (3,613)
Unrealized losses, net of related tax benefit of \$5.5 million	(14,497)
Amount reclassified into earnings, net of related taxes of \$0.2 million	465
Balance at November 2, 2019	<u>\$ (17,645)</u>

7. Fair Value Measurements

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

- Level 1: Quoted prices for identical assets or liabilities in active markets.
- Level 2: Quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3: Pricing inputs that are unobservable for the assets and liabilities and include situations where there is little, if any, market activity for the assets and liabilities.

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

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

Refer to Note 5, "Derivative Instruments and Hedging Activities," for further discussion regarding the fair value of the Company's interest rate swap contract.

Financial Assets

The fair values of the Company's financial assets and the hierarchy of the level of inputs as of November 2, 2019, February 2, 2019 and November 3, 2018 are summarized below:

	<i>(in thousands)</i>		
	<u>Fair Value Measurements at</u>		
	<u>November 2, 2019</u>	<u>February 2, 2019</u>	<u>November 3, 2018</u>
Level 1			
Cash equivalents (including restricted cash)	\$ 7,275	\$ 22,416	\$ 22,367

Financial Liabilities

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

	<i>(in thousands)</i>					
	<u>November 2, 2019</u>		<u>February 2, 2019</u>		<u>November 3, 2018</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Term B-5 Loans	\$ 957,302	\$ 957,900	\$ 956,693	\$ 947,126	\$ 956,490	\$ 955,892
ABL Line of Credit	—	—	—	—	105,000	105,000
Total debt (a)	<u>\$ 957,302</u>	<u>\$ 957,900</u>	<u>\$ 956,693</u>	<u>\$ 947,126</u>	<u>\$ 1,061,490</u>	<u>\$ 1,060,892</u>

(a) Finance 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.

8. Income Taxes

Net deferred taxes are as follows:

	<i>(in thousands)</i>		
	November 2, 2019	February 2, 2019	November 3, 2018
Deferred tax asset	\$ 4,066	\$ 4,361	\$ 5,004
Deferred tax liability	171,626	178,779	180,155
Net deferred tax liability	<u>\$ 167,560</u>	<u>\$ 174,418</u>	<u>\$ 175,151</u>

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

As of November 2, 2019, the Company has a deferred tax asset related to net operating losses of \$2.2 million, inclusive of \$8.9 million related to state net operating losses that expire at various dates between 2019 and 2038, as well as \$0.3 million related to Puerto Rico net operating losses that will expire between 2024 and 2025.

As of November 2, 2019, the Company has a deferred tax asset related to tax credit carry-forwards of \$6.1 million, inclusive of \$4.5 million of state tax credit carry-forwards, which will begin to expire in 2022, as well as \$1.6 million of deferred tax assets recorded for Puerto Rico alternative minimum tax credits that have an indefinite life.

As of November 2, 2019, February 2, 2019 and November 3, 2018, valuation allowances amounted to \$8.7 million, \$10.3 million and \$9.0 million, respectively, related to state and Puerto Rico net operating losses and state tax credit carry-forwards. The Company believes that it is more likely than not that this portion of state and Puerto Rico net operating losses and state tax credit carry-forwards will not be realized.

9. Capital Stock

Treasury Stock

The Company accounts for treasury stock under the cost method.

During the nine month period ended November 2, 2019, the Company acquired 113,582 shares of common stock from employees for approximately \$9.2 million to satisfy their minimum statutory tax withholdings related to the vesting of restricted stock awards, which was recorded in the line item "Treasury stock" on the Company's Condensed Consolidated Balance Sheets, and the line item "Purchase of treasury shares" on the Company's Condensed Consolidated Statements of Cash Flows.

Share Repurchase Program

On August 15, 2018, the Company's Board of Directors authorized the repurchase of up to \$300 million of common stock, which is authorized to be executed through August 2020. On August 14, 2019, the Company's Board of Directors authorized the repurchase of up to an additional \$300 million of common stock, which is authorized to be executed through August 2021. These repurchase programs are funded using the Company's available cash and borrowings under the ABL Line of Credit.

During the nine month period ended November 2, 2019, the Company repurchased 1,365,211 shares of its common stock for \$216.9 million, inclusive of commissions, under its share repurchase programs, which was recorded in the line item "Treasury stock" on the Company's Condensed Consolidated Balance Sheets, and the line item "Purchase of treasury shares" on the Company's Condensed Consolidated Statements of Cash Flows. As of November 2, 2019, the Company had \$481.6 million remaining under its share repurchase authorizations.

10. Net Income Per Share

Basic net income per share is calculated by dividing net income by the weighted-average number of common shares outstanding. Diluted net income per share is calculated by dividing net income by the weighted-average number of common shares and potentially dilutive securities outstanding during the period using the treasury stock method. The following table presents the computation of basic and diluted net income per share:

	<i>(in thousands, except per share data)</i>			
	Three Months Ended		Nine Months Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
<i>Basic net income per share</i>				
Net income	\$ 96,459	\$ 76,849	\$ 258,791	\$ 230,394
Weighted average number of common shares – basic	65,959	66,780	65,994	66,885
Net income per common share – basic	\$ 1.46	\$ 1.15	\$ 3.92	\$ 3.44
<i>Diluted net income per share</i>				
Net income	\$ 96,459	\$ 76,849	\$ 258,791	\$ 230,394
Shares for basic and diluted net income per share:				
Weighted average number of common shares – basic	65,959	66,780	65,994	66,885
Assumed exercise of stock options and vesting of restricted stock	1,200	1,848	1,393	1,904
Weighted average number of common shares – diluted	67,159	68,628	67,387	68,789
Net income per common share – diluted	\$ 1.44	\$ 1.12	\$ 3.84	\$ 3.35

Approximately 350,000 and 450,000 shares were excluded from diluted net income per share for the three and nine month periods ended November 2, 2019, respectively, since their effect was anti-dilutive.

Approximately 485,000 and 400,000 shares were excluded from diluted net income per share for the three and nine month periods ended November 3, 2018, respectively, since their effect was anti-dilutive.

11. Stock-Based Compensation

As of November 2, 2019, there were 3,277,586 shares of common stock available for issuance under the Company's 2013 Omnibus Incentive Plan.

Non-cash stock compensation expense is as follows:

Type of Non-Cash Stock Compensation	<i>(in thousands)</i>			
	Three Months Ended		Nine Months Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Restricted stock grants (a)	\$ 3,910	\$ 5,002	\$ 14,453	\$ 14,076
Stock option grants (a)	4,567	4,464	13,751	12,139
Performance stock grants (a)	1,091	—	2,338	—
Total (b)	\$ 9,568	\$ 9,466	\$ 30,542	\$ 26,215

- (a) Included in the line item "Selling, general and administrative expenses" in the Company's Condensed Consolidated Statements of Income.
- (b) The amounts presented in the table above exclude taxes. For the three and nine month periods ended November 2, 2019, the tax benefit related to the Company's non-cash stock compensation was approximately \$1.7 million and \$6.4 million, respectively. For the three and nine month periods ended November 3, 2018, the tax benefit related to the Company's non-cash stock compensation was approximately \$2.4 million and \$6.6 million, respectively.

Stock Options

Stock option transactions during the nine month period ended November 2, 2019 are summarized as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding, February 2, 2019	2,337,316	\$ 64.48
Options granted	416,428	180.11
Options exercised (a)	(636,253)	45.58
Options forfeited	(150,407)	88.10
Options outstanding, November 2, 2019	<u>1,967,084</u>	<u>\$ 93.27</u>

(a) Options exercised during the nine month period ended November 2, 2019 had a total intrinsic value of \$2.5 million.

The following table summarizes information about the stock options vested and expected to vest during the contractual term of such options as of November 2, 2019:

	Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)
Vested and expected to vest	1,967,084	7.0	\$ 93.27	\$ 194.1

The fair value of each stock option granted during the nine month period ended November 2, 2019 was estimated using the Black Scholes option pricing model using the following assumptions:

	Nine Months Ended November 2, 2019
Risk-free interest rate	1.47% - 3.00%
Expected volatility	32% - 36%
Expected life (years)	5.69 - 6.25
Contractual life (years)	10.0
Expected dividend yield	0.0%
Weighted average grant date fair value of options issued	\$ 67.37

The expected dividend yield was based on the Company's expectation of not paying dividends in the near term. 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 November 2, 2019, 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 relatively short length of time the Company's common stock has been publicly traded.

Restricted Stock

Prior to May 1, 2019, the Company granted shares of restricted stock. Grants made on and after May 1, 2019 are in the form of restricted stock units. Restricted stock transactions during the nine month period ended November 2, 2019 are summarized as follows:

	Number of Shares	Weighted Average Grant Date Fair Value Per Award
Non-vested awards outstanding, February 2, 2019	666,842	\$ 81.93
Awards granted	191,953	177.63
Awards vested (a)	(303,654)	66.91
Awards forfeited	(61,479)	100.30
Non-vested awards outstanding, November 2, 2019	<u>493,662</u>	<u>126.09</u>

(a) Restricted stock awards vested during the nine month period ended November 2, 2019 had a total intrinsic value of \$1.1 million.

The fair value of each share of restricted stock granted during Fiscal 2019 was based upon the closing price of the Company's common stock on the grant date.

Performance Share Units

Beginning in Fiscal 2019, the Company granted performance share units to its senior executives. Vesting of these performance share units is based on pre-established EBIT margin expansion and sales CAGR goals (each weighted equally) over a three-year performance period. Based on the Company's achievement of these goals, each award may range from 50% (at threshold performance) to no more than 200% of the target award. In the event that actual performance is below threshold, no award will be made. In addition to the performance conditions, each performance share unit cliff vests at the end of a three-year service period.

Performance share unit transactions during the nine month period ended November 2, 2019 are summarized as follows:

	Number of Shares	Weighted Average Grant Date Fair Value Per Award
Non-vested units outstanding, February 2, 2019	—	\$ —
Units granted	89,448	173.51
Awards forfeited	(8,497)	170.08
Non-vested units outstanding, November 2, 2019	<u>80,951</u>	<u>173.87</u>

CEO Awards

A portion of the awards granted during Fiscal 2019, included in the tables above, were granted to Michael O'Sullivan, the Company's Chief Executive Officer (the CEO), upon commencement of his employment in September 2019. To compensate the CEO for equity awards forfeited at his prior employer, he received a one-time long-term incentive grant with a target grant date fair value of \$25.0 million, comprised of 50% time-based restricted stock units and 50% stock options, vesting in one-third annual increments (subject to the CEO's continued employment through the applicable vesting date). The CEO also received a prorated portion of his Fiscal 2019 long-term incentive award (such award having a target grant date fair value equal to \$8.5 million), delivered as 50% performance-based restricted stock units, 25% stock options and 25% time-based restricted stock units, on the same terms as the Company's Fiscal 2019 annual equity grants.

12. Other Liabilities

As of November 2, 2019, the line item "Other liabilities" on the Company's Condensed Consolidated Balance Sheet primarily consists of the long term portion of self-insurance reserves and tax liabilities associated with the uncertain tax positions recognized by the Company in accordance with ASC Topic No. 740, "Income Taxes." As of February 2, 2019 and November 3, 2018, the line item "Other liabilities" on the Company's Condensed Consolidated Balance Sheets primarily consists of deferred lease incentives, the excess of straight-line rent expense over actual rental payments, the long term portion of self-insurance reserves and tax liabilities associated with uncertain tax positions.

Deferred lease incentives are funds received or receivable from landlords used primarily to offset costs incurred for leasehold improvements and fixturing of new and remodeled stores. These deferred lease incentives are amortized over the expected lease term including rent holiday periods and option periods, where the exercise of the option can be reasonably assured. Amortization of deferred lease incentives is included in the line item "Selling, general and administrative expenses" on the Company's Condensed Consolidated Statements of Income. At February 2, 2019 and November 3, 2018, deferred lease incentives included in the line item "Other liabilities" were \$216.2 million and \$217.2 million, respectively. As a result of adoption of ASC 2016-02, deferred lease incentives are included in the line item "Operating lease assets" on the Company's Condensed Consolidated Balance Sheet as of November 2, 2019. Refer to Note 3, "Lease Commitments," for further detail of the Company's lease liabilities.

13. 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 and other statutes. In the normal course of business, we are also party to various other lawsuits and regulatory proceedings including, among others, commercial, product, product safety, employee, customer, intellectual property and other claims. Actions against us are in various procedural stages. Many of these proceedings raise factual and legal issues and are subject to uncertainties. To determine the likelihood of a loss and/or the measurement of any loss can be complex. Consequently, we are unable to estimate the range of reasonably possible loss in excess of amounts accrued. The Company's assessments are based on estimates and assumptions that have been deemed reasonable by management, but the assessment process relies heavily on estimates and assumptions that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions. While no assurance can be given as to the ultimate outcome of these matters, the Company believes that the final resolution of these actions will not have a material adverse effect on the Company's results of operations, financial position, liquidity or capital resources.

Letters of Credit

The Company had letter of credit arrangements with various banks in the aggregate amount of \$59.2 million, \$56.7 million and \$60.9 million as of November 2, 2019, February 2, 2019 and November 3, 2018, respectively. Among these arrangements, as of November 2, 2019, February 2, 2019 and November 3, 2018, the Company had letters of credit in the amount of \$50.8 million, \$48.9 million and \$44.5 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 \$8.4 million, \$7.8 million and \$16.4 million at November 2, 2019, February 2, 2019 and November 3, 2018, respectively, related to certain merchandising agreements. Based on the terms of the agreement governing the ABL Line of Credit, the Company had the ability to enter into letters of credit up to \$540.8 million, \$543.3 million and \$434.1 million as of November 2, 2019, February 2, 2019 and November 3, 2018, respectively.

Purchase Commitments

The Company had \$971.8 million of purchase commitments related to goods that were not received as of November 2, 2019.

Death Benefits

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

14. Related Parties

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

BURLINGTON STORES, INC.

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

The following discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flows as of and for the periods presented below. The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this report and the Consolidated Financial Statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 (Fiscal 2018 10-K).

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 or other events may differ materially from those anticipated in these forward-looking statements due to various factors, including those discussed under the section of this Item 2 entitled "Safe Harbor Statement."

Executive Summary

Introduction and Overview of Operating Results

We are a nationally recognized off-price retailer of high-quality, branded apparel at everyday low prices. We opened our first store in Burlington, New Jersey in 1972, selling primarily coats and outerwear. Since then, we have expanded our store base to 726 stores as of November 2, 2019, 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, accessories, footwear, menswear, youth apparel, baby, home, coats, beauty, toys and gifts. We sell a broad selection of desirable, first-quality, current-brand, labeled merchandise acquired directly from nationally-recognized manufacturers and other suppliers.

Highlights from the three month period ended November 2, 2019 compared with the three month period ended November 3, 2018 include the following:

- We generated total revenues of \$1,781.6 million compared with \$1,641.0 million.
- Net sales improved \$140.5 million to \$1,774.9 million. Comparable store sales increased 2.7%.
- Gross margin as a percentage of net sales remained consistent at 42.4%. Product sourcing costs, which are included in selling, general and administrative expenses, improved approximately 20 basis points as a percentage of net sales. Product sourcing costs include the costs of processing goods through our supply chain and buying costs.
- Selling, general and administrative expenses as a percentage of net sales remained consistent at 32.9%.
- We earned net income of \$96.5 million compared with net income of \$76.8 million.
- Adjusted Net Income, exclusive of management transition costs (as defined in the section below entitled "Key Performance Measures") improved \$20.9 million to \$103.8 million.
- Adjusted EBITDA, exclusive of management transition costs (as defined in the section below entitled "Key Performance Measures") improved \$30.8 million to \$193.8 million.
- Adjusted EBIT, exclusive of management transition costs (as defined in the section below entitled "Key Performance Measures") improved \$26.6 million to \$141.2 million.

Highlights from the nine month period ended November 2, 2019 compared with the nine month period ended November 3, 2018 include the following:

- We generated total revenues of \$5,077.8 million compared with \$4,670.4 million.
- Net sales improved \$408.3 million to \$5,059.9 million. Comparable store sales increased 2.2%.
- Gross margin as a percentage of net sales decreased to 41.6% compared with 41.7%. Product sourcing costs, which are included in selling, general and administrative expenses, improved approximately 10 basis points as a percentage of net sales.
- Selling, general and administrative expenses as a percentage of net sales increased to 32.3% compared with 31.9%.
- We earned net income of \$258.8 million compared with \$230.4 million.
- Adjusted Net Income, exclusive of management transition costs improved \$32.0 million to \$280.8 million.

- Adjusted EBITDA, exclusive of management transition costs improved \$52.0 million to \$532.1 million.
- Adjusted EBIT, exclusive of management transition costs improved \$37.7 million to \$376.8 million.

Fiscal Year

Fiscal 2019 is defined as the 52-week year ending February 1, 2020. Fiscal 2018 is defined as the 52-week year ended February 2, 2019.

Store Openings, Closings, and Relocations

During the nine month period ended November 2, 2019, we opened 72 new stores, inclusive of 15 relocations, and closed six stores, exclusive of the aforementioned relocations, bringing our store count as of November 2, 2019 to 726 stores, inclusive of an internet store.

Ongoing Initiatives for Fiscal 2019

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-\$100,000, by improving our product offering, store merchandising and marketing focus on women's ready-to-wear apparel and accessories to capture incremental sales from our core female customer and become a destination for her across all categories. We believe that these efforts will increase the frequency of her visits and her average spend, further improving the comparable store sales performance in women's categories.
- *Continuing to Improve Our Customer Experience.* We have significantly enhanced the store experience and ease of shopping at all of our stores by implementing a comprehensive program focused on offering more brands and styles and simplifying store navigation. We have accomplished this by utilizing clear way-finding signs and distinct product signage, highlighting key brands and new arrivals, improving organization of the floor space, reducing rack density, facilitating quicker checkouts and delivering better customer service. We have made particular improvements in product size visibility, queuing and fitting rooms. To ensure consistent execution of our customer experience priorities, we have improved our store associate training and reorganized and strengthened our field management organization. Our much improved store experience continues to resonate with our customers. We continue to refine our online customer survey to provide more actionable customer feedback to stores. Stores develop action plans to address clearly identified areas of focus. Store managers have the ability to review immediate feedback from their customers, and react accordingly.
- *Increasing Our Sales Through e-Commerce.* We have been selling to our customers online for more than a decade. We have leveraged this heritage and continue to utilize e-commerce strategies offering merchandise to our customers while driving 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, bath and cosmetic merchandise, housewares, décor for the home and beauty as we continue to de-weather our business, and maintain the flexibility to introduce new categories.

- *Private Label Credit Card.* We have piloted a new private label credit card program. The program has been rolled out to all our stores and our e-commerce site. We believe this program has the potential to deepen customer loyalty, inform customer contact strategies, and drive increases in trip frequency and transaction size.

- **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. We believe there is significant opportunity to expand our retail store base in the United States. We have identified numerous market opportunities that we believe will allow us to reach 1,000 stores over the long-term.
- *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. 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 believe that as we continue to reduce our comparable store inventory, we will be able to reduce the square footage of our stores while continuing to maintain our broad assortment.
- *Enhancing the Store Experience Through Store Remodels and Relocations.* We continue to invest in store 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. In our remodeled stores, we have typically incorporated new flooring, painting, lighting and graphics, relocated our fitting rooms to maximize productive selling space, added new departments such as home and accessories and made various other improvements as appropriate by location.

- **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 increasing our store footprint and expanding our West Coast buying office provides 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 we strive 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 second half of the year, 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.

A slowdown in the U.S. economy, an uncertain global economic outlook or a 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. Ongoing international trade and tariff negotiations could have a direct impact on our income and an indirect impact on consumer prices. 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 and expenses. 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, we must continue to offer brand-name merchandise at a discount to prices offered by other retailers 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, internet retailers, specialty stores, discount stores, wholesale clubs, and outlet stores as well as with certain traditional, full-price retail chains that have developed off-price concepts. 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, under 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.

Key Performance Measures

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

Net income. We earned net income of \$96.5 million during the three month period ended November 2, 2019 compared with \$76.8 million during the three month period ended November 3, 2018. We earned net income of \$258.8 million during the nine month period ended November 2, 2019 compared with \$230.4 million during the nine month period ended November 3, 2018. These improvements were primarily driven by our increased gross margin dollars, partially offset by an increase in selling, general and administrative expenses. Refer to the section below entitled "Results of Operations" for further explanation.

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

We define Adjusted Net Income as net income, exclusive of the following items, if applicable: (i) net favorable lease cost; (ii) costs related to debt amendments; (iii) loss on extinguishment of debt; (iv) impairment charges; and (v) other unusual, non-recurring or extraordinary expenses, losses, charges or gains, all of which are tax effected to arrive at Adjusted Net Income.

We define Adjusted EBITDA as net income, exclusive of the following items, if applicable: (i) interest expense; (ii) interest income; (iii) loss on extinguishment of debt; (iv) income tax expense; (v) depreciation and amortization; (vi) impairment charges; (vii) costs related to debt amendments; and (viii) other unusual, non-recurring or extraordinary expenses, losses, charges or gains.

We define Adjusted EBIT as net income, exclusive of the following items, if applicable: (i) interest expense; (ii) interest income; (iii) loss on extinguishment of debt; (iv) income tax expense; (v) impairment charges; (vi) net favorable lease costs; (vii) costs related to debt amendments; and (viii) other unusual, non-recurring or extraordinary expenses, losses, charges or gains.

We present Adjusted Net Income, Adjusted EBITDA and Adjusted EBIT, 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 what we consider to be our core operating results are useful supplemental measures that assist in evaluating our ability to generate earnings and leverage sales, and to more readily compare core operating results 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 or other data prepared in accordance with GAAP. Among other limitations, Adjusted Net Income does not reflect the following items, net of their tax effect:

- favorable lease costs;
- costs related to debt amendments;
- losses on extinguishment of debt;
- impairment charges on long-lived assets; and
- other unusual, non-recurring or extraordinary expenses, losses, charges or gains.

During the three and nine months ended November 2, 2019, Adjusted Net Income, exclusive of management transition costs, improved \$20.9 million to \$103.8 million and \$32.0 million to \$280.8 million, respectively. These improvements were primarily driven by our improved gross margin dollars, partially offset by an increase in selling, general and administrative expenses. Refer to the section below entitled “Results of Operations” for further explanation.

The following table shows our reconciliation of net income to Adjusted Net Income for the three and nine months ended November 2, 2019 compared with the three and nine months ended November 3, 2018:

	<i>(unaudited)</i>			
	<i>(in thousands)</i>			
	Three Months Ended		Nine Months Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Reconciliation of net income to Adjusted Net Income:				
Net income	\$ 96,459	\$ 76,849	\$ 258,791	\$ 230,394
Net favorable lease costs (a)	8,355	5,286	28,262	20,162
Costs related to debt amendments (b)	—	2,418	(375)	2,496
Loss on extinguishment of debt (c)	—	462	—	1,823
Tax effect (d)	(2,140)	(2,075)	(7,070)	(6,079)
Adjusted Net Income	102,674	82,940	279,608	248,796
Management transition costs, net of tax effect (e)	1,171	—	1,171	—
Adjusted Net Income, exclusive of management transition costs	\$ 103,845	\$ 82,940	\$ 280,779	\$ 248,796

- (a) Net favorable lease cost represents the non-cash expense associated with favorable and unfavorable leases that were recorded as a result of purchase accounting related to the April 13, 2006 Bain Capital acquisition of Burlington Coat Factory Warehouse Corporation (the Merger Transaction). As a result of adoption of Accounting Standards Update (ASU) 2016-02, “Leases” (ASU 2016-02), these expenses are recorded in the line item “Selling, general and administrative expenses” in our Condensed Consolidated Statements of Income for the three and nine months ended November 2, 2019. These expenses are recorded in the line item “Depreciation and amortization” in our Condensed Consolidated Statements of Income for the three and nine months ended November 3, 2018.
- (b) Represents costs incurred in connection with review and execution of refinancing opportunities and the reversal of previously estimated costs related to the repricing of our senior secured term loan facility (the Term Loan Facility) in Fiscal 2018.
- (c) Amounts relate to the refinancing of the Term Loan Facility, the \$150.0 million prepayment on the Term Loan Facility, as well as an amendment to our Second Amended and Restated Credit Agreement, dated September 2, 2011 (the ABL Credit Agreement).
- (d) 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 (c).

- (e) Represents costs incurred as a result of hiring a new Chief Executive Officer, primarily related to sign-on and duplicative compensation costs.

Adjusted EBITDA has limitations as an analytical tool, and should not be considered either in isolation or as a substitute for net income or other data prepared in accordance with GAAP. Among other limitations, Adjusted EBITDA does not reflect:

- interest expense on our debt;
- losses on the extinguishment of debt;
- costs related to debt amendments;
- cash requirements for replacement of assets. Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will likely have to be replaced in the future;
- impairment charges on long-lived assets;
- income tax expense; and
- other unusual, non-recurring or extraordinary expenses, losses, charges or gains.

During the three and nine months ended November 2, 2019, Adjusted EBITDA, exclusive of management transition costs, improved \$30.8 million to \$193.8 million and \$52.0 million to \$532.1 million, respectively. These improvements were primarily driven by our improved gross margin dollars, partially offset by an increase in selling, general and administrative expenses. Refer to the section below entitled “Results of Operations” for further explanation.

The following table shows our reconciliation of net income to Adjusted EBITDA for the three and nine months ended November 2, 2019 compared with the three and nine months ended November 3, 2018:

	<i>(unaudited)</i>			
	<i>(in thousands)</i>			
	Three Months Ended		Nine Months Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Reconciliation of net income to Adjusted EBITDA:				
Net income	\$ 96,459	\$ 76,849	\$ 258,791	\$ 230,394
Interest expense	12,149	14,460	38,954	43,563
Interest income	(103)	(113)	(496)	(302)
Loss on extinguishment of debt (a)	—	462	—	1,823
Costs related to debt amendments (b)	—	2,418	(375)	2,496
Depreciation and amortization (c)	61,035	53,770	183,570	161,201
Income tax expense	22,957	15,206	50,302	40,929
Adjusted EBITDA	192,497	163,052	530,746	480,104
Management transition costs (d)	1,346	—	1,346	—
Adjusted EBITDA, exclusive of management transition costs	\$ 193,843	\$ 163,052	\$ 532,092	\$ 480,104

- (a) Amounts relate to the refinancing of the Term Loan Facility, the \$150.0 million prepayment on our Term Loan Facility, as well as an amendment to our ABL Credit Agreement.
- (b) Represents costs incurred in connection with review and execution of refinancing opportunities and the reversal of previously estimated costs related to the repricing of our Term Loan Facility in Fiscal 2018.
- (c) Includes \$8.3 million and \$27.9 million, respectively, of favorable lease cost included in the line item “Selling, general and administrative expenses” in our Condensed Consolidated Statements of Income for the three and nine months ended November 2, 2019. Net favorable lease cost represents the non-cash expense associated with favorable and unfavorable leases that were recorded as a result of the Merger Transaction. As a result of adoption of ASU 2016-02, these expenses are recorded in the line item “Selling, general and administrative expenses” in our Condensed Consolidated Statements of Income for the three and nine months ended November 2, 2019. These expenses are recorded in the line item “Depreciation and amortization” in our Condensed Consolidated Statements of Income for the three and nine months ended November 3, 2018.
- (d) Represents costs incurred as a result of hiring a new Chief Executive Officer, primarily related to sign-on and duplicative compensation costs.

Adjusted EBIT has limitations as an analytical tool, and should not be considered either in isolation or as a substitute for net income or other data prepared in accordance with GAAP. Among other limitations, Adjusted EBIT does not reflect:

- interest expense on our debt;

- losses on the extinguishment of debt;
- costs related to debt amendments;
- favorable lease cost;
- impairment charges on long-lived assets;
- income tax expense; and
- other unusual, non-recurring or extraordinary expenses, losses, charges or gains.

During the three and nine months ended November 2, 2019, Adjusted EBIT, exclusive of management transition costs, improved \$26.6 million to \$141.2 million and \$37.7 million to \$376.8 million, respectively. These improvements were primarily driven by our improved gross margin dollars, partially offset by an increase in selling, general and administrative expenses. Refer to the section below entitled “Results of Operations” for further explanation.

The following table shows our reconciliation of net income to Adjusted EBIT for the three and nine months ended November 2, 2019 compared with the three and nine months ended November 3, 2018:

	<i>(unaudited)</i>			
	<i>(in thousands)</i>			
	Three Months Ended		Nine Months Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Reconciliation of net income to Adjusted EBIT:				
Net income	\$ 96,459	\$ 76,849	\$ 258,791	\$ 230,394
Interest expense	12,149	14,460	38,954	43,563
Interest income	(103)	(113)	(496)	(302)
Loss on extinguishment of debt (a)	—	462	—	1,823
Costs related to debt amendments (b)	—	2,418	(375)	2,496
Net favorable lease costs (c)	8,355	5,286	28,262	20,162
Income tax expense	22,957	15,206	50,302	40,929
Adjusted EBIT	139,817	114,568	375,438	339,065
Management transition costs (d)	1,346	—	1,346	—
Adjusted EBIT, exclusive of management transition costs	\$ 141,163	\$ 114,568	\$ 376,784	\$ 339,065

- Amounts relate to the refinancing of the Term Loan Facility, the \$150.0 million prepayment on our Term Loan Facility, as well as an amendment to our ABL Credit Agreement.
- Represents costs incurred in connection with review and execution of refinancing opportunities and the reversal of previously estimated costs related to the repricing of our Term Loan Facility in Fiscal 2018.
- Net favorable lease cost represents the non-cash expense associated with favorable and unfavorable leases that were recorded as a result of the Merger Transaction. As a result of adoption of ASU 2016-02, these expenses are recorded in the line item “Selling, general and administrative expenses” in our Condensed Consolidated Statements of Income for the three and nine months ended November 2, 2019. These expenses are recorded in the line item “Depreciation and amortization” in our Condensed Consolidated Statements of Income for the three and nine months ended November 3, 2018.
- Represents costs incurred as a result of hiring a new Chief Executive Officer, primarily related to sign-on and duplicative compensation costs.

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 merchandise sales of those stores, including our online store, 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. If a store is closed for seven or more days during a month, our policy is to remove that store from our calculation of comparable stores sales for any such month, as well as during the month(s) of their grand opening activities. The increase in our comparable store sales was as follows:

	Three Months Ended	Nine Months Ended
November 2, 2019	2.7%	2.2%
November 3, 2018	4.4%	4.0%

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 may include all of the costs related to their buying and distribution functions, certain store-related costs 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 Income. 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 remained consistent at 42.4% during the three month period ended November 2, 2019, compared with the three month period ended November 3, 2018. Increased merchandise margin was offset by higher freight costs and inventory write-offs. Product sourcing costs, which are included in selling, general and administrative expenses, improved approximately 20 basis points as a percentage of net sales. Gross margin as a percentage of net sales decreased approximately 10 basis points to 41.6% during the nine month period ended November 2, 2019, compared with the nine month period ended November 3, 2018, driven primarily by higher freight costs and inventory write-offs, partially offset by increased merchandise margin. Product sourcing costs, which are included in selling, general and administrative expenses, improved approximately 10 basis points as a percentage of net sales.

Inventory. Inventory at November 2, 2019 decreased to \$1,004.4 million compared with \$1,056.6 million at November 3, 2018. The decrease was primarily related to our pack-and-hold inventory levels, which were 15% of total inventory at the end of the third quarter of Fiscal 2019 compared to 18% at the end of the third quarter of Fiscal 2018, as well as an approximately 4% decrease in comparable store inventory at the end of the third quarter of Fiscal 2019 and a decrease in short stay inventory. These decreases were partially offset by our 47 net new stores opened from November 3, 2018 through November 2, 2019.

Inventory at February 2, 2019 was \$954.2 million. The increase in inventory reflects the seasonality of our business, as well as the inventory required for our 51 net new stores opened during the nine month period ended November 2, 2019.

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.

Inventory turnover and comparable store inventory turnover are performance metrics that indicate how efficiently inventory is bought and sold. They each measure the length of time that we own our inventory.

Inventory turnover is calculated by dividing cost of goods sold by the 13 month average cost value of our inventory for the period being measured. Our inventory turnover rate declined approximately 4% for the third quarter of Fiscal 2019 compared with the third quarter of Fiscal 2018.

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. The comparable store retail value of inventories is estimated based on the original sales price of items on hand reduced by retail reductions (which include sales, markdowns, an estimated shortage adjustment and employee discounts) for our comparable stores. The calculation is based on a rolling 13 month average of inventory (at estimated retail value) and the last 12 months’ comparable store sales. Our comparable store inventory turnover rate improved approximately 5% during the third quarter of Fiscal 2019 compared with the third quarter of Fiscal 2018.

The difference between inventory turnover and comparable store inventory turnover is primarily the result of the latter not including distribution center and warehouse inventory or inventory at new and non-comparable stores. Inventory held at our warehouses and distribution centers includes merchandise being readied for shipment to our stores and pack-and-hold inventory acquired opportunistically for future store release. The magnitude of pack-and-hold inventory, at any one point in time, is dependent on the buying opportunities identified in the marketplace.

We present inventory turnover, because it demonstrates how effective we are at managing our inventory. We present comparable store inventory turnover as we believe this is a useful supplemental metric in evaluating the effectiveness of our merchandising efforts, as a faster comparable store inventory turnover generally leads to reduced markdowns and more fresh merchandise in our stores.

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 9.0% and 8.9% during the three and nine month periods ended November 2, 2019, respectively, compared with 8.9% and 8.8%, respectively, during the three and nine month periods ended November 3, 2018.

Liquidity. Liquidity measures our ability to generate cash. Management measures liquidity through cash flow, which is the measure of cash generated from or used in operating, financing, and investing activities. Cash and cash equivalents, including restricted cash and cash equivalents, increased \$12.9 million during the nine months ended November 2, 2019, compared with a decrease of \$53.8 million during the nine months ended November 3, 2018. Refer to the section below entitled “Liquidity and Capital Resources” for further explanation.

Results of Operations

The following table sets forth certain items in the Condensed Consolidated Statements of Income as a percentage of net sales for the three and nine months ended November 2, 2019 and the three and nine months ended November 3, 2018.

	Percentage of Net Sales			
	Three Months Ended		Nine Months Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Net sales	100.0%	100.0%	100.0%	100.0%
Other revenue	0.4	0.4	0.4	0.4
Total revenue	100.4	100.4	100.4	100.4
Cost of sales	57.6	57.6	58.4	58.3
Selling, general and administrative expenses	32.9	32.9	32.3	31.9
Costs related to debt amendments	—	0.1	(0.0)	0.1
Depreciation and amortization	3.0	3.3	3.1	3.5
Other income - net	(0.5)	(0.1)	(0.3)	(0.2)
Loss on extinguishment of debt	—	0.0	—	0.0
Interest expense	0.7	0.9	0.8	0.9
Total costs and expenses	93.7	94.7	94.3	94.5
Income before income tax expense	6.7	5.7	6.1	5.9
Income tax expense	1.3	0.9	1.0	0.9
Net income	5.4%	4.8%	5.1%	5.0%

Three Month Period Ended November 2, 2019 Compared With the Three Month Period Ended November 3, 2018

Net sales

Net sales improved approximately \$140.5 million, or 8.6%, to \$1,774.9 million during the third quarter of Fiscal 2019, driven by the following:

- an increase in net sales of \$115.7 million from our new and non-comparable stores, inclusive of approximately \$9 million of net sales lost as a result of seven stores that were temporarily closed during the quarter; and
- an increase in comparable store sales of \$41.2 million, to \$1,582.0 million; partially offset by
- a \$16.4 million decrease related to the net impact of closed stores and other sales adjustments.

Cost of sales

Cost of sales as a percentage of net sales remained consistent at approximately 57.6% during the third quarter of Fiscal 2019. Increased merchandise margin was offset by higher freight costs and inventory write-offs at temporarily closed stores. Product sourcing costs, which are included in selling, general and administrative expenses, improved approximately 20 basis points as a percentage of net sales. On a dollar basis, cost of sales increased \$80.9 million, or 8.6%, primarily driven by our overall increase in sales.

Selling, general and administrative expenses

Selling, general and administrative expenses as a percentage of net sales remained consistent for the third quarter of Fiscal 2019. The following table details selling, general and administrative expenses for the three month period ended November 2, 2019 compared with the three month period ended November 3, 2018. Prior year amounts have been reclassified to conform to the current period presentation:

	<i>(in millions)</i>					
	Three Months Ended					
	November 2, 2019	Percentage of Net Sales	November 3, 2018	Percentage of Net Sales	\$ Variance	% Change
Store related costs	\$ 377.6	21.3%	\$ 350.1	21.4%	\$ 27.5	7.9%
Product sourcing costs	89.7	5.1	85.7	5.3	4.0	4.7
Corporate costs	57.0	3.2	54.1	3.3	2.9	5.4
Marketing and strategy costs	27.4	1.5	26.6	1.6	0.8	3.0
Favorable lease cost	8.3	0.5	—	—	8.3	N/A
Other selling, general and administrative expenses	23.6	1.3	21.6	1.3	2.0	9.3
Selling, general and administrative expenses	\$ 583.6	32.9%	\$ 538.1	32.9%	\$ 45.5	8.5%

Selling, general and administrative expenses remained flat as a percentage of net sales. The reclassification of favorable lease cost from depreciation and amortization expense to selling, general and administrative expense as a result of adopting ASU 2016-02 resulted in a 50 basis point increase. This increase was offset by a 20 basis point improvement in product sourcing costs, a 10 basis point improvement in store related costs, a 10 basis point improvement in corporate costs and a 10 basis point improvement in our national television advertising and direct marketing efforts, as a result of our profit improvement initiatives.

Depreciation and amortization

Depreciation and amortization expense related to the depreciation of fixed assets amounted to \$52.7 million during the third quarter of Fiscal 2019 compared with \$53.8 million during the third quarter of Fiscal 2018. The decrease was primarily driven by the reclassification of favorable lease cost from depreciation and amortization expense to selling, general and administrative expense as a result of adopting ASU 2016-02, partially offset by capital expenditures related to our new and non-comparable stores.

Interest expense

Interest expense improved \$2.3 million to \$12.1 million. The improvement was primarily driven by lower average borrowings on the ABL Line of Credit, as well as the repricing of our Term Loan Facility at the end of the third quarter of Fiscal 2018.

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 2019 compared with the third quarter of Fiscal 2018, are summarized in the table below:

	Three Months Ended	
	November 2, 2019	November 3, 2018
Average interest rate – ABL Line of Credit	3.5%	3.4%
Average interest rate – Term Loan Facility	4.1%	4.6%
Average balance – ABL Line of Credit (in millions)	\$ 32.6	\$ 166.5
Average balance – Term Loan Facility (in millions) (a)	\$ 961.4	\$ 961.4

(a) Excludes original issue discount.

Income tax expense

Income tax expense was \$23.0 million during the third quarter of Fiscal 2019 compared with \$15.2 million during the third quarter of Fiscal 2018. The effective tax rate for the third quarter of Fiscal 2019 was 19.2% compared with 16.5% during the third quarter of Fiscal 2018. The lower tax rate in the prior year was primarily related to the impact of the US Tax Cuts and Jobs Act of 2017 on the Fiscal 2017 federal tax return filed during the third quarter of Fiscal 2018.

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. Use of this methodology during the third quarter of Fiscal 2019 resulted in an annual effective income tax rate of approximately 25% (before discrete items) as our best estimate. This is consistent with the annual effective tax rate for the third quarter of Fiscal 2018 of approximately 25% (before discrete items).

Net income

We earned net income of \$96.5 million for the third quarter of Fiscal 2019 compared with \$76.8 million for the third quarter of Fiscal 2018. This improvement was primarily driven by our improved gross margin dollars, partially offset by an increase in our selling, general and administrative expenses.

Nine Month Period Ended November 2, 2019 Compared With the Nine Month Period Ended November 3, 2018

Net sales

Net sales improved approximately \$408.3 million, or 8.8%, to \$5,059.9 million during the nine month period ended November 2, 2019, driven primarily by the following:

- an increase in net sales of \$352.3 million from our new and non-comparable stores, and
- an increase in comparable store sales of \$97.4 million, to \$4,549.6 million; partially offset by
- a \$41.4 million decrease related to the net impact of permanently closed stores and other sales adjustments.

Cost of sales

Cost of sales as a percentage of net sales increased approximately 10 basis points to 58.4% during the nine month period ended November 2, 2019, driven primarily by higher freight costs and inventory write-offs at temporarily closed stores, partially offset by increased merchandise margin. Product sourcing costs, which are included in selling, general and administrative expenses, improved approximately 10 basis points as a percentage of net sales. On a dollar basis, cost of sales increased \$242.5 million, or 8.9%, 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 40 basis points during the nine month period ended November 2, 2019, compared with the nine month period ended November 3, 2018. The following table details selling, general and administrative expenses for the nine month period ended November 2, 2019 compared with the nine month period ended November 3, 2018. Prior year amounts have been reclassified to conform to the current period presentation:

	<i>(in millions)</i>					
	Nine Months Ended					
	November 2, 2019	Percentage of Net Sales	November 3, 2018	Percentage of Net Sales	\$ Variance	% Change
Store related costs	\$ 1,073.9	21.2%	\$ 987.5	21.2%	\$ 86.4	8.7%
Product sourcing costs	250.4	4.9	233.0	5.0	17.4	7.5
Corporate costs	163.0	3.2	151.8	3.3	11.2	7.4
Marketing and strategy costs	56.1	1.1	57.1	1.2	(1.0)	(1.8)
Favorable lease cost	27.9	0.6	—	—	27.9	N/A
Other selling, general and administrative expenses	61.6	1.3	56.1	1.2	5.5	9.8
Selling, general and administrative expenses	\$ 1,632.9	32.3%	\$ 1,485.5	31.9%	\$ 147.4	9.9%

The increase in selling, general and administrative expenses as a percentage of net sales was primarily driven by the reclassification of favorable lease cost from depreciation and amortization expense to selling, general and administrative expense as a result of adopting ASU 2016-02, which resulted in a 60 basis point increase. This increase was partially offset by a 10 basis point improvement in product sourcing costs and a 10 basis point improvement in our national television advertising and direct marketing efforts, as a result of our profit improvement initiatives.

Costs related to debt amendments

During Fiscal 2018, we recorded total estimated costs related to debt amendments of \$2.5 million, primarily as a result of the repricing of our Term Loan Facility. During the nine month period ended November 2, 2019, we reversed \$0.4 million of this estimated expense based on actual expenses incurred.

Depreciation and amortization

Depreciation and amortization expense related to the depreciation of fixed assets amounted to \$155.6 million during the nine month period ended November 2, 2019 compared with \$161.2 million during the nine month period ended November 3, 2018. The decrease in depreciation and amortization expense was primarily driven by the reclassification of favorable lease cost from depreciation and amortization expense to selling, general and administrative expense as a result of adopting ASU 2016-02, partially offset by capital expenditures related to our new and non-comparable stores.

Interest expense

Interest expense improved \$4.6 million to \$39.0 million. The improvement was primarily driven by the \$150 million paydown and repricing of our Term Loan Facility during Fiscal 2018, partially offset by higher average borrowings and a higher average interest rate on our ABL Line of Credit.

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 November 2, 2019 compared with prior year, are summarized in the table below:

	Nine Months Ended	
	November 2, 2019	November 3, 2018
Average interest rate – ABL Line of Credit	3.7%	3.4%
Average interest rate – Term Loan Facility	4.3%	4.4%
Average balance – ABL Line of Credit (in millions)	\$ 108.7	\$ 103.4
Average balance – Term Loan Facility (in millions) (a)	\$ 961.4	\$ 1,033.9

(a) Excludes original issue discount.

Income tax expense

Income tax expense was \$50.3 million during the nine month period ended November 2, 2019 compared with \$40.9 million during the nine month period ended November 3, 2018. The effective tax rate for the nine month period ended November 2, 2019 was 16.3% compared with 15.1% during the nine month period ended November 3, 2018. The lower tax rate in the prior year was primarily related to the impact of the US Tax Cuts and Jobs Act of 2017 and the changes to New Jersey tax law enacted during the second quarter of Fiscal 2018.

Net income

We earned net income of \$258.8 million during the nine month period ended November 2, 2019 compared with \$230.4 million for the nine month period ended November 3, 2018. This improvement was primarily driven by our improved gross margin dollars, partially offset by an increase in selling, general and administrative expenses.

Liquidity and Capital Resources

Our ability to satisfy interest payment and future principal 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 and future principal 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 November 2, 2019 Compared With the Nine Month Period Ended November 3, 2018

We generated \$12.9 million of cash flow during the nine month period ended November 2, 2019 compared with a use of \$53.8 million during the nine month period ended November 3, 2018.

Net cash provided by operating activities amounted to \$476.9 million during the nine month period ended November 2, 2019 compared with \$375.4 million during the nine month period ended November 3, 2018. The increase in our operating cash flows was primarily driven by our improved operating results and changes in working capital.

Net cash used in investing activities was \$256.0 million during the nine month period ended November 2, 2019 compared with \$225.3 million during the nine month period ended November 3, 2018. This change was primarily the result of an increase in capital expenditures related to a new distribution center and our store expenditures (new stores, remodels, and other store expenditures).

Net cash used in financing activities was \$207.9 million during the nine month period ended November 2, 2019 compared with a use of \$203.9 million during the nine month period ended November 3, 2018. This change was primarily driven by an increase in the value of share repurchases, partially offset by a decrease in the net payments on our debt and increased proceeds from stock option exercises.

Changes in working capital also impact our cash flows. Working capital equals current assets (exclusive of restricted cash) minus current liabilities. We had a working capital deficit at November 2, 2019 of \$199.1 million compared with a working capital deficit of \$26.7 million at November 3, 2018. The decrease in working capital was primarily related to our adoption of ASU 2016-02, which resulted in adding a portion of the new lease liability to current liabilities, as well as a decrease in merchandise inventories. This was partially offset by a decrease in accounts payable, as well as increases in cash and accounts receivable. We had working capital at February 2, 2019 of \$2.3 million.

Capital Expenditures

For the nine month period ended November 2, 2019, cash spend for capital expenditures, net of \$36.0 million of landlord allowances and \$5.1 million in insurance recoveries related to property and equipment, amounted to \$219.5 million. We estimate that we will spend approximately \$310 million, net of approximately \$55 million of landlord allowances, in capital expenditures during Fiscal 2019, including approximately \$175 million, net of the previously mentioned landlord allowances, for store expenditures (new stores, remodels and other store expenditures). In addition, we estimate that we will spend approximately \$60 million to support our supply chain initiatives, with the remaining capital used to support our information technology and other business initiatives.

Share Repurchase Program

On August 15, 2018, our Board of Directors authorized the repurchase of up to \$300 million of common stock, which is authorized to be executed through August 2020. On August 14, 2019, our Board of Directors authorized the repurchase of up to an additional \$400 million of common stock, which is authorized to be executed through August 2021. These repurchase programs are funded using our available cash and borrowings on our ABL Line of Credit.

During the nine month period ended November 2, 2019, we repurchased 1,365,211 shares of our common stock for \$216.9 million, inclusive of commissions, under the share repurchase programs. As of November 2, 2019, we had \$481.6 million remaining under our share repurchase authorizations.

We are authorized to repurchase, from time to time, shares of our outstanding common stock 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 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 Condensed 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

During the nine month period ended November 2, 2019, we opened 72 new stores, inclusive of 15 relocations, and closed six stores, exclusive of the aforementioned relocations, bringing our store count as of November 2, 2019 to 726 stores, inclusive of an internet store. We continue to pursue our growth plans and invest in capital projects that meet our financial requirements. During Fiscal 2019, we plan to open 51 net new stores, which includes approximately 76 gross new stores, along with approximately 25 store relocations and closings.

We continue to explore expansion opportunities both within our current market areas and in other regions. We believe that our ability to find satisfactory locations for our stores is essential for the continued growth of our business. The opening of stores generally is contingent upon a number of factors including, but not limited to, the availability of desirable locations with suitable structures and the negotiation of acceptable lease terms. There can be no assurance, however, that we will be able to find suitable locations for new stores or that even if such locations are found and acceptable lease terms are obtained, we will be able to open the number of new stores presently planned. Assuming that appropriate locations are identified, we believe that we will be able to execute our growth strategy without significantly impacting our current stores.

Debt and Hedging

As of November 2, 2019, our obligations include \$957.3 million, inclusive of original issue discount, under our Term Loan Facility and no outstanding borrowings on our ABL Line of Credit. Our debt obligations also include \$30.8 million of capital lease obligations as of November 2, 2019.

Term Loan Facility

At November 2, 2019, our borrowing rate related to the Term Loan Facility was 3.9%.

ABL Line of Credit

At November 2, 2019, we had \$540.8 million available under the ABL Line of Credit. The maximum borrowings under the ABL Line of Credit during the nine month period ended November 2, 2019 amounted to \$255.0 million. Average borrowings during the nine month period ended November 2, 2019 amounted to \$108.7 million at an average interest rate of 3.7%.

Hedging

On December 17, 2018, the Company entered into an interest rate swap contract, which was designated as a cash flow hedge. This interest rate swap, which hedges \$450 million of our Term Loan Facility, became effective May 31, 2019 and matures December 29, 2023.

Certain Information Concerning Contractual Obligations

The Company had \$971.8 million of purchase commitments related to goods that were not received as of November 2, 2019. There were no other significant changes regarding our obligations to make future payments under current contracts from those included in our Fiscal 2018 10-K.

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.

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, "Leases." The standard's core principle is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. We adopted this ASU as of the beginning of Fiscal 2019.

We applied the changes from the new guidance at the adoption date and recognized a cumulative effect adjustment to retained earnings in the period of adoption, as allowed under ASU 2018-11, "Leases: Targeted Improvements." We did not adjust prior periods. We made an accounting policy election not to capitalize leases with an initial term of twelve months or less. We elected the transition package of practical expedients, which allows us to carry forward for our existing leases: i) the historical lease classification as either operating or capital; ii) assessment of whether any expired or existing contracts are or contain leases; and iii) capitalization of initial direct costs. Additionally, we elected the practical expedients to not separate lease and non-lease components, to not assess whether existing or expired land easements contain a lease, and to employ hindsight when determining lease terms for existing leases on the date of adoption.

Adoption of this standard also resulted in a change in the timing of certain expense recognition, primarily related to net favorable lease cost, as well as a reclassification of favorable lease cost from "Depreciation and amortization" to "Selling, general and administrative expenses" on our Condensed Consolidated Statements of Income for the three and nine months ended November 2, 2019. This guidance did not have a material impact on our liquidity.

Other than the lease accounting policy discussed above, our critical accounting policies and estimates are consistent with those disclosed in Note 1, "Summary of Significant Accounting Policies," to the audited Consolidated Financial Statements, included in Part II, Item 8 of the Fiscal 2018 10-K.

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," "opportunity," "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: general economic conditions; our ability to successfully implement one or more of our strategic initiatives and growth plans; the availability of desirable store locations on suitable terms; changing consumer preferences and demand; industry trends, including changes in buying, inventory and other business practices; competitive factors, including pricing and promotional activities of major competitors and an increase in competition within the markets in which we compete; the availability, selection and purchasing of attractive merchandise on favorable terms; import risks, including tax and trade policies, tariffs and government regulations; weather patterns, including, among other things, changes in year-over-year temperatures; our future profitability; our ability to control costs and expenses;

unforeseen cyber-related problems or attacks; any unforeseen material loss or casualty; the effect of inflation; regulatory and tax changes; our relationships with employees; the impact of current and future laws and the interpretation of such laws; terrorist attacks, particularly attacks on or within markets in which we operate; natural and man-made disasters, including fire, snow and ice storms, flood, hail, hurricanes and earthquakes; 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; domestic events affecting the delivery of merchandise to our stores; existence of adverse litigation; 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, "Summary of Significant Accounting Policies," to our Condensed Consolidated Financial Statements in Part I, Item 1 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

There were no material changes to our quantitative and qualitative disclosures about market risk from those included in our Fiscal 2018 10-K.

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 Exchange Act, as of the last day of the fiscal period covered by this report, November 2, 2019. 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 November 2, 2019.

During the quarter ended November 2, 2019, 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, we have 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 and other 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. While no assurance can be given as to the ultimate outcome of these matters, we believe that the final resolution of these actions will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

Item 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A of our Fiscal 2018 10-K.

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 November 2, 2019:

Month	Total Number of Shares Purchased(1)	Average Price Paid Per Share(2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)
August 4, 2019 through August 31, 2019	56,350	\$ 172.69	56,079	\$ 514,636
September 1, 2019 through October 5, 2019	87,196	\$ 199.10	86,980	\$ 497,319
October 6, 2019 through November 2, 2019	80,059	\$ 196.93	79,950	\$ 481,574
Total	<u>223,605</u>		<u>223,009</u>	

- (1) The number of shares purchased between August 4, 2019 and August 31, 2019, between September 1, 2019 and October 5, 2019 and between October 6, 2019 and November 2, 2019 include 271 shares, 216 shares and 109 shares, respectively, 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 programs.
- (2) Includes commissions for the shares repurchased under our publicly announced share repurchase programs.
- (3) On August 15, 2018, our Board of Directors authorized the repurchase of up to \$300 million of common stock, which is authorized to be executed through August 2020. On August 14, 2019, our Board of Directors authorized the repurchase of up to an additional \$400 million of common stock, which is authorized to be executed through August 2021. 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.

None.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference	
		Form and SEC file No.	Filing Date
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†	Inline XBRL Instance Document – the instance document does not appear in Interactive Data File, because its XBRL tags are embedded within the Inline XBRL document.		
101.SCH†	Inline XBRL Taxonomy Extension Schema Document		
101.CAL†	Inline XBRL Taxonomy Extension Calculation Linkbase Document		
101.DEF†	Inline XBRL Taxonomy Extension Definition Linkbase Document		
101.LAB†	Inline XBRL Taxonomy Extension Label Linkbase Document		
101.PRE†	Inline XBRL Taxonomy Extension Presentation Linkbase Document		
104†	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)		

† Filed or furnished 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/ Michael O'Sullivan

Michael O'Sullivan
Chief Executive Officer
(Principal Executive Officer)

/s/ John Crimmins

John Crimmins
Chief Financial Officer
(Principal Financial Officer)

Date: November 26, 2019

I, Michael O'Sullivan, certify that:

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

Date: November 26, 2019

/s/ Michael O'Sullivan
Michael O'Sullivan
Chief Executive Officer
(Principal Executive Officer)

I, John Crimmins, certify that:

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

Date: November 26, 2019

/s/ John Crimmins
John Crimmins
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report of Burlington Stores, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended November 2, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael O'Sullivan, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 26, 2019

/s/ Michael O'Sullivan

Michael O'Sullivan

Chief Executive Officer

(Principal Executive Officer)

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

In connection with the Quarterly Report of Burlington Stores, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended November 2, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Crimmins, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 26, 2019

/s/ John Crimmins

John Crimmins
Chief Financial Officer
(Principal Financial Officer)