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Burlington Stores, Inc.
Form 10-K
March 16, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 28, 2017

OR

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

For the transition period from to

Commission File Number 001-36107

BURLINGTON STORES, INC.

(Exact name of registrant as specified in its charter)

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

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(Address of Principal Executive Offices) (Zip Code)

(609) 387-7800

(Registrant's telephone number, including area code)

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

| Title of each class | Name of each exchange on which registered |
|--|---|
| Common Stock, par value \$0.0001 per share | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-Accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the common stock held by non-affiliates of the registrant on July 29, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was \$5,367,694,090. The aggregate market value was computed by reference to the closing price of the Common Stock on such date.

As of February 25, 2017, 70,218,617 shares of common stock of the registrant were outstanding.

Documents Incorporated By Reference:

Certain provisions of the registrant's definitive proxy statement for the 2017 Annual Meeting of Stockholders, to be filed within 120 days of the close of the registrant's 2016 fiscal year, are incorporated by reference in Part III of this Form 10-K to the extent described herein.

BURLINGTON STORES, INC.

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FOR THE FISCAL YEAR ENDED JANUARY 28, 2017

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PART I

Item 1. Business Overview

We are a nationally recognized retailer of high-quality, branded apparel at everyday low prices. We opened our first store in Burlington, New Jersey in 1972, selling primarily coats and outerwear. Since then, we have expanded our store base to 592 stores as of January 28, 2017, inclusive of an internet store, in 45 states and Puerto Rico, and diversified our product categories by offering an extensive selection of in-season, fashion-focused merchandise, including: women's ready-to-wear apparel, menswear, youth apparel, baby, footwear, accessories, home and coats. We sell a broad selection of desirable, first-quality, current-brand, labeled merchandise acquired directly from nationally recognized manufacturers and other suppliers. For the fiscal year ended January 28, 2017, we generated net sales of \$5,566.0 million, and earned net income, Adjusted Net Income and Adjusted EBITDA (as defined in the section below entitled "Key Performance Measures") of \$215.9 million, \$232.3 million and \$584.6 million, respectively.

As used in this Annual Report, the terms "Company," "we," "us," or "our" refer to Burlington Stores, Inc. and all its subsidiaries. We were organized in 2013 under the name Burlington Holdings, Inc. and currently exist as a Delaware corporation. Our indirect wholly-owned subsidiary, Burlington Coat Factory Warehouse Corporation (BCFWC), was initially organized in 1972 as a New Jersey corporation, was reincorporated in 1983 in Delaware when the company originally became a public company and currently exists as a Delaware corporation. BCFWC became a direct, wholly-owned subsidiary of Burlington Coat Factory Investments Holdings, Inc. in connection with the acquisition of BCFWC in April 2006 by affiliates of Bain Capital Partners, LLC (along with its associated investment funds, or any successor to its investment management business, Bain Capital) in a take private transaction (the Merger Transaction) and became an indirect, wholly-owned subsidiary of ours on February 14, 2013 in connection with our corporate reorganization. We completed an initial public offering of our common stock in October 2013.

Fiscal Year End

We define our fiscal year as the 52 or 53 week period ending on the Saturday closest to January 31. This is an annual report for the 52 week fiscal year ended January 28, 2017 (Fiscal 2016). The fiscal years ended January 30, 2016 (Fiscal 2015) and January 31, 2015 (Fiscal 2014) also consisted of 52 weeks.

Our Stores

As of January 28, 2017, we operated 592 stores, inclusive of an internet store. Over 98% of our net sales are derived from stores we operate as Burlington stores (Burlington Stores). We believe that our customers are attracted to our stores principally by the availability of a large assortment of first-quality current brand-name merchandise at everyday low prices.

Burlington Stores offer customers a complete line of value-priced apparel, including: ladies sportswear, menswear, coats, family footwear and youth apparel, as well as baby furniture, accessories, home décor and gifts. We continue to emphasize our rich heritage of coats and outerwear, and we believe that we are viewed as the destination for coat shoppers. Our broad selection provides a wide range of apparel, accessories and furnishing for all ages. We purchase both pre-season and in-season merchandise, allowing us to respond timely to changing market conditions and consumer fashion preferences. Furthermore, we believe Burlington Stores' substantial selection of staple, destination products attracts customers from beyond our local trade areas. We believe these products drive incremental store-traffic and differentiate us from our competitors.

In some of our stores, we previously granted unaffiliated third parties the right to use designated store space solely for the purpose of selling such third parties' goods, primarily fragrances. We did not own or have any rights to any trademarks, licenses or other intellectual property used in connection with the brands sold by such unaffiliated third parties. During Fiscal 2015, we began the conversion of our fragrance business, which was previously operated under a licensing arrangement, to an owned category, and such sales are recorded in the line item "Net sales" in our Consolidated Statements of Income. During Fiscal 2016, prior to the completion of our conversion, our rental income from all such arrangements aggregated less than \$0.5 million of our total revenues.

We believe the breadth of our selection and our ability to successfully operate in stores of varying square footage represent a competitive advantage. Our average store size is approximately 76,000 square feet. 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. As a result, we believe major landlords seek us as a tenant because the appeal of our apparel, home and accessory merchandise profile attracts a desired customer base.

Our store base is geographically diversified with stores located in 45 states and Puerto Rico as set forth below:

| State | Number of Stores | State | Number of Stores | State | Number of Stores |
|-------|------------------|-------|------------------|-------|------------------|
| AK | 2 | LA | 9 | NY | 39 |
| AL | 7 | MA | 14 | OH | 21 |
| AR | 5 | MD | 16 | OK | 3 |
| AZ | 10 | ME | 2 | OR | 4 |
| CA | 65 | MI | 18 | PA | 30 |
| CO | 6 | MN | 7 | PR | 12 |
| CT | 10 | MO | 7 | RI | 5 |
| DE | 3 | MS | 3 | SC | 5 |
| FL | 42 | NC | 14 | SD | 1 |
| GA | 17 | ND | 1 | TN | 7 |
| IA | 3 | NE | 1 | TX | 62 |
| ID | 2 | NH | 3 | UT | 3 |
| IL | 31 | NJ | 29 | VA | 18 |
| IN | 12 | NM | 3 | WA | 12 |
| KS | 6 | NV | 6 | WI | 10 |
| KY | 5 | | | | |

Our internet store is excluded from the above table.

Our store sales area is organized by merchandise category with flexibility to quickly expand or contract category offerings in response to changes in consumer preferences. Our typical store features open sight lines, bright overhead lighting and clear signage to promote easy navigation through the store. We highlight the best brands and freshest product in four way fixtures along the aisles with additional merchandise arranged by size in H-racks. We believe our clean, organized merchandise presentation highlights the brands, value, selection and sizing within assortments and promotes a self-service, treasure hunt experience for our customers.

Our store managers are accountable for the sales and profitability of their stores. The store leadership team is comprised of managers and assistant managers. The stores are led by their regional team, consisting of a regional vice president and regional managers in operations, human resources and loss prevention. The regional vice president sets the priorities for the team and ensures the stores are supported in their overall mission to grow sales and profitability.

Store Expansion and Real Estate Strategy

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.

We have a proven track record of new store expansion. Our store base has grown from 13 stores in 1980 to 592 stores, inclusive of an internet store, as of January 28, 2017. If we identify appropriate locations, we believe that we will be able to execute our growth strategy without significantly impacting our current stores. We have identified numerous

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market opportunities that we believe will allow us to reach 1,000 stores over the long-term. The table below shows our store openings and closings each fiscal year since the beginning of Fiscal 2014.

| | Fiscal 2016 | Fiscal 2015 | Fiscal 2014 |
|------------------------------|----------------|----------------|----------------|
| Stores (beginning of period) | 567 | 542 | 521 |
| Stores opened | 30 | 28 | 24 |
| Stores closed | (5) | (3) | (3) |
| Stores (end of period) | 592 | 567 | 542 |

Distribution and Warehousing

We have four distribution centers that ship approximately 94% of merchandise units to our stores. The remaining 6% of merchandise units are drop shipped by our vendors directly to our stores. Our two east coast distribution centers are located in Edgewater Park, New Jersey and Burlington, New Jersey. Our two west coast distribution centers are located in San Bernardino, California, and Redlands, California. These four distribution centers occupy an aggregate of 2,786,000 square feet, and each includes processing, shipping and storage capabilities.

We also operate four warehousing facilities to support our distribution centers. The east coast has three supporting warehouses; two in Burlington, New Jersey and one in Florence, New Jersey. The west coast has one supporting warehouse in Redlands, California. These four warehousing facilities occupy an aggregate of 1,567,000 square feet and primarily serve as storage facilities.

| | Calendar | | Leased |
|---|-------------|------------|--------|
| | Year | Size | or |
| | Operational | (sq. feet) | Owned |
| Primary Distribution Centers: | | | |
| Edgewater Park, New Jersey(a) | 2004 | 648,000 | Owned |
| Burlington, New Jersey (Daniels Way) | 2014 | 678,000 | Leased |
| San Bernardino, California | 2006 | 660,000 | Leased |
| Redlands, California (Pioneer Ave) | 2014 | 800,000 | Leased |
| Warehousing Facilities: | | | |
| Burlington, New Jersey (Route 130 North)(a) | 1987 | 402,000 | Owned |
| Florence, New Jersey | 2013 | 208,000 | Leased |
| Redlands, California (Palmetto Ave) | 2015 | 446,000 | Leased |
| Burlington, New Jersey (Richards Run)(b) | 2017 | 511,000 | Leased |

(a) Inclusive of corporate offices.

(b) The Company took possession of the Richards Run warehouse facility during January 2017. This facility will replace the 208,000 warehouse facility located in Florence, New Jersey during the fiscal year ended February 3, 2018 (Fiscal 2017).

In addition, we occupy approximately 156,000 square feet of space at a third-party logistics center in Plainfield, Indiana to support our e-commerce business.

Customer Service

We are committed to providing our customers with an enjoyable shopping experience in stores that are clean, neat and easy to shop. In training our employees, our goal is to emphasize knowledgeable, friendly customer service and a sense of professional pride. We offer our customers special services to enhance the convenience of their shopping experience, such as layaway, baby gift registry and professional tailors (in selected stores).

We have empowered our store teams to provide an outstanding customer experience for every customer in every store, every day. We have streamlined processes and will continue to strive to create opportunities for fast and friendly customer interactions. Our stores must reflect clean, organized merchandise presentations that highlight the brands,

value, and diversity of selection within our assortments.

Our Off-Price Sourcing and Merchandising Model

Our “open to buy” off-price model enables us to provide our customers with products that are nationally branded, fashionable, high quality and priced right. We have an experienced team of General Merchandise Managers, Divisional Merchandise Managers and buyers focused on improving comparable store inventory turnover, inventory age and freshness of merchandise. We purchase merchandise from many suppliers, none of which accounted for more than 2% of our net purchases during Fiscal 2016, Fiscal 2015 or Fiscal 2014. We have no long-term purchase commitments or arrangements with any of our suppliers, and believe that we are not dependent on any one supplier. We continue to have good working relationships with our suppliers.

We have designed our merchant organization so that buyers focus primarily on buying, planners focus primarily on planning, and information systems help inform data-driven decisions for both groups. Buyers are in the market each week and focus on purchasing great products for great value. We seek to purchase a majority of our merchandise in-season. Buyers spend time interacting face-to-face with new and existing vendors and on continuously evaluating trends in the market to which we believe our customers

would respond positively. Our buyers use a merchant scorecard that rates products across four key attributes—fashion, quality, brand and price—to help formalize a framework for buying decisions.

Our merchandising model allows us to provide our customers with a wide breadth of product categories. Sales percentage by major product category is as follows:

| Category | Fiscal 2016 | Fiscal 2015 | Fiscal 2014 |
|-------------------------------|----------------|----------------|----------------|
| Women’s ready-to-wear apparel | 24 % | 24 % | 24 % |
| Accessories and footwear | 22 % | 22 % | 22 % |
| Menswear | 20 % | 21 % | 20 % |
| Youth apparel/baby | 16 % | 16 % | 18 % |
| Home | 12 % | 11 % | 9 % |
| Coats | 6 % | 6 % | 7 % |

E-Commerce

We employ an e-commerce strategy currently focused on increasing awareness of the breadth of our merchandise selection, great brands and values, as well as driving traffic to our stores and selling merchandise directly from our website. We execute our strategy through our website and through social media platforms such as Facebook, Twitter and Pinterest. In recent years, we have focused on expanding our online assortment, optimizing the user experience across devices, and improving our shipping and fulfillment capabilities in order to elevate the digital experience with our company for both new and existing customers.

Customer Demographic

Our core customer is the 25-49 year-old woman. The core customer is educated, resides in mid- to large-sized metropolitan areas and is a brand conscious fashion enthusiast. This customer shops for herself, her family, and her home. We appeal to value seeking and fashion conscious customers who are price-driven but enjoy the style and fit of high-quality, branded merchandise.

Marketing and Advertising

We use a variety of broad-based and targeted marketing strategies to efficiently deliver the right message to the targeted audience at the right time. These strategies include national television, direct mail, email, digital marketing, local radio and out-of-home communications. Our broad television broadcast communication and reach is balanced with relevant customer contacts to increase frequency of store visits.

Management Information Systems and Processes

We utilize a combination of industry-standard third party and internally developed information technology and system solutions to support our business functions. We continually evaluate and implement business system technologies and solutions that enhance the consistency of our execution and improve the scalability of business system functions. We utilize standard methodologies to evaluate new initiatives across our entire organization and make data-driven decisions that support our growth and cost management initiatives.

Competition

The U.S. retail apparel and home furnishings markets are highly fragmented and competitive. We compete for business with department stores, off-price retailers, specialty stores, discount stores, wholesale clubs, and outlet stores. At various times throughout the year, traditional full-price department store chains and specialty shops offer brand-name merchandise at substantial markdowns, which can result in prices approximating those offered by us at our Burlington Stores.

Seasonality

Our business, like that of most retailers, is subject to seasonal influences. In the second half of the year, which includes the back-to-school and holiday seasons, we generally realize a higher level of sales and net income. Weather is also 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.

Trademarks

We own the trademarks, service marks and tradenames that we use in connection with the operation of our business. Our trademarks include “Burlington Stores,” “BCF,” “Burlington,” “Burlington Coat Factory,” “Cohoes,” “Luxury Linens,” “Designer Shoes,” and “Baby Depot.” We consider these trademarks and the accompanying name recognition to be valuable to our business. We believe that our rights to these properties are adequately protected. Our rights in these trademarks endure for as long as they are used.

Employees

As of January 28, 2017, we employed approximately 40,000 people, including part-time and seasonal employees. Our staffing requirements fluctuate during the year as a result of the seasonality of our business. We hire additional employees and increase the hours of part-time employees during seasonal peak selling periods. As of January 28, 2017, employees at one of our stores were subject to a collective bargaining agreement.

AVAILABLE INFORMATION

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). Therefore, we file reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Copies of such reports, proxy statements, and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

You can access financial and other information about us in the Investors Relations section of our website, which can be accessed at www.burlingtonstores.com. We make available through our website, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed with or furnished to the SEC under Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after electronically filing or furnishing such material to the SEC. The information contained on, or accessible through, our website is not part of this Annual Report on Form 10-K and is therefore not incorporate by reference. The reference to our website address is intended to be an inactive textual reference only.

Item 1A. Risk Factors

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, the industry in which we operate and other matters, as well as management’s beliefs and assumptions and other statements regarding matters that are not historical facts. For example, when we use words such as “projects,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “should,” “would,” “could,” “will,” “potential” or “may,” variations of such words or other words that convey uncertainty of future events or outcomes, we are making forward looking statements within the meaning of Section 27A of the Securities Act of 1933 (Securities Act) and Section 21E of the Exchange Act. Our forward-looking statements are subject to risks and uncertainties. Such statements may 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; 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 by customers; competitive factors, including pricing and promotional activities of major competitors; the availability, selection and purchasing of attractive merchandise on favorable terms; import risks; weather patterns, including, among other things, changes in year-over-year temperatures; our future profitability; our ability to control costs and expenses; unforeseen computer related problems; any unforeseen material loss or casualty; the effect of inflation; an increase in competition within the markets in which we compete; regulatory changes; our relationships with employees; the impact of current and future laws; terrorist attacks, particularly attacks on or within markets in which we operate; natural and man-made disasters, including, but not limited to, 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 risks; and each of the factors discussed in

this Item 1A, Risk Factors as well as risks discussed elsewhere in this report. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. 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.

Set forth below are certain important risks and uncertainties that could adversely affect our results of operations or financial condition and cause our actual results to differ materially from those expressed in forward-looking statements made by us. Although we believe that we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our performance or financial condition. More detailed information regarding certain risk factors described below is contained in other sections of this report.

Risks Related to Our Business and Our Substantial Indebtedness

General economic conditions and consumer spending affect our business.

Consumer spending habits, including spending for the merchandise that we sell, are affected by, among other things, prevailing global economic conditions, inflation, levels of employment, salaries and wage rates, prevailing interest rates, housing costs, energy costs, commodities pricing, income tax rates and policies, consumer confidence and consumer perception of economic conditions. In addition, consumer purchasing patterns may be influenced by consumers' disposable income, credit availability and debt levels. An incremental slowdown in the U.S. economy, an uncertain global economic outlook or 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. 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 face increased competition from other retailers that could adversely affect our business.

The retail sector is highly competitive, and retailers are constantly adjusting their business model, promotional activity and pricing strategies in response to changing conditions. We compete on the basis of a combination of factors, including among others, price, breadth, quality and style of merchandise offered, in-store experience, level of customer service, ability to identify and respond to new and emerging fashion trends, brand image and scalability. We compete with a wide variety of large and small retailers for customers, vendors, suitable store locations and personnel. In order to increase traffic and drive consumer spending in the economic environment of the past several years, competitors, including department stores, mass merchants and specialty apparel stores, have been offering brand-name

merchandise at substantial markdowns. Continuation of this trend, or the possible effect on consumer buying patterns that improving economic conditions could have, may cause consumer demand to shift from off-price retailers to other retail categories, which could have a material adverse effect on our business, financial condition and results of operations.

Certain traditional, full-price retail chains have developed off-price concepts, which may directly compete with our business. Our competitors, including such retail chains, may seek to emulate facets of our business strategy, which could result in a reduction of any competitive advantage or special appeal that we might possess. In addition, most of our products are sold to us on a non-exclusive basis. As a result, our current and future competitors may be able to duplicate or improve on some or all of our product offerings that we believe are important in differentiating our stores. If our competitors were to duplicate or improve on some or all of our in-store experience or product offerings, obtaining the products we sell may become increasingly difficult, competition for customers may increase, and our competitive position and our business could suffer.

Our ability to compete with other retailers and to meet our customer expectations may also suffer if we are unable to deliver a superior omnichannel shopping experience for our customers through the integration of our store and online shopping channels. Omnichannel retailing is rapidly evolving, and we must anticipate and meet changing customer expectations. If we are unable to continue to meet changes in the competitive environment by successfully executing our e-commerce strategy consistent with customer expectations, or we do not realize a return on our omnichannel investments, our reputation and operating results may be adversely affected.

We may not be able to sustain our growth plans or successfully implement our long-range strategic and financial goals.

Our growth largely depends on our ability to successfully open and operate new stores, as well as to expand our distribution capabilities in order to support that growth. We intend to open 30 net new stores each year, while refreshing, remodeling or relocating a portion of our existing store base annually. The success of these strategies is dependent upon, among other things, the current retail environment, the identification of suitable markets and the availability of real estate that meets our criteria for traffic, square footage, co-tenancies, lease economics, demographics, and other factors, the negotiation of acceptable lease terms, construction costs, the availability of financing, the hiring, training and retention of competent sales personnel, and the effective management of inventory to meet the needs of new and existing stores on a timely basis.

Our proposed expansion will place increased demands on our operational, managerial and administrative resources. For example, our planned expansion will require us to increase the number of people we employ, as well as to monitor and upgrade our management information and other systems, and our distribution infrastructure. These increased demands could cause us to operate our business less effectively, which in turn could have a material adverse effect on our financial performance.

We may not be able to execute our growth strategies successfully, on a timely basis, or at all. If we fail to implement these strategies successfully, our financial condition and results of operations would be adversely affected.

Our net sales, operating income and inventory levels fluctuate on a seasonal basis, and decreases in sales or margins during our peak seasons could have a disproportionate effect on our overall financial condition and results of operations.

Our net sales and operating income fluctuate seasonally, with a significant portion of our operating income typically realized during the second half of the year. Any decrease in sales or margins during this period could have a disproportionate effect on our financial condition and results of operations. Seasonal fluctuations also affect our inventory levels. We must carry a significant amount of inventory, especially before the holiday season selling period. If we are not successful in selling our inventory, we may have to write down our inventory or sell it at significantly reduced prices or we may not be able to sell such inventory at all, which could have a material adverse effect on our financial condition and results of operations.

A reduction in traffic to, or the closing of, the other destination retailers in the shopping areas where our stores are located could significantly reduce our sales and leave us with excess inventory, which could have a material adverse effect on our business, financial condition, profitability and cash flows.

Many of our stores are strategically located in off-mall shopping areas known as “power centers.” Power centers typically contain three to five big-box anchor stores along with a variety of smaller specialty tenants. As a consequence of many of our stores being located in such shopping areas, our sales are derived, in part, from the volume of traffic generated by the other destination retailers and the anchor stores in power centers where our stores are located. Customer traffic to these shopping areas may be adversely affected by the closing of such destination retailers or anchor stores, or by a reduction in traffic to such stores resulting from a regional or global economic downturn, a general downturn in the local area where our store is located, or a decline in the desirability of the shopping environment of a particular power center. Such a reduction in customer traffic would reduce our sales and

leave us with excess inventory, which could have a material adverse effect on our business, financial condition, profitability and cash flows. We may respond by increasing markdowns, initiating marketing promotions or transferring product to other stores to reduce excess inventory, which would further decrease our gross profits and net income.

Failure to execute our opportunistic buying and inventory management process could adversely affect our business.

We purchase the majority of our inventory opportunistically, with our buyers purchasing close to need. Establishing the “treasure hunt” nature of the off-price buying experience to drive traffic to our stores requires us to offer changing assortments of merchandise in our stores. While opportunistic purchasing provides our buyers the ability to buy at desirable times and prices, in the quantities we need and into market trends, it places considerable discretion in our buyers, subjecting us to risks related to the pricing, quantity, nature and timing of inventory flowing to our stores. If we are unable to provide frequent replenishment of fresh, high quality, attractively priced merchandise in our stores, it could adversely affect traffic to our stores as well as our sales and margins. We base our purchases of inventory, in part, on our sales forecasts. If our sales forecasts do not match customer demand, we may experience higher inventory levels and need to markdown excess or slow-moving inventory, leading to decreased profit margins, or we may have insufficient inventory to meet customer demand, leading to lost sales, either of which could adversely affect our financial performance. We need to purchase inventory sufficiently below conventional retail to maintain our pricing differential to regular department and specialty store prices, and to attract customers and sustain our margins, which we may not achieve at various times and which could adversely affect our results.

In order to better serve our customers and maximize sales, we must properly execute our inventory management strategies by appropriately allocating merchandise among our stores and our e-commerce platform, timely and efficiently distributing inventory to such locations, maintaining an appropriate mix and level of inventory in such locations, appropriately changing the allocation of floor space of stores among product categories to respond to customer demand, and effectively managing pricing and markdowns, and there

is no assurance we will be able to do so. In addition, as we implement inventory localization initiatives, there could be disruptions in inventory flow and placement. Failure to effectively execute our opportunistic inventory buying and inventory management strategies could adversely affect our performance and our relationship with our customers.

In addition to our own execution, we may need to react to factors affecting inventory flow that are outside our control, such as adverse weather and natural disasters or other changes in conditions affecting our vendors and others in our supply chain, such as political instability, labor issues, including strikes or threats of strikes, or increasing cost of regulations. If we are not able to adjust appropriately to such factors, our inventory management may be affected, which could impact our performance and our relationship with our customers.

Failure to identify customer trends and preferences to meet customer demand could negatively impact our performance.

Because our success depends on our ability to meet customer demand, we work to follow customer trends and preferences on an ongoing basis and to buy inventory in response to those trends and preferences. However, identifying consumer trends and preferences in the diverse product lines and many markets in which we do business and successfully meeting customer demand across those lines and for those markets on a timely basis is challenging. Although our flexible business model allows us to buy close to need and in response to consumer preferences and trends, and to expand and contract merchandise categories in response to consumers' changing tastes, we may not do so successfully, which could adversely affect our sales and the markdowns required to move the resulting excess inventory will adversely affect our operating margins.

Customers may also have expectations about how they shop in stores or through e-commerce, or more generally engage with businesses across different channels or media (through internet-based and other digital or mobile channels or particular forms of social media), which may vary across demographics and may evolve rapidly. Customers are increasingly using technology and mobile devices to rapidly compare products and prices and to purchase products. Failure to effectively meet these changing expectations and demands may adversely impact our reputation and our financial results.

If we are unable to renew or replace our store leases or enter into leases for new stores on favorable terms, if one or more of our current leases are terminated prior to the expiration of their stated term and we cannot find suitable alternate locations, or if we cannot optimize the size of our stores, our growth strategy and profitability could be negatively impacted.

We lease substantially all of our store locations. Most of our current leases expire at various dates after ten-year terms, the majority of which are subject to our option to renew such leases for several additional five-year periods. While we have the right to terminate some of our leases under specified conditions, including by making specified payments, we may not be able to terminate a particular lease if or when we would like to close a particular store. If we decide to close stores, we are generally required to continue to perform obligations under the applicable leases, which generally include, among other things, paying rent and operating expenses for the balance of the lease term, or paying to exercise rights to terminate, and the performance of any of these obligations may be expensive. When we assign leases or sublease space to third parties, we can remain liable on the lease obligations, which could lead to significant expense if the assignee or sublessee does not perform. In addition, when the lease term for the stores in our ongoing operations expire, our ability to renew such expiring lease on commercially acceptable terms or, if such lease cannot be renewed, our ability to lease a suitable alternative location, and our ability to enter into leases for new stores on

favorable terms will depend on many factors, some of which may not be within our control, such as conditions in the local real estate market, competition for desirable properties and our relationships with current and prospective landlords. As the Company renews and replaces its store leases, we also strive to optimize the size of our existing stores to ensure maximum space utilization, which frequently means adjusting operations to accommodate smaller space through increased store product density and inventory turn optimization.

In addition, to the extent that our new store openings are in existing markets, we may experience reduced net sales volumes in existing stores in those markets. We expect to fund some of our expansion through cash flow from operations, lease payment credits from our lessors, and, if necessary, by borrowings under our \$600.0 million Second Amended and Restated Credit Agreement, dated as of August 13, 2014 (the ABL Line of Credit). If we experience a decline in performance or lease payment allowances from our lessors become unavailable, however, we may slow or discontinue store openings, relocations, refreshes or remodels.

If we are unable to effectively manage our existing portfolio of real estate leases, renew existing leases or lease suitable alternative locations, enter into leases for new stores on favorable terms, or optimize the size of our stores, our growth and profitability may be negatively impacted.

Extreme and/or unseasonable weather conditions, serious disruptions or catastrophic events could have a significant adverse effect on our business, financial condition and results of operations.

Extreme weather conditions in the areas in which our stores or distribution centers are located – especially in areas with a high concentration of our stores – could have a material adverse effect on our business, financial condition and results of operations. For example, heavy snowfall or other extreme weather conditions over a prolonged period might make it difficult for our customers or employees to travel to our stores. In addition, unforeseen public health issues such as pandemics or epidemics, natural disasters such

as hurricanes, tornados, floods, earthquakes, and other extreme weather or climate conditions, or a combination of these or other factors, could severely damage or destroy one or more of our stores or distribution facilities located in the affected areas, or disrupt our computer systems, thereby disrupting our business operations. Any of these events or circumstances could disrupt the operations of one or more of our vendors. Day-to-day operations, particularly our ability to receive products from our vendors or transport products to our stores, could be adversely affected, or we could be required to close stores. As a result, our business could be adversely affected.

Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the fall or winter season or cool weather during the spring or summer season could render a portion of our inventory incompatible with those unseasonable conditions, particularly in light of our historical product mix. These prolonged unseasonable weather conditions could adversely affect our business, financial condition and results of operations. In addition, because a significant portion of our net sales historically have occurred during the second half of the year, unseasonably warm weather during these months could have a disproportionately large effect on our business and materially adversely affect our financial condition and results of operations.

Since we do not have long-term contracts with our vendors, if we are unable to purchase attractive brand name merchandise in sufficient quantities at competitive prices, we may be unable to offer a merchandise mix that is appealing to our customers and our sales may be harmed.

Our ability to purchase merchandise opportunistically from third party vendors also depends upon the continuous, sufficient availability of high quality merchandise that we can acquire at prices sufficiently below those paid by conventional retailers in order to achieve the value proposition we strive to provide to our customers. Some of our key vendors may, however, limit the number of retail channels they use to sell their merchandise, which may, in limited cases, result in intense competition among retailers to obtain and sell these goods. In addition, most of the brands of our top vendors are sold by competing retailers and some of our top vendors also have their own dedicated retail stores. Moreover, we typically buy products from our vendors on a purchase order basis. We have no long-term purchase contracts with any of our vendors and, therefore, have no contractual assurances of continued supply, pricing or access to products, and any vendor could change the terms upon which they sell to us or discontinue selling to us at any time. Finally, if our vendors are better able to manage their inventory levels and reduce the amount of their excess inventory, the amount of high quality merchandise available to us could be materially reduced.

If our relationships with our vendors are disrupted, we may not be able to acquire the merchandise we require in sufficient quantities or on terms acceptable to us. Any inability to acquire high quality merchandise would have a negative effect on our business and operating results because we would be missing products from our merchandise mix unless and until alternative supply arrangements were made, resulting in deferred or lost sales. In addition, events that adversely affect our vendors could impair our ability to obtain desired merchandise in sufficient quantities. Such events include difficulties or problems associated with our vendors' business, finances, labor, importation of products, costs, production, insurance and reputation.

The loss of key personnel may disrupt our business and adversely affect our financial results.

We depend on the contributions of key personnel in various functions for our continued success. These executives and other key personnel may be hired by our competitors, some of which have considerably more financial resources than we do. The loss of key personnel, or the inability to hire, train, motivate and retain qualified employees, or

changes to our organizational structure, operating results, or business model that adversely affect morale or retention, could adversely affect our business, financial condition and results of operations.

Effective succession planning is also a key factor for our success. Our failure to enable the effective transfer of knowledge and facilitate smooth transitions with regard to key personnel could adversely affect our strategic planning and execution and negatively affect our business, financial condition and results of operations. If we fail to enable the effective transfer of knowledge and facilitate smooth transitions for key personnel, the operating results and future growth for our business could be adversely affected, and the morale and productivity of the workforce could be disrupted.

Our failure to attract, train and retain quality employees in appropriate numbers could adversely affect our business.

Our performance depends on recruiting, developing, training and retaining quality sales, systems, distribution center and other employees in large numbers as well as experienced buying and management personnel, and we invest significant resources in training and motivating them to maintain a high level of job satisfaction. Many of our store employees are in entry level or part-time positions with historically high rates of turnover, which can lead to increased training and retention costs, particularly if employment opportunities increase. Availability and skill of employees may differ across markets in which we do business and in new markets we enter, and we need to manage our labor needs effectively.

In addition, because of the distinctive nature of our off-price model, we must provide significant internal training and development for key employees across the company, including within our buying organization. Similar to other retailers, we face challenges in securing and retaining sufficient talent in management and other key areas for many reasons, including competition in the retail industry generally and for talent in various geographic markets. If we do not continue to attract qualified individuals, train them in our business model, support their development and retain them, our performance could be adversely affected or our growth could be limited.

We are also dependent upon temporary personnel to adequately staff our stores and distribution facilities, with heightened dependence during busy periods such as the holiday season and when multiple new stores are opening. There can be no assurance that we will receive adequate assistance from our temporary personnel, or that there will be sufficient sources of suitable temporary personnel to meet our demand. Any such failure to meet our staffing needs or any material increases in associate turnover rates could have a material adverse effect on our business or results of operations.

Labor costs, including healthcare costs, and other challenges from our large workforce may adversely affect our results and profitability.

We have a large workforce, and our ability to meet our labor needs while controlling costs, including costs of providing health, retirement and other associate benefits, is subject to various factors such as unemployment levels; prevailing wage rates and minimum wage requirements; participant benefit levels; economic conditions; interest rate changes; health and other insurance costs; and the regulatory environment, including health care legislation, and governmental labor and employment and associate benefits programs and requirements. The results of the November 2016 U.S. elections have introduced greater uncertainty with respect to the costs and composition of healthcare coverage relating to the Affordable Care Act and possible replacements. In addition, when wage rates or benefit levels increase in a market, increasing our wages or benefits may cause our earnings to decrease, while failing to increase our wages or benefits competitively or reducing our wages or benefits could result in a decline in our ability to attract or retain employees or in the quality of our workforce, causing our customer service or performance to suffer, which could negatively impact our results.

Parties with whom we do business may be subject to insolvency risks or may otherwise become unable or unwilling to perform their obligations to us.

We are a party to contracts, transactions and business relationships with various third parties, including, without limitation, vendors, suppliers, service providers and lenders, pursuant to which such third parties have performance, payment and other obligations to us. In some cases, we depend upon such third parties to provide essential leaseholds, products, services or other benefits, including with respect to store and distribution center locations, merchandise, advertising, software development and support, logistics, other agreements for goods and services in order to operate our business in the ordinary course, extensions of credit and other vital matters. Economic, industry and market conditions could result in increased risks to us associated with the potential financial distress of such third parties.

If any of the third parties with which we do business become subject to bankruptcy, receivership or similar proceedings, our rights and benefits in relation to our contracts, transactions and business relationships with such third parties could be terminated, modified in a manner adverse to us, or otherwise impaired. We cannot make any assurances that we would be able to arrange for alternate or replacement contracts, transactions or business relationships on terms as favorable as our existing contracts, transactions or business relationships, if at all. Any

inability on our part to do so could negatively affect our cash flows, financial condition and results of operations.

Although we purchase most of our inventory from vendors domestically, merchandise production is located primarily overseas.

We do not own or operate any manufacturing facilities. As a result, we are dependent upon the timely receipt of quality merchandise from vendors. Factors which affect overseas production could affect our vendors and, in turn, our ability to obtain inventory and the price levels at which they may be obtained. Factors that cause an increase in merchandise costs or a decrease in supply could lead to generally lower sales and gross margins in the retail industry.

Such factors include:

- political or labor instability in countries where vendors are located or at foreign ports which could result in lengthy shipment delays, which, if timed ahead of the Fall and Winter peak selling periods, could materially and adversely affect our ability to stock inventory on a timely basis;

- disruptions in the operations of domestic ports through which we import our merchandise, including but not limited to labor disputes involving work slowdowns, lockouts or strikes, which could require us and/or our vendors to ship merchandise to alternative ports in the United States or through the use of more expensive means, and shipping to alternative ports in the United States could result in increased lead times and transportation costs; disruptions at ports through which we import our goods could also result in unanticipated inventory shortages;

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- political or military conflict, which could cause a delay in the transportation of our products to us and an increase in transportation costs;
- heightened terrorism security concerns, which could subject imported goods to additional, more frequent or more thorough inspections, leading to delays in deliveries or impoundment of goods for extended periods;
- disease epidemics, outbreaks and other health related concerns, which could result in closed factories, reduced workforces, scarcity of raw materials and scrutiny or embargoing of goods produced in infected areas;
- natural disasters and industrial accidents, which could have the effect of curtailing production and disrupting supplies;
- increases in labor and production costs in goods-producing countries, which would result in an increase in our inventory costs;
- the migration and development of manufacturers, which can affect where our products are or will be produced;
- fluctuation in our vendors' local currency against the dollar, which may increase our cost of goods sold; and
- changes in import duties, taxes, charges, quotas, loss of "most favored nation" trading status with the United States for a particular foreign country and trade restrictions (including the United States imposing antidumping or countervailing duty orders, safeguards, remedies or compensation and retaliation due to illegal foreign trade practices).

Any of the foregoing factors, or a combination thereof, could have a material adverse effect on our business.

In addition, the results of the November 2016 U.S. elections have introduced greater uncertainty with respect to tax and trade policies, tariffs and government regulations affecting trade between the U.S. and other countries. Although we source the majority of our merchandise from third party vendors located in the U.S., the production of that merchandise occurs primarily overseas. Major developments in tax policy or trade relations, such as the disallowance

of tax deductions for imported merchandise or the imposition of unilateral tariffs on imported products could have a material adverse effect on our business, results of operations and liquidity.

Our business would be disrupted severely if one of our primary distribution centers were to shut down.

Most of the merchandise we purchase is shipped directly to our distribution centers, where it is prepared for shipment to the appropriate stores. The success of our stores depends on their timely receipt of merchandise, and a strong, efficient and flexible distribution network is critical to our ability to grow and to maintain a low-cost operating structure. Accordingly, we must ensure that we continue to add capacity to our existing distribution centers and build out planned additional distribution centers timely and cost effectively.

A disruption within our distribution network, including the shutdown of or loss of significant capacity by one of our current primary distribution centers, could adversely affect our ability to deliver inventory in a timely manner.

Failure to operate information systems and implement new technologies effectively could disrupt our business or reduce our sales or profitability.

We rely extensively on various information systems, including data centers, hardware and software and applications to manage many aspects of our business, including to process and record transactions in our stores, to enable effective communication systems, to plan and track inventory flow, to manage logistics and to generate performance and financial reports. We are dependent on the integrity, security and consistent operations of these systems and related back-up systems. Our computer systems and the third-party systems we rely on are also subject to damage or interruption from a number of causes, including power outages; computer and telecommunications failures; computer viruses or malware; security breaches; cyber-attacks; acts of war or terrorism; and design or usage errors by our employees or contractors. Compromises, interruptions or shutdowns of our systems, including those managed by third parties, whether intentional or inadvertent, could lead to delays in our business operations and, if significant or extreme, negatively affect our results of operations.

We modify, update, and replace our systems, applications and infrastructure from time to time, including by maintaining, updating or replacing legacy programs; and integrating new service providers, including cloud computing technologies. Although we believe we are diligent in selecting systems and vendors and implementing procedures to enable us to maintain the integrity of our systems when we modify them, there are inherent risks associated with modifying or replacing systems, and with new or changed

relationships, including accurately capturing and maintaining data, realizing the expected benefit of the change and managing the potential disruption of the operation of the systems as the changes are implemented. Potential issues associated with implementing technology initiatives and the time and resources required to optimize the benefits of new elements of our systems and infrastructure could reduce the efficiency of our operations in the short term. In addition, any interruption in the operation of our websites, particularly our e-commerce site, could cause us to suffer reputational harm or to lose sales if customers are unable to access our site or purchase merchandise from us during such interruption.

Unauthorized disclosure of sensitive or confidential information, whether through a breach of our computer system or otherwise, could severely hurt our business.

Some aspects of our business, like that of most retailers, involves the receipt, storage and transmission of customers' personal information, consumer preferences and payment card information, as well as confidential information about our employees, our suppliers and our Company, some of which is entrusted to third-party service providers and vendors. We rely on commercially available systems, software, tools (including encryption technology) and monitoring to provide security and oversight for processing, transmission, storage and the protection of confidential information. Despite the security measures we have in place, our facilities and systems, and those of third parties with which we do business, may be vulnerable to security breaches, acts of vandalism and theft, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events.

Electronic security attacks designed to gain access to sensitive information by breaching mission critical systems of large organizations are constantly evolving, and high profile electronic security breaches leading to unauthorized release of confidential information have occurred at a number of major U.S. companies. Computer hackers or other unauthorized third parties may attempt to penetrate or otherwise gain access to our computer systems or the systems of third parties with which we do business through fraud or other means of deceit and, if successful, misappropriate personal information, payment card or check information or confidential business information. Hardware, software or applications we develop or obtain from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. In addition, our employees, contractors or third parties with which we do business or to which we outsource business operations may attempt to circumvent our security measures in order to misappropriate such information, and may purposefully or inadvertently cause a breach involving such information. Despite advances in security hardware, software, and encryption technologies, the methods and tools used to obtain unauthorized access, disable or degrade service, or sabotage systems are constantly changing and evolving, and may be difficult to anticipate or detect for long periods of time. We have implemented and regularly review and update processes and procedures to protect against unauthorized access to or use of secured data and to prevent data loss. However, the ever-evolving threats mean we and our third-party service providers and vendors must continually evaluate and adapt our respective systems, procedures, controls and processes, and there is no guarantee that such measures will be adequate to safeguard against all data security breaches or misuses of data. An electronic security breach in our systems (or in the systems of third parties with which we do business) that results in the unauthorized release of individually identifiable customer or other sensitive data could nonetheless occur and have a material adverse effect on our reputation and lead to financial losses from remedial actions, loss of business or potential liability, including possible punitive damages. In addition, as the regulatory environment relating to retailers and other companies' obligation to protect such sensitive data becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could result in additional costs, and a material failure on our part to comply could subject us to fines or other regulatory sanctions and potentially to lawsuits.

We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability and potentially disrupt our business.

We accept payments using a variety of methods, including cash, checks, credit and debit cards, and gift cards, and we may offer new payment options over time. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change over time or be reinterpreted, making compliance more difficult or costly.

For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could potentially disrupt our business. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. As a result, our business and operating results could be adversely affected.

Issues with merchandise quality or safety could damage our reputation, sales and financial results.

Various governmental authorities in the jurisdictions where we do business regulate the quality and safety of the merchandise we sell to consumers. Regulations and standards in this area, including those related to the U.S. Consumer Product Safety Improvement Act of 2008, state regulations like California's Proposition 65, and similar legislation, impose restrictions and requirements on the merchandise we sell in our stores and through e-commerce. These regulations change from time to time as new federal, state or local regulations are enacted. If we or our merchandise vendors are unable to comply with regulatory requirements on a timely basis or at all, or to adequately monitor new regulations that may apply to existing or new merchandise categories, significant fines or penalties could be incurred or we could have to curtail some aspects of our sales or operations, which could have a material adverse effect on our financial results.

We rely on our vendors to provide quality merchandise that complies with applicable product safety laws and other applicable laws, but they may not comply with their obligations to do so. Although our arrangements with our vendors frequently provide for indemnification for product liabilities, the vendors may fail to honor those obligations to an extent we consider sufficient or at all. Issues with the quality and safety of merchandise, and issues with the authenticity of merchandise, or customer concerns about such issues, regardless of our fault, could cause damage to our reputation and could result in lost sales, uninsured product liability claims or losses, merchandise recalls and increased costs, and regulatory, civil or criminal fines or penalties, any of which could have a material adverse effect on our financial results.

Difficulty complying with existing laws, rules, regulations, and local codes, or changes in existing laws, rules and regulations could negatively affect our growth strategy, business operations and financial performance.

We are subject to federal, state and local laws, rules and regulations in the operation of our business. In addition to complying with current laws, rules and regulations, we must also comply with new and changing laws and regulations, new regulatory initiatives, evolving interpretation of existing laws by judicial and regulatory authorities, and reforms in jurisdictions where we do business. Complying with local zoning codes, real estate land use restrictions, employment-related laws, and other local laws across numerous jurisdictions is particularly challenging as we grow the number of our stores in new municipalities and need to stay abreast of changes in such local laws. The increasing proliferation of local laws generally further complicates our efforts to comply with all of the various laws, rules and regulations that apply to our business.

All of the above legal, regulatory and administrative requirements collectively affect multiple aspects of our business, including those involving labor and employment benefits; health, welfare and finance; real estate management; consumer protection and product safety; climate change, supply chain, energy and waste; use of the internet, including e-commerce, electronic communications, data protection and privacy; and protection of third party intellectual property rights. Changes to these laws and regulations could increase our costs of compliance or of doing business, and could adversely affect our operating results. In addition, if we fail to comply with these laws, rules, and regulations, we may be subject to judgments, fines or other costs or penalties, which could materially adversely affect our operations and our financial results and condition.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results or financial condition.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, such as inventories and self-insurance reserves are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation, or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition.

Our future growth and profitability could be adversely affected if our advertising and marketing programs are not effective in generating sufficient levels of customer awareness and traffic.

We rely on advertising to increase consumer awareness of our product offerings and pricing to drive store traffic and traffic to our e-commerce site. In addition, we rely and will increasingly rely on other forms of media advertising, including, without limitation, social media and e-marketing. Our future growth and profitability will depend in part upon the effectiveness and efficiency of our advertising and marketing programs. In order for our advertising and marketing programs to be successful, we must:

- manage advertising and marketing costs effectively in order to maintain acceptable operating margins and return on our marketing investment; and
- convert customer awareness into actual store visits and product purchases.

Our planned advertising and marketing expenditures may not result in increased total or comparable store sales or generate sufficient levels of product awareness. Further, we may not be able to manage our advertising and marketing expenditures on a cost-effective basis. Additionally, some of our competitors may have substantially larger marketing budgets, which may provide them with a competitive advantage over us.

Damage to our corporate reputation or brand could adversely affect our sales and operating results.

Building brand reputation is important to our continuing success. Our reputation is partially based on perceptions of various subjective qualities and overall integrity. As such, in the many different markets in which we do business, we work hard to build relationships with our customers through our various marketing campaigns. However, any incident that erodes the trust or confidence of our customers or the general public could adversely affect our reputation and business, particularly if the incident results in significant adverse publicity or governmental inquiry. In addition, information concerning us, whether or not true, may be instantly and easily posted on social media platforms and similar devices at any time, which information may be adverse to our reputation or business. The harm may be immediate without affording us an opportunity for redress or correction. Damage to our reputation in any form could result in declines in customer loyalty and sales, affect our vendor relationships, development opportunities and associate retention, and otherwise adversely affect our business.

Use of social media by the Company or third parties at our direction may adversely impact our reputation or subject us to fines or other penalties.

There has been a substantial increase in the use of social media platforms and similar devices, including blogs, social media websites, and other forms of internet-based communications, which allow individuals access to a broad audience of consumers and other interested persons. We have increasingly utilized social media in our marketing and employment recruiting efforts in order to reach as many current and potential new customers and potential employment candidates as efficiently and cost effectively as possible, and have also retained third parties with expertise and distinction in the social media realm to bolster our social media efforts. As laws and regulations rapidly evolve to govern the use of these platforms and devices, the failure by us, our employees or third parties acting at our direction to abide by applicable laws and regulations in the use of these platforms and devices could adversely impact our reputation or subject us to fines or other penalties.

Circumstances limiting our ability, or the ability of our vendors, to access capital markets could adversely affect our business or financial condition.

Changes in the credit and capital markets, including market disruptions, limited liquidity and interest rate fluctuations, may increase the cost of financing or restrict our access to this potential source of future liquidity. A decrease in the ratings that rating agencies assign to our short and long-term debt may also negatively impact our access to the debt capital markets and increase our cost of borrowing. These circumstances may negatively impact our access to capital markets, which could have a materially adverse impact on our business or financial condition.

In many cases, our vendors depend upon commercial credit to finance their operations. If they are unable to secure commercial financing, our vendors could seek to change the terms on which they sell to us, which could negatively affect our liquidity. In addition, the inability of vendors to access liquidity, or the insolvency of vendors, could lead to

their failure to deliver merchandise to us.

Legal and regulatory proceedings could have an adverse impact on our results of operations.

We are subject to various legal and regulatory proceedings relating to our business, certain of which may involve jurisdictions with reputations for aggressive application of laws and procedures against corporate defendants. We are impacted by trends in litigation, including class action litigation brought under various consumer protection, employment, and privacy and information security laws. Accruals are established based on our best estimates of our potential liability. However, we cannot accurately predict the ultimate outcome of any such proceedings due to the inherent uncertainties of litigation. Regardless of the outcome or whether the claims are meritorious, legal and regulatory proceedings may require that we devote substantial time and expense to defend our Company. Unfavorable rulings could result in a material adverse impact on our business, financial condition or results of operations.

Our business could be impacted as a result of actions by activist shareholders or others.

From time to time, we may be subject to legal and business challenges in the operation of our Company due to shareholder proposals, media campaigns, proxy contests, and other such actions instituted by activist shareholders or others. Responding to such actions could be costly and time-consuming, disrupt our operations, may not align with our business strategies and could divert the attention of our Board of Directors and senior management from the pursuit of current business strategies. Perceived uncertainties as to our future direction as a result of shareholder activism or potential changes to the composition of the Board of Directors may lead to the perception of a change in the direction of the business or other instability, and may make it more difficult to attract and retain qualified personnel and business partners.

Our substantial indebtedness requires a significant amount of cash. Our ability to generate sufficient cash depends on numerous factors beyond our control, and we may be unable to generate sufficient cash flow to service our debt obligations.

As of January 28, 2017, our total indebtedness was \$1,130.5 million, including \$1,112.0 million, inclusive of original issue discount, under our \$1,200.0 million Senior Secured Term Loan Facility, pursuant to our term loan credit agreement (the Term Loan Credit Agreement) dated as of February 24, 2011, as amended. We had no outstanding borrowings on our ABL Line of Credit as of January 28, 2017. Estimated cash required to make interest payments for these debt obligations amounts to approximately \$43.4 million for the fiscal year ended February 3, 2018.

Our ability to make payments and to refinance our debt, and to fund planned capital expenditures, will depend on our ability to generate cash in the future, which is to some extent subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are unable to generate sufficient cash flow to service our debt and meet our other commitments, we will be required to adopt one or more alternatives, such as refinancing all or a portion of our debt, selling material assets or operations or raising additional debt or equity capital. We may not be able to successfully carry out any of these actions on a timely basis, on commercially reasonable terms or at all, or be assured that these actions would be sufficient to meet our capital requirements. In addition, the terms of our existing or future debt agreements, including the ABL Line of Credit and the Term Loan Credit Agreement, may restrict us from affecting any of these alternatives.

Our failure to comply with the agreements relating to our outstanding indebtedness, including as a result of events beyond our control, could result in an event of default that could materially and adversely affect our results of operations and our financial condition.

If an event of default under any of the agreements relating to our outstanding indebtedness occurred, the holders of the defaulted debt could cause all amounts outstanding, with respect to that debt, to be due and payable immediately. Our assets or cash flow may not be sufficient to fully repay borrowings under our outstanding debt instruments if accelerated upon an event of default. Further, if we are unable to repay, refinance or restructure our secured indebtedness, the holders of such debt could proceed against the collateral securing that indebtedness through foreclosure proceedings and/or by forcing us into bankruptcy or liquidation. In addition, any event of default or declaration of acceleration under one debt instrument could also result in an event of default under one or more of our other debt instruments.

Risks Related to Ownership of Our Common Stock

Our stock price has been and may continue to be volatile.

The market price of our common stock has fluctuated substantially in the past and may continue to fluctuate significantly. Future announcements or disclosures concerning us or any of our competitors, our strategic initiatives, our sales and profitability, our financial condition, any quarterly variations in actual or anticipated operating results or comparable sales, any failure to meet analysts' expectations and sales of large blocks of our common stock, among other factors, could cause the market price of our common stock to fluctuate substantially. In addition, the stock market has experienced price and volume fluctuations that have affected the market price of many retail and other

stocks that have often been unrelated or disproportionate to the operating performance of these companies.

Anti-takeover provisions in our charter documents and Delaware law might discourage or delay acquisition attempts for us that stockholders might consider favorable.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of the Company more difficult without the approval of our Board of Directors. These provisions:

- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of common stock;
- prohibit stockholder action by written consent, requiring all stockholder actions be taken at a meeting of our stockholders;
- provide that the Board of Directors is expressly authorized to make, alter or repeal our amended and restated bylaws;
- establish advance notice requirements for nominations for elections to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;

- establish a classified Board of Directors, as a result of which our Board of Directors is divided into three classes, with each class serving for staggered three-year terms, which prevents stockholders from electing an entirely new Board of

Directors at an annual meeting;

- limit the ability of stockholders to remove directors;
- prohibit stockholders from calling special meetings of stockholders; and
- require the approval of holders of at least 75% of the outstanding shares of our voting common stock to amend the amended and restated bylaws and certain provisions of the amended and restated certificate of incorporation.

These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of the Company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and to cause us to take other corporate actions they desire.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation provides that, subject to limited exceptions, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law, our certificate of incorporation or our by-laws, or (iv) any other action asserting a claim against us that is governed by the internal affairs doctrine.

Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to the provisions of our certificate of incorporation described above. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find these provisions of our amended and restated certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition.

Because we do not intend to pay cash dividends in the near term, stockholders may not receive any return on investment unless they are able to sell their common stock for a price greater than their purchase price.

The continued operation and expansion of our business will require substantial funding. Accordingly, we do not anticipate that we will pay any cash dividends on shares of our common stock in the near term. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon results of operations, financial condition, contractual restrictions, including those under our ABL Line of Credit and Term Loan Credit Agreement, any potential indebtedness we may incur, restrictions imposed by applicable law and other factors our Board of Directors deems relevant. Accordingly, if stockholders purchase shares of our common stock, realization of a gain on investment will depend on the appreciation of the price of our common stock, which may never occur.

We are a holding company and rely on dividends, distributions and other payments, advances and transfers of funds from our subsidiaries to meet our obligations.

We are a holding company that does not conduct any business operations of our own. As a result, we are largely dependent upon cash dividends and distributions and other transfers from our subsidiaries to meet our obligations. The deterioration of income from, or other available assets of, our subsidiaries for any reason could limit or impair their ability to pay dividends or other distributions to us.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

We own the land and/or buildings for 39 of our stores and have leases for 550 of our stores. Our new stores are generally leased for an initial term of ten to fifteen years, the majority of which are subject to our option to renew such leases for several additional

five-year periods. Store leases generally provide for fixed monthly rental payments, plus the payment, in most cases, of real estate taxes and other charges with escalation clauses. In many locations, our store leases contain formulas providing for the payment of additional rent based on sales. Most of our stores are located in malls, strip shopping centers, regional power centers or are freestanding.

We own approximately 97 acres of land in Burlington and Florence, New Jersey on which we have constructed our corporate campus, which includes our corporate headquarters and a warehouse facility. We own approximately 43 acres of land in Edgewater Park, New Jersey on which we have constructed a distribution center and an office facility of approximately 648,000 square feet. We lease a 660,000 square foot distribution facility in San Bernardino, California and two additional distribution facilities for storage/support purposes in New Jersey and California, with a combined square footage of 1,478,000 square feet. We also lease approximately 35,000 square feet of office space in New York City, as well as 10,000 square feet of office space in Los Angeles, California (West Coast buying office).

Item 3. Legal Proceedings

Like many retailers, the Company has been named in class or collective actions on behalf of various groups alleging violations of federal and state wage and hour and other labor statutes, and alleged violation of state consumer and/or privacy protection statutes. In the normal course of business, we are also party to various other lawsuits and regulatory proceedings including, among others, commercial, product, product safety, employee, customer, intellectual property and other claims. Actions against us are in various procedural stages. Many of these proceedings raise factual and legal issues and are subject to uncertainties. To determine the likelihood of a loss and/or the measurement of any loss can be complex. Consequently, we are unable to estimate the range of reasonably possible loss in excess of amounts accrued. Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but the assessment process relies heavily on estimates and assumptions that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions. 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 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
Market Information

Our common stock is listed on the New York Stock Exchange under the symbol “BURL.” The following table sets forth, for the periods indicated below, the quarterly high and low sales prices per share of our common stock during Fiscal 2016 and Fiscal 2015.

| | Fiscal 2016 | | Fiscal 2015 | |
|----------------|-------------|---------|-------------|---------|
| | High | Low | High | Low |
| First quarter | \$58.94 | \$48.55 | \$61.02 | \$49.80 |
| Second quarter | \$76.91 | \$51.19 | \$56.75 | \$48.58 |
| Third quarter | \$87.23 | \$72.45 | \$55.57 | \$45.66 |
| Fourth quarter | \$91.67 | \$68.94 | \$53.73 | \$40.70 |

Holders

As of February 25, 2017, we had 272 holders of record of our common stock.

Dividends

During the past two fiscal years, we have not declared, and do not anticipate declaring in the near term, dividends on shares of our common stock. 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. 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 as described in Note 7 to our Consolidated Financial Statements, “Long Term Debt.” Any future determination to pay dividends will be at the discretion of our Board of Directors, subject to compliance with covenants in our current and future agreements governing our indebtedness, and will depend upon our results of operations, financial condition, capital requirements and other factors that our Board of Directors deems relevant.

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

Stock Performance Graph

The performance graph below and related information shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, (the Exchange Act), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares the cumulative total stockholder return on our common stock from the closing prices of October 2, 2013 (the date our common stock commenced trading on the New York Stock Exchange) through January 28, 2017, with the return on the Standard & Poor's (S&P) 500 Index and the S&P Retailing Index over the same period. This graph assumes an initial investment of \$100 and assumes the reinvestment of dividends, if any. Such returns are based on historical results and are not intended to suggest future performance.

| Company / Index | Base Period | Indexed Returns for Fiscal Years Ended | | | |
|-------------------------|-----------------|--|------------------|------------------|------------------|
| | October 2, 2013 | February 1, 2014 | January 31, 2015 | January 30, 2016 | January 28, 2017 |
| Burlington Stores, Inc. | \$ 100.00 | \$ 102.28 | \$ 199.48 | \$ 214.83 | \$ 323.51 |
| S&P 500 Index | \$ 100.00 | \$ 105.24 | \$ 117.78 | \$ 114.54 | \$ 135.47 |
| S&P Retailing Index | \$ 100.00 | \$ 100.62 | \$ 119.48 | \$ 138.07 | \$ 161.95 |

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 January 28, 2017:

| Month | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(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 |
|---|--|--|--|---|
| October 30, 2016 through November 26, 2016 | 5,706 | \$ 72.85 | — | \$249,642,662 |
| November 27, 2016 through December 31, 2016 | 562,384 | \$ 88.94 | 562,199 | 199,642,696 |
| January 1, 2017 through January 28, 2017 | 1,887 | \$ 83.59 | — | 199,642,696 |
| Total | 569,977 | | 562,199 | |

(1) The shares purchased between October 30, 2016 and November 26, 2016 and between January 1, 2017 and January 28, 2017, as well as 185 of the shares purchased between November 27, 2016 and December 31, 2016, were withheld for tax payments due upon the vesting of employee restricted stock awards, and do not reduce the dollar value that may yet be purchased under our publicly announced share repurchase program.

(2) Includes commissions for the shares repurchased under our publicly announced share repurchase program.

(3) On November 24, 2015, we announced that our Board of Directors had authorized the repurchase of up to \$200 million of our common stock, which we completed in Fiscal 2016. On November 15, 2016, our Board of Directors authorized the repurchase of up to an additional \$200 million of our common stock. This share repurchase program will be funded using the Company's available cash and is authorized to be executed through November 2018. As of January 28, 2017, we had \$199.6 million available for purchase under this share repurchase program. For a further discussion of our share repurchase programs, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Share Repurchase Program."

Item 6. Selected Financial Data

The following table presents selected historical consolidated financial data and certain other financial data. The historical consolidated balance sheet data and consolidated statement of operations data for Fiscal 2016, Fiscal 2015 and Fiscal 2014 and for the fiscal years ended February 1, 2014 (Fiscal 2013) and February 2, 2013 (Fiscal 2012) have been derived from our historical audited Consolidated Financial Statements.

The historical consolidated financial data and other financial data presented below should only be read in conjunction with our audited Consolidated Financial Statements (and the related notes thereto) and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, each of which are included elsewhere in this Form 10-K. Our historical consolidated financial data may not be indicative of our future performance.

| | Fiscal Year Ended(1) | | | | |
|---|----------------------|---------------------|---------------------|---------------------|---------------------|
| | February 2, 2013 | February 1, 2014 | January 31, 2015 | January 30, 2016 | January 28, 2017 |
| (in thousands, except per share data) | | | | | |
| Consolidated Statement of Operations Data: | | | | | |
| Net Sales | \$4,131,379 | \$4,427,503 | \$4,814,504 | \$5,098,932 | \$5,566,038 |
| Net income | \$25,301 | \$16,150 | \$65,955 | \$150,482 | \$215,873 |
| Net (loss) income per share—basic: | | | | | |
| Class L stockholders | \$28.76 | \$31.93 | \$— | \$— | \$— |
| Common stockholders | \$(0.24) | \$(0.26) | \$0.89 | \$2.03 | \$3.06 |
| Net (loss) income per share—diluted: | | | | | |
| Class L stockholders | \$28.76 | \$31.93 | \$— | \$— | \$— |
| Common stockholders | \$(0.27) | \$(0.39) | \$0.87 | \$1.99 | \$3.01 |
| Consolidated Balance Sheet Data (end of the period): | | | | | |
| Inventory | 680,190 | 720,052 | 788,708 | 783,528 | 701,891 |
| Total assets(2) | 2,461,190 | 2,596,712 | 2,614,285 | 2,571,813 | 2,574,483 |
| Long term debt(2) | 1,318,640 | 1,344,779 | 1,238,992 | 1,295,163 | 1,128,843 |
| Class L common stock(3) | 1,029,189 | — | — | — | — |
| Stockholders' deficit(4) | (1,109,458) | (150,468) | (65,951) | (99,022) | (49,812) |
| Other Financial Data: | | | | | |
| Adjusted Net Income(5) | 59,589 | 70,239 | 138,577 | 174,555 | 232,268 |
| Adjusted EBITDA(6) | 331,964 | 383,697 | 448,066 | 484,029 | 584,562 |
| Comparable store sales growth(7) | 1.2 | % 4.7 | % 4.9 | % 2.1 | % 4.5 |
| Gross margin rate | 38.8 | % 39.1 | % 39.7 | % 40.0 | % 40.8 |
| Store payroll as a percentage of net sales | 9.7 | % 9.1 | % 8.8 | % 8.6 | % 8.5 |
| Cash flow increase (decrease) | 7,672 | 89,648 | (107,635) | (4,434) | 60,682 |
| Working capital (deficit)(8) | 104,799 | 80,604 | 26,566 | 18,594 | (96,310) |

(1)Fiscal 2016, Fiscal 2015, Fiscal 2014 and Fiscal 2013 consisted of 52 weeks. Fiscal 2012 consisted of 53 weeks.

(2)During Fiscal 2016, the Company retrospectively adopted the guidance per ASU 2015-03 and ASU 2015-15, as defined in Note 2 to our Consolidated Financial Statements, "Recent Accounting Pronouncements," which requires

the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability. As a result, \$16.9 million, \$24.4 million, \$10.3 million and \$8.3 million of deferred financing costs associated with the Term Loan Facility, Senior Notes and/or Holdco Notes (as defined in Note 7, "Long Term Debt") as of February 2, 2013, February 1, 2014, January 31, 2015 and January 30, 2016, respectively, have been reclassified from the line item "Total assets" and shown as a deduction from the line item "Long term debt" in the table above. Deferred financing costs associated with the ABL Line of Credit (as defined in Note 7, "Long Term Debt") and interest rate cap contracts continue to be shown in the line item "Total assets" in the table above in accordance with ASU 2015-15.

- (3) Prior to our initial public offering, each outstanding share of our Class A common stock was automatically cancelled, each outstanding share of our Class L common stock was automatically converted into one share of our Class A common stock, effected for an 11-for-1 split, and then reclassified into common stock.
- (4) In February 2013, we declared a special cash dividend of approximately \$336.0 million (\$5.89/unit) to our stockholders from the proceeds of the offering of the \$350.0 million aggregate principal amount of Senior Notes (Holdco Notes), payable to Class A and Class L stockholders on a pro rata basis.
- (5) We define Adjusted Net Income as net income, exclusive of the following items: (i) net favorable lease amortization; (ii) costs related to debt amendments, secondary offerings, termination of Advisory Agreement and other; (iii) stock option modification

expense; (iv) loss on extinguishment of debt; (v) impairment charges; (vi) advisory fees; (vii) amounts related to certain litigation and (viii) other unusual, non-recurring or extraordinary expenses, losses, charges or gains, all of which are tax effected to arrive at Adjusted Net Income.

(6) We define Adjusted EBITDA as net income, exclusive of the following items: (i) interest expense, net, (ii) loss on extinguishment of debt, (iii) income tax expense (benefit), (iv) depreciation and amortization, (v) impairment charges, (vi) advisory fees, (vii) stock option modification expense, (viii) costs related to debt amendments, secondary offerings, termination of our Advisory Agreement and other, (ix) amounts related to certain litigation and (x) other unusual, non-recurring or extraordinary expenses, losses, charges or gains.

(7) We define comparable store sales as sales of those stores, including online sales, commencing on the first day of the fiscal month one year after the end of their grand opening activities, which normally conclude within the first two months of operations.

(8) We define working capital as current assets (excluding restricted cash) minus current liabilities.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

For purposes of the following "Management's Discussion and Analysis of Financial Condition and Results of Operations," unless the context requires otherwise, references to "the Company," "we," "our," or "us" refer to Burlington Stores, Inc., and its consolidated subsidiaries. "Parent" refers to Burlington Stores, Inc. alone, "Holdings" refers to Burlington Coat Factory Investments Holdings, Inc., Parent's indirect, wholly-owned subsidiary, and "BCFWC" refers to Burlington Coat Factory Warehouse Corporation, Holdings' direct, wholly-owned subsidiary.

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 "Selected Financial Data" and our Consolidated Financial Statements, including the notes thereto, appearing elsewhere in this report.

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 set forth under the caption entitled "Cautionary Statement Regarding Forward-Looking Statements," which can be found in Item 1A, Risk Factors. Our actual results and the timing of events may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in Item 1A, Risk Factors and elsewhere in this report.

General

We are a nationally recognized retailer of high-quality, branded apparel at everyday low prices. We opened our first store in Burlington, New Jersey in 1972, selling primarily coats and outerwear. Since then, we have expanded our store base to 592 stores as of January 28, 2017, inclusive of an internet store, in 45 states and Puerto Rico, and diversified our product categories by offering an extensive selection of in-season, fashion-focused merchandise, including: women's ready-to-wear apparel, menswear, youth apparel, baby, footwear, accessories, home and coats. We acquire a broad selection of desirable, first-quality, current-brand, labeled merchandise directly from nationally-recognized manufacturers and other suppliers.

Executive Summary

Overview of Fiscal 2016 Operating Results

Highlights from Fiscal 2016 compared with Fiscal 2015 include the following:

- ◆ We generated total revenues of \$5,591.0 million compared with \$5,129.8 million.
- ◆ Net sales improved \$467.1 million to \$5,566.0 million (inclusive of a 4.5% comparable store sales increase).
- ◆ Gross margin as a percentage of net sales improved to 40.8% compared with 40.0%, which was offset by an approximate 20 basis point increase in product sourcing costs which are included in selling, general and administrative expenses.
- ◆ Selling, general and administrative expenses as a percentage of net sales improved to 31.0% compared with 31.3%, inclusive of the approximate 20 basis point increase in product sourcing costs.
- ◆ We earned net income of \$215.9 million compared with \$150.5 million.
- ◆ Adjusted Net Income (as defined in the section below entitled "Key Performance Measures") improved \$57.7 million to \$232.3 million.
- ◆ Adjusted EBITDA (as defined in the section below entitled "Key Performance Measures") improved \$100.5 million to \$584.6 million.

Term Loan Repricing

On July 29, 2016, we completed the repricing of our senior secured term loan facility (the Term Loan Facility) which, among other things, reduced the interest rate margins applicable under the Term Loan Facility from 2.25% to 1.75% in the case of prime rate loans, and from 3.25% to 2.75% in the case of LIBOR loans, with the LIBOR floor being reduced from 1.00% to 0.75%. As a result of this transaction, we recognized a non-cash loss on the extinguishment of debt of \$3.8 million, which was recorded in the line item “Loss on extinguishment of debt” in our Consolidated Statements of Income. Also in connection with the transaction, we incurred fees of \$1.3 million, which were recorded in the line item “Costs related to debt amendments and secondary offering” in our Consolidated Statements of Income. Refer to the section below entitled “Liquidity and Capital Resources” for further explanation.

Store Openings, Closings and Relocations

During Fiscal 2016, we opened 30 new stores under the name “Burlington Stores” and closed three Burlington Stores and two MJM Stores. We continue to pursue our growth plans and invest in capital projects that meet our financial requirements. During the fiscal year ended February 3, 2018 (Fiscal 2017), we plan to open 30 net new stores.

Ongoing Initiatives for Fiscal 2017

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

• Driving Comparable Store Sales Growth.

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

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

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

• **Continuing to Improve Our Customer Experience.** We have significantly enhanced the store experience and ease of shopping at all of our stores by implementing a comprehensive program focused on offering more brands and styles and simplifying store navigation. We have accomplished this by utilizing clear way-finding signs and distinct product signage, highlighting key brands and new arrivals, improving organization of the floor space, reducing rack density, facilitating quicker checkouts and delivering better customer service. We have made particular improvements in product size visibility, queuing and fitting rooms. To ensure consistent execution of our customer experience priorities, we have improved our store associate training and reorganized and strengthened our field management organization. Our much improved store experience continues to resonate with our customers. We continue to refine our online customer survey to provide more actionable customer feedback to stores. Stores develop action plans to address clearly identified areas of focus. Store managers have the ability to review immediate feedback from their customers, and react accordingly.

• **Increasing Our Sales through e-Commerce.** We have been selling to our customers online for more than a decade. We plan to leverage 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 and décor for the home, and beauty as we continue to de-weather our business, and maintain the flexibility to introduce new categories.

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. Our goal going forward is to open approximately 30 net new Burlington Stores annually.

• **Maintaining Focus on Unit Economics and Returns.** We have adopted a market focused approach to new store openings with a specific focus on maximizing sales while achieving attractive unit economics and returns. This focus is demonstrated by the fact that the vast majority of our existing stores had positive Adjusted EBITDA for Fiscal 2016. 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.** 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 our increasing size and West Coast buying office provide us with the opportunity to capture incremental buying opportunities and realize economies of scale in our merchandising and non-merchandising purchasing activities.

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

Uncertainties and Challenges

As 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. The outbreak or escalation of war, or the occurrence of terrorist acts or other hostilities in or affecting the U.S., could lead to a decrease in spending by consumers. In addition, natural disasters, industrial accidents and acts of war in various parts of the world could have the effect of disrupting supplies and raising prices globally which, in turn, may have adverse effects on the world and U.S. economies and lead to a downturn in consumer confidence and spending.

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

Competition and Margin Pressure. We believe that in order to remain competitive with off-price retailers and discount stores, we must continue to offer brand-name merchandise at a discount 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, 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, in which we purchase both pre-season and in-season merchandise, allows us the flexibility to purchase less pre-season with the balance purchased in-season and opportunistically. It also provides us with the flexibility to shift purchases between suppliers and categories. This enables us to obtain better terms with our suppliers, which we expect to help offset any rising costs of goods.

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

Key Performance Measures

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

Net income. We earned net income of \$215.9 million during Fiscal 2016 compared with net income of \$150.5 million during Fiscal 2015. This improvement was primarily driven by our improved gross margin, partially offset by increases in our selling, general and administrative expenses and income tax expense. We earned net income of \$150.5 million during Fiscal 2015 compared with net income of \$66.0 million for Fiscal 2014. The improvement in our net income was primarily driven by our improved gross margin, a decrease in losses incurred on the extinguishment of our debt and a decrease in our interest expense, partially offset by increased selling, general and administrative

expenses and income tax expense.

Adjusted Net Income and Adjusted EBITDA: Adjusted Net Income and Adjusted EBITDA are non-GAAP financial measures of our performance. Adjusted Net Income is defined as net income for the period plus (i) net favorable lease amortization, (ii) costs related to debt amendments and secondary offering, (iii) stock option modification expense, (iv) loss on the extinguishment of debt, (v) impairment charges, (vi) amounts related to certain litigation, (vii) advisory fees and (viii) other unusual, non-recurring or extraordinary expenses, losses, charges or gains, all of which are tax effected (before discrete items) to arrive at Adjusted Net Income. Adjusted EBITDA is defined as net income for the period plus (i) net interest expense, (ii) loss on extinguishment of debt, (iii) costs related to debt amendments and secondary offering, (iv) stock option modification expense, (v) advisory fees, (vi) depreciation and amortization, (vii) impairment charges, (viii) amounts related to certain litigation (ix) other unusual, non-recurring or extraordinary expenses, losses, charges or gains and (x) taxes.

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

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

- Adjusted Net Income does not reflect the amortization of net favorable leases, which are amortized over the life of the lease;
- Adjusted Net Income does not reflect costs related to debt amendments or secondary offerings that were expensed during the fiscal periods;
- Adjusted Net Income does not reflect expenses related to our May 2013 stock option modification;
- Adjusted Net Income does not reflect losses on the extinguishment of debt;
- Adjusted Net Income does not reflect impairment charges on long-lived assets;
- Adjusted Net Income does not reflect reimbursement for out-of-pocket expenses that were paid to Bain Capital pursuant to the advisory agreement that was terminated on October 2, 2013 in connection with our initial public offering (the Advisory Agreement) that were expensed during the fiscal periods;
- Adjusted Net Income does not reflect amounts charged for certain litigation; and
- Adjusted Net Income does not reflect other unusual, non-recurring or extraordinary expenses, losses, charges or gains.

For Fiscal 2016, Adjusted Net Income improved \$57.7 million to \$232.3 million. For Fiscal 2015, Adjusted Net Income improved \$36.0 million to \$174.6 million. These improvements were the result of our improved gross margin and a reduction in our interest expense, partially offset by increased costs, primarily selling, general and administrative expenses and income tax expense, net of the tax effect of the adjustments cited above (refer to the sections below entitled “Results of Operations” for further explanation).

The following table shows our reconciliation of net income to Adjusted Net Income for Fiscal 2016, Fiscal 2015 and Fiscal 2014:

| | Fiscal Year Ended | | |
|--|------------------------|------------------------|------------------------|
| | January 28, 2017 | January 30, 2016 | January 31, 2015 |
| Reconciliation of net income to Adjusted Net Income: | | | |
| Net income | \$215,873 | \$150,482 | \$65,955 |
| Net favorable lease amortization (a) | 23,828 | 24,130 | 25,960 |
| Costs related to debt amendments and secondary offerings (b) | 1,346 | 247 | 2,412 |
| Stock option modification expense (c) | 601 | 1,368 | 2,940 |
| Loss on extinguishment of debt (d) | 3,805 | 649 | 74,347 |
| Impairment charges (e) | 2,450 | 6,111 | 2,579 |
| Advisory fees (f) | — | 105 | 185 |
| Litigation accrual(g) | 3,457 | 5,600 | 9,280 |
| Tax effect (h) | (19,092) | (14,137) | (45,081) |
| Adjusted Net Income | \$232,268 | \$174,555 | \$138,577 |

- (a) Net favorable lease amortization represents the non-cash amortization expense associated with favorable and unfavorable leases that were recorded as a result of purchase accounting related to the Merger Transaction, and are recorded in the line item "Depreciation and amortization" in our Consolidated Statements of Income.
- (b) For Fiscal 2016, costs are primarily related to the repricing of our Term Loan Facility. For Fiscal 2015 and Fiscal 2014, costs are primarily related to our secondary offerings.
- (c) Represents expenses incurred as a result of our May 2013 stock option modification. Refer to Note 12 to our Consolidated Financial Statements, "Stock-Based Compensation," for further detail.
- (d) For Fiscal 2016, amounts relate to the repricing of our Term Loan Facility. For Fiscal 2015, amounts relate to the May 2015 prepayment on our Term Loan Facility. For Fiscal 2014, amounts relate to our August 2014 debt refinancing, our April 2014

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partial redemption of our \$350.0 million aggregate principal amount of Senior Notes redeemed on August 13, 2014 (Holdco Notes) and excess cash flow payment of our Term Loan Facility.

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

(f) Amounts represent reimbursement for out-of-pocket expenses that were paid to Bain Capital pursuant to the Advisory Agreement. Amounts are recorded in the line item “Selling, general and administrative expenses” in our Consolidated Statements of Income.

(g) Represents amounts charged for certain litigation.

(h) Tax effect is calculated based on the effective tax rates (before discrete items) for the respective periods, for the tax impact of items (a) through (g). In addition, during Fiscal 2017, the tax effect also includes the benefit of the one-time release of certain valuation allowances related to Puerto Rico deferred tax assets.

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. Some of these limitations include:

- Adjusted EBITDA does not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
 - Adjusted EBITDA does not reflect losses on the extinguishment of debt;
 - Adjusted EBITDA does not reflect costs related to debt amendments or secondary offerings that were expensed during the fiscal periods;
 - Adjusted EBITDA does not reflect expenses related to our May 2013 stock option modification;
 - Adjusted EBITDA does not reflect reimbursement for out-of-pocket expenses that were paid to Bain Capital pursuant to the Advisory Agreement.
 - Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will likely have to be replaced in the future, and Adjusted EBITDA measures do not reflect any cash requirements for such replacements;
 - Adjusted EBITDA does not reflect impairment charges on long-lived assets;
 - Adjusted EBITDA does not reflect our income tax expense or the cash requirements to pay our taxes;
 - Adjusted EBITDA does not reflect amounts charged for certain litigation; and
 - Adjusted EBITDA does not reflect other unusual, non-recurring or extraordinary expenses, losses, charges or gains.
- For Fiscal 2016 Adjusted EBITDA improved \$100.5 million to \$584.6 million. For Fiscal 2015, Adjusted EBITDA increased \$36.0 million to \$484.0 million. These improvements in Adjusted EBITDA were the result of our improved gross margin, partially offset by increased selling, general and administrative expenses (refer to the sections below entitled “Results of Operations” for further explanation).

The following table shows our reconciliation of net income to Adjusted EBITDA for Fiscal 2016, Fiscal 2015 and Fiscal 2014:

| | Fiscal Year Ended | | |
|--|------------------------|------------------------|------------------------|
| | January 28, 2017 | January 30, 2016 | January 31, 2015 |
| Reconciliation of net income to Adjusted EBITDA: | | | |
| Net income | \$215,873 | \$150,482 | \$65,955 |
| Interest expense | 56,161 | 58,999 | 83,745 |
| Interest income | (56) | (25) | (38) |
| Loss on extinguishment of debt (a) | 3,805 | 649 | 74,347 |
| Costs related to debt amendments and secondary offerings (b) | 1,346 | 247 | 2,412 |
| Stock option modification expense (c) | 601 | 1,368 | 2,940 |

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| | | | |
|-------------------------------|-----------|-----------|-----------|
| Advisory fees (d) | — | 105 | 185 |
| Depreciation and amortization | 183,586 | 172,099 | 167,580 |
| Impairment charges (e) | 2,450 | 6,111 | 2,579 |
| Litigation accrual (f) | 3,457 | 5,600 | 9,280 |
| Tax expense | 117,339 | 88,394 | 39,081 |
| Adjusted EBITDA | \$584,562 | \$484,029 | \$448,066 |

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- (a) For Fiscal 2016, amounts relate to the repricing of our Term Loan Facility. Fiscal 2015, amounts relate to the May 2015 prepayment on our Term Loan Facility. For Fiscal 2014, amounts relate to our August 2014 debt refinancing, our April 2014 partial redemption of our Holdco Notes and excess cash flow payment of our Term Loan Facility.
- (b) For Fiscal 2016, costs are primarily related to the repricing of our Term Loan Facility. For Fiscal 2015 and Fiscal 2014, costs are primarily related to our secondary offerings.
- (c) Represents expenses incurred as a result of our May 2013 stock option modification. Refer to Note 12 to our Consolidated Financial Statements, “Stock-Based Compensation,” for further detail.
- (d) Amounts represent reimbursement for out-of-pocket expenses that were paid to Bain Capital pursuant to the Advisory Agreement. Amounts are recorded in the line item “Selling, general and administrative expenses” in our Consolidated Statements of Income.
- (e) Represents impairment charges on long-lived assets.
- (f) Represents amounts charged for certain litigation.

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

We define comparable store sales as sales of those stores, including 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. The table below depicts our comparable store sales during Fiscal 2016, Fiscal 2015 and Fiscal 2014.

| | Comparable | |
|-------------|-------------|---|
| | Store Sales | |
| Fiscal 2016 | 4.5 | % |
| Fiscal 2015 | 2.1 | % |
| Fiscal 2014 | 4.9 | % |

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

Gross Margin. Gross margin is the difference between net sales and the cost of sales. Our cost of sales and gross margin may not be comparable to those of other entities, since some entities include all of the costs related to their buying and distribution functions, and other costs, in cost of sales. We include certain of these costs in the line items “Selling, general and administrative expenses” and “Depreciation and amortization” in our 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 expanded approximately 80 basis points to 40.8% during Fiscal 2016, compared with 40.0% during Fiscal 2015. The improvement was driven by strong merchandise margins. This improvement more than offset the 20 basis point increase in product sourcing costs, which are included in the line item “Selling, general and administrative expenses” in our Consolidated Statements of Income.

Gross margin as a percentage of net sales during Fiscal 2014 was 39.7%.

Inventory. Inventory at January 28, 2017 decreased to \$701.9 million from \$783.5 million at January 30, 2016. This decrease was primarily driven by a decrease in our comparable store inventory of approximately 9% as a result of our ongoing initiative to reduce inventory levels and increase inventory turnover, and a decrease in our pack-and-hold inventory of approximately \$30 million. These decreases were partially offset by the inventory required for our 25 net new stores opened since January 30, 2016.

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 improved to 4.2 turns per year during Fiscal 2016 compared with 3.7 turns per year during Fiscal 2015.

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 taken, 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 sales. Our comparable store inventory turnover rate improved to 5.9 turns per year during Fiscal 2016 compared with 5.3 turns per year during Fiscal 2015.

The difference between inventory turnover and comparable store inventory turnover is primarily the result of not including distribution center and warehouse inventory as well as 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 benefits and payroll charges related to corporate and warehouse employees. Store payroll as a percentage of net sales improved to 8.5% during Fiscal 2016 compared with 8.6% during Fiscal 2015. The improvement in store payroll as a percentage of net sales was primarily driven by the benefit from efficiencies realized in our stores as we continue to simplify operating procedures and improve the execution thereof. Store payroll as a percentage of net sales was 8.8% during Fiscal 2014.

Liquidity. Liquidity measures our ability to generate cash. Management measures liquidity through cash flow and working capital position. Cash flow is the measure of cash generated from or used in operating, financing, and investing activities. Cash and cash equivalents increased \$60.7 million during Fiscal 2016, resulting in a cash and cash equivalent balance of \$81.6 million as of January 28, 2017 compared with a decrease in cash and cash equivalents of \$4.4 million during Fiscal 2015. The improvement in our cash flow was primarily driven by our improved operating results, as well as a decrease in income tax and incentive compensation payments during Fiscal 2016 compared to Fiscal 2015. Our improvement was also driven by changes in our inventories and accounts payable, as described further below. These improvements were partially offset by changes in the net borrowings on our ABL Facility (\$167.4 million net repayments during Fiscal 2016 compared with \$104.1 million net borrowings during Fiscal 2015) and changes in our deferred tax liabilities. Refer to the section below entitled "Liquidity and Capital Resources" for further explanation.

Changes in working capital also impact our cash flows. We had a working capital deficit at January 28, 2017 of \$96.3 million compared with working capital of \$18.6 million at January 30, 2016. The decrease in working capital was primarily related to the decrease in our inventories. In addition, our accounts payable increased from January 30, 2016 as a result of our 25 net new stores opened during Fiscal 2016 as well as the timing of our inventory receipts during the final two months of Fiscal 2016. We also experienced an increase in our income taxes payable and incentive compensation accruals, which was driven by our improved operating results during Fiscal 2016, and were partially offset by increases in our cash and prepaid and other current assets.

Results of Operations

The following table sets forth certain items in the Consolidated Statements of Income as a percentage of net sales for the periods indicated.

| | Percentage of Net Sales | | |
|--|-------------------------|------------------------|------------------------|
| | Fiscal Year Ended | | |
| | January 28, 2017 | January 30, 2016 | January 31, 2015 |
| Net sales | 100.0% | 100.0 % | 100.0 % |
| Other revenue | 0.4 | 0.6 | 0.7 |
| Total revenue | 100.4 | 100.6 | 100.7 |
| Cost of sales | 59.2 | 60.0 | 60.3 |
| Selling, general and administrative expenses | 31.0 | 31.3 | 31.6 |
| Costs related to debt amendments and secondary offerings | 0.0 | 0.0 | 0.0 |
| Stock option modification expense | 0.0 | 0.1 | 0.1 |
| Depreciation and amortization | 3.3 | 3.4 | 3.4 |
| Impairment charges-long-lived assets | 0.0 | 0.1 | 0.1 |
| Other income—net | (0.2) | (0.1) | (0.2) |
| Loss on extinguishment of debt | 0.1 | 0.0 | 1.5 |
| Interest expense | 1.0 | 1.2 | 1.7 |
| Total costs and expenses | 94.4 | 96.0 | 98.5 |
| Income before income tax expense | 6.0 | 4.6 | 2.2 |
| Income tax expense | 2.1 | 1.7 | 0.8 |
| Net income | 3.9 % | 2.9 % | 1.4 % |

Performance for Fiscal Year (52 weeks) Ended January 28, 2017 (Fiscal 2016) Compared with Fiscal Year (52 weeks) Ended January 30, 2016 (Fiscal 2015)

Net sales

Net sales improved \$467.1 million, or 9.2%, to \$5,566.0 million, primarily attributable to the following:

- an increase of \$256.9 million from our new and non-comparable stores; and
- an increase in comparable store sales of \$226.2 million, or 4.5%, to \$5,239.6 million; partially offset by
- a \$16.0 million decrease related to the net impact of closed stores and other sales adjustments.

We believe that the comparable store sales increase was primarily due to our improved execution of our off-price model. We also benefited from the transition of our fragrance sales from leased department rental income to an owned business, as discussed below.

Other revenue

Other revenue (consisting of layaway, shipping and handling, alteration, dormancy and other service charges, subleased rental income and rental income from leased departments) decreased \$6.0 million to \$24.9 million, primarily driven by a reduction in rental income from third party fragrance sales. During Fiscal 2015, we began the

conversion of our fragrance business, which was previously operated under a licensing arrangement, to an owned category which is recorded in the line item “Net sales” in our Consolidated Statements of Income. As of January 28, 2017, fragrance is now exclusively an owned business.

Cost of sales

Cost of sales as a percentage of net sales improved approximately 80 basis points to 59.2% during Fiscal 2016, primarily driven by strong merchandise margins. This improvement was partially offset by the approximate 20 basis point increase in product sourcing costs, which are included in the line item “Selling, general and administrative expenses” in our Consolidated Statements of Income. On a dollar basis, cost of sales increased \$237.7 million, or 7.8%, primarily driven by our overall increase in sales.

Selling, general and administrative expenses

Selling, general and administrative expenses as a percentage of net sales improved approximately 30 basis points during Fiscal 2016. The following table details selling, general and administrative expenses for Fiscal 2016 compared with Fiscal 2015:

| | (in millions) | | | | | | | |
|--|-------------------|-----------|-------------------|-----------|----------|--------|--|--|
| | Fiscal Year Ended | | Fiscal Year Ended | | | | | |
| | Percentage | | Percentage | | | | | |
| | January | | January | | | | | |
| | 28, | of | 30, | of | \$ | % | | |
| | 2017 | Net Sales | 2016 | Net Sales | Variance | Change | | |
| Store related costs | \$1,133.8 | 20.4 % | \$1,057.7 | 20.7 % | \$ 76.1 | 7.2 % | | |
| Product sourcing costs | 261.0 | 4.7 | 229.4 | 4.5 | 31.6 | 13.8 | | |
| Corporate costs | 168.5 | 3.0 | 155.7 | 3.1 | 12.8 | 8.2 | | |
| Marketing and strategy costs | 91.8 | 1.6 | 94.5 | 1.9 | (2.7) | (2.9) | | |
| Other selling, general and administrative expenses | 68.2 | 1.3 | 60.4 | 1.1 | 7.8 | 12.9 | | |
| Selling, general and administrative expenses | \$1,723.3 | 31.0 % | \$1,597.7 | 31.3 % | \$ 125.6 | 7.9 % | | |

Store related costs as a percentage of net sales improved approximately 30 basis points during Fiscal 2016, driven by 30 basis points of leverage in occupancy costs and a 10 basis point improvement in store payroll driven by the simplification of operating procedures and improved execution within our store operations. These improvements were partially offset by a 10 basis point increase in our incentive compensation costs driven by our improved operating results. On a dollar basis, the \$76.1 million increase was primarily driven by our new and non-comparable stores, as well as the increase in incentive compensation.

Product sourcing costs as a percentage of net sales increased approximately 20 basis points during Fiscal 2016, which partially offset the 80 basis point improvement in cost of sales. The increase in product sourcing costs as a percentage of net sales was driven by an increase in our supply chain costs as we continue to improve the execution of our off-price model as well as an increase in incentive compensation costs related to our buying and merchandising departments.

Corporate costs increased \$12.8 million during Fiscal 2016, primarily driven by increases in incentive compensation and stock based compensation.

Marketing and strategy costs improved 30 basis points during Fiscal 2016, primarily driven by our increased leverage from our national television advertising.

Costs related to debt amendments and secondary offerings

During Fiscal 2016, we recorded costs related to debt amendments of \$1.3 million representing legal and placement fees incurred in connection with the repricing of our Term Loan Facility. Refer to Note 7, "Long Term Debt," to our Consolidated Financial Statements for further details regarding this transaction. During Fiscal 2015, we recorded \$0.2 million of secondary offering costs. Refer to Note 1 to our Consolidated Financial Statements, "Summary of

Significant Accounting Policies,” for further details on our secondary offerings.

Stock option modification expense

In May 2013, our Board of Directors approved a modification to the outstanding options, through a combination of exercise price reductions and cash payments to the option holders. Based on the terms of the modification, we will be required to make cash payments over the option holders’ vesting periods, which vary through Fiscal 2017. During Fiscal 2016 and Fiscal 2015, we recorded \$0.1 million and \$0.3 million, respectively, of expense related to these payments. We expect to recognize the remaining expense of less than \$0.1 million during Fiscal 2017.

Additionally, upon application of modification accounting for the reduction in strike prices, which contemplates fair value of awards both before and after the modification, incremental non-cash stock option expense is expected to be recognized over the option holders’ vesting periods, which vary through Fiscal 2017. During Fiscal 2016 and Fiscal 2015, we recognized \$0.5 million and \$1.1 million, respectively, of incremental non-cash stock option expense. We expect to recognize the remaining non-cash stock option modification expense of \$0.1 million during Fiscal 2017.

Depreciation and amortization

Depreciation and amortization expense related to the depreciation and amortization of fixed assets and the amortization of favorable and unfavorable leases amounted to \$183.6 million during Fiscal 2016 compared with \$172.1 million during Fiscal 2015. The increase was primarily driven by our new and non-comparable stores, as well as increased depreciation expense related to our ongoing supply chain initiatives and the renovation of our new corporate campus.

Impairment charges—long-lived assets

Impairment charges related to long-lived assets were \$2.5 million and \$6.1 million during Fiscal 2016 and Fiscal 2015, respectively. We recorded impairment charges related to store-level assets for five stores during each of Fiscal 2016 and Fiscal 2015. During Fiscal 2016 and Fiscal 2015, we also recorded impairment charges for capital expenditures for previously impaired stores. Refer to Note 6 to our Consolidated Financial Statements, “Impairment Charges,” for further discussion.

The recoverability assessment related to these store-level assets requires various judgments and estimates, including estimates related to future revenues, gross margin rates, store expenses and other assumptions. We base these estimates upon our past and expected future performance. We believe our estimates are appropriate in light of current market conditions. However, future impairment charges could be required if we do not achieve our current revenue or cash flow projections for each store.

Other income, net

Other income, net (consisting of breakage income, gains and losses on disposition of assets, investment income and other miscellaneous items) improved \$5.0 million to \$10.8 million during Fiscal 2016. The improvement in other income was primarily driven by the sale of certain state tax credits as well as a gain on the sale of one of our owned stores.

Loss on extinguishment of debt

During Fiscal 2016, we recorded a loss on extinguishment of debt of \$3.8 million as a result of the repricing of our Term Loan Facility. During Fiscal 2015, we recorded a loss on extinguishment of debt of \$0.6 million, primarily driven by the \$50.0 million prepayment on our Term Loan Facility on May 1, 2015. Refer to Note 7, “Long Term Debt,” to our Consolidated Financial Statements for further details regarding our debt transactions.

Interest expense

Interest expense improved \$2.8 million to \$56.2 million, primarily driven by the repricing of our Term Loan Facility during the second quarter of Fiscal 2016, which reduced our interest rate margins, partially offset by an increase in the amortization of the financings costs associated with our interest rate cap contracts from accumulated other comprehensive income into interest expense.

Our average interest rates and average balances related to our Term Loan and our ABL Line of Credit for Fiscal 2016 compared with Fiscal 2015 are summarized in the table below:

Fiscal Year Ended

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| | January 28, 2017 | January 30, 2016 |
|--|------------------------|---------------------|
| Average interest rate – ABL Line of Credit | 1.8% | 1.6% |
| Average interest rate – Term Loan Facility | 3.9% | 4.3% |
| | \$ | |
| Average balance – ABL Line of Credit | 173.9 million | 199.3 million |
| Average balance – Term Loan Facility | \$ 1,117.0 million | \$ 1,129.4 million |

Income tax expense

Income tax expense was \$117.3 million for Fiscal 2016 compared with \$88.4 million for Fiscal 2015. The effective tax rate was 35.2% related to pretax income of \$333.2 million for Fiscal 2016, and the effective tax rate was 37.0% related to pretax income of \$238.9 million for Fiscal 2015. The decrease in the effective tax rate was primarily the result of realizing a tax benefit due to the release of our Puerto Rico valuation allowance resulting from a change in Puerto Rico regulations.

Net income

We earned net income of \$215.9 million during Fiscal 2016 compared with net income of \$150.5 million for Fiscal 2015. The improvement in our net income was primarily driven by our improved gross margin, partially offset by an increase in our selling, general and administrative expenses, income tax expense and depreciation expense.

Performance for Fiscal Year (52 weeks) Ended January 30, 2016 (Fiscal 2015) Compared with Fiscal Year (52 weeks) Ended January 31, 2015 (Fiscal 2014)

Net sales

Net sales improved \$284.4 million, or 5.9%, to \$5,098.9 million, primarily attributable to the following:

- an increase of \$198.2 million from new and non-comparable store sales; and
- an increase in comparable store sales of \$100.2 million, or 2.1%, to \$4,829.3 million; partially offset by
- a \$14.0 million decrease related to the net impact of closed stores and other sales adjustments.

We believe that the comparable store sales increase was primarily due to our improved execution of our off-price model. Our ability to achieve a positive comparable store sales despite the weather demonstrated the progress we have made toward de-weathering our business, which continues to be a goal for us. We also benefited from the transition of our fragrance sales from rental income from leased department to an owned business, as discussed below.

Other revenue

Other revenue decreased \$4.2 million to \$30.9 million, primarily driven by a reduction in rental income from third party fragrance sales due to the conversion of our fragrance business from a licensing arrangement to an owned category.

Cost of sales

Cost of sales as a percentage of net sales increased approximately 30 basis points to 60.0% during Fiscal 2015, primarily driven by a reduction in markdown rate. This improvement was offset by the approximate 30 basis point increase in product sourcing costs, which are included in the line item "Selling, general and administrative expenses" in our Consolidated Statements of Income. On a dollar basis, cost of sales increased \$158.8 million, or 5.5%, primarily driven by our overall increase in sales, partially offset by the reduction in markdown rate.

Selling, general and administrative expenses

Selling, general and administrative expenses as a percentage of net sales improved approximately 30 basis points during Fiscal 2015 as referenced to the table below:

| (in millions) | | | | | | |
|-------------------|-----------|------------|-----------|----------|--------|--|
| Fiscal Year Ended | | | | | | |
| Percentage | | Percentage | | | | |
| January | of | January | of | | | |
| 30, | | 31, | | \$ | % | |
| 2016 | Net Sales | 2015 | Net Sales | Variance | Change | |

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| | | | | | | | | | |
|--|-----------|------|---|-----------|------|---|---------|--------|---|
| Store related costs | \$1,057.7 | 20.7 | % | \$1,008.1 | 20.9 | % | \$ 49.6 | 4.9 | % |
| Product sourcing costs | 229.4 | 4.5 | | 204.1 | 4.2 | | 25.3 | 12.4 | |
| Corporate costs | 155.7 | 3.1 | | 158.3 | 3.3 | | (2.6) | (1.6) | |
| Marketing and strategy costs | 94.5 | 1.9 | | 94.7 | 2.0 | | (0.2) | (0.2) | |
| Other selling, general and administrative expenses | 60.4 | 1.1 | | 55.7 | 1.2 | | 4.7 | 8.4 | |
| Selling, general and administrative expenses | \$1,597.7 | 31.3 | % | \$1,520.9 | 31.6 | % | \$ 76.8 | 5.0 | % |

Store related costs as a percentage of net sales improved approximately 20 basis points during Fiscal 2015, driven by a 10 basis point expense leverage achieved in store payroll and a 10 basis point improvement driven by a reduction of incentive compensation. On a dollar basis, the \$49.6 million increase was primarily driven by our new and non-comparable stores.

Product sourcing costs as a percentage of net sales increased approximately 30 basis points during Fiscal 2015, which offset the improvement in cost of sales as noted above. The increase in product sourcing costs as a percentage of net sales was driven by an increase in our supply chain and merchandising costs, which were partially offset by a reduction in incentive compensation.

Corporate costs as a percentage of net sales improved approximately 20 basis points during Fiscal 2015 driven by a reduction of incentive compensation of approximately 20 basis points and a reduction in legal expenses related to certain litigation matters of approximately 10 basis points, and were partially offset by an increase in stock based compensation of approximately 10 basis points.

Costs related to debt amendments and secondary offerings

During Fiscal 2015 and Fiscal 2014, costs related to debt amendments and secondary offerings totaled \$0.2 million and \$2.4 million, respectively, and were primarily related to our secondary offerings.

Stock option modification expense

During Fiscal 2015 and Fiscal 2014, we recorded \$0.3 million and \$0.6 million, respectively, of expense related to cash payments, and recognized \$1.1 million and \$2.3 million, respectively, of incremental non-cash stock option expense.

Depreciation and amortization

Depreciation and amortization expense amounted to \$172.1 million during Fiscal 2015 compared with \$167.6 million during Fiscal 2014. The increase was primarily driven by our new and non-comparable stores, as well as our new corporate headquarters, which opened during the fourth quarter of Fiscal 2014.

Impairment charges—long-lived assets

Impairment charges related to long-lived assets were \$6.1 million and \$2.6 million during Fiscal 2015 and Fiscal 2014, respectively. We recorded impairment charges related to store-level assets for five stores during Fiscal 2015 and three stores during Fiscal 2014. During Fiscal 2015 and Fiscal 2014, we also recorded impairment charges for capital expenditures for previously impaired stores.

Other income, net

Other income, net decreased \$4.9 million to \$5.9 million during Fiscal 2015. The decrease in other income was primarily driven by a favorable \$3.2 million one-time legal settlement during Fiscal 2014.

Loss on extinguishment of debt

During Fiscal 2015, we recorded a loss on extinguishment of debt of \$0.6 million as a result of the May 1, 2015 prepayment on our Term Loan Facility. During Fiscal 2014, we recorded a loss on extinguishment of debt of \$74.3 million, primarily driven by a \$70.3 million loss as a result of our August 2014 refinancing transactions and a \$3.6 million loss as a result of the April 4, 2014 partial redemption of our Holdco Notes.

Interest expense

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Interest expense improved \$24.7 million to \$59.0 million, primarily driven by our August 2014 debt refinancing, our \$58.0 million prepayment on our Holdco Notes in April 2014 and our \$30.0 million and \$50.0 million principal payments on our Term Loan Facility in January 2015 and May 2015, respectively. These improvements were partially offset by an increase in the outstanding borrowings on our ABL Line of Credit during the respective periods.

Our average interest rates and average balances related to our Term Loan and our ABL Line of Credit for Fiscal 2015 compared with Fiscal 2014 are summarized in the table below:

| | Fiscal Year Ended | |
|--|--------------------|--------------------|
| | January 30, 2016 | January 31, 2015 |
| Average interest rate – ABL Line of Credit | 1.6% | 1.8% |
| Average interest rate – Term Loan Facility | 4.3% | 4.3% |
| Average balance – ABL Line of Credit | \$ 199.3 million | \$ 87.7 million |
| Average balance – Term Loan Facility | \$ 1,129.4 million | \$ 1,100.2 million |

Income tax expense

Income tax expense was \$88.4 million for Fiscal 2015 compared with \$39.1 million for Fiscal 2014. The effective tax rate was 37.0% related to pre-tax income of \$238.9 million for Fiscal 2015, and the effective tax rate was 37.2% related to pre-tax income of \$105.0 million for Fiscal 2014. The decrease in the effective tax rate was primarily driven by a decrease in state tax rate.

Net income

We earned net income of \$150.5 million during Fiscal 2015 compared with net income of \$66.0 million for Fiscal 2014. The improvement in our net income was primarily driven by our improved gross margin, a decrease in losses incurred on the extinguishment of our debt and a decrease in our interest expense, partially offset by increased selling, general and administrative expenses and income tax expense.

Liquidity and Capital Resources

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

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

Cash Flows

Cash Flows for Fiscal 2016 Compared with Fiscal 2015

We generated \$60.7 million of cash flows during Fiscal 2016 compared with a use of \$4.4 million during Fiscal 2015.

Net cash provided by operating activities amounted to \$602.4 million and \$327.5 million during Fiscal 2016 and Fiscal 2015, respectively. The improvement was primarily driven by our improved operating results, as well as a decrease in income tax and incentive compensation payments during Fiscal 2016 compared to Fiscal 2015. The improvement was also driven by changes in our inventories and accounts payable. These improvements were partially offset by changes in our deferred rent incentives and deferred income taxes.

Net cash used in investing activities was \$180.4 million and \$194.7 million during Fiscal 2016 and Fiscal 2015, respectively. This change was primarily the result of a reduction in capital expenditures related to our overall supply chain initiatives, partially offset by an increase in store expenditures (new stores, store refreshes and remodels and other store expenditures).

Net cash used in financing activities was \$361.4 million during Fiscal 2016 compared to \$137.2 million during Fiscal 2015. This change was primarily related to the net change in our ABL Facility (\$167.4 million net repayments during Fiscal 2016 compared to \$104.1 million of net borrowings during Fiscal 2015) and the \$50.0 million repayment on our Term Loan Facility during Fiscal 2015 that did not repeat in Fiscal 2016.

Cash flow and working capital levels assist management in measuring our ability to meet our cash requirements. Changes in working capital also impact our cash flows. We had a working capital deficit at January 28, 2017 of \$96.3 million compared with

working capital of \$18.6 million at January 30, 2016. Refer to the previous section entitled “Key Performance Measures” for explanation of the changes in our working capital.

Cash Flows for Fiscal 2015 Compared with Fiscal 2014

We used \$4.4 million of cash flows during Fiscal 2015 compared with \$107.6 million during Fiscal 2014.

Net cash provided by operating activities amounted to \$327.5 million and \$302.3 million during Fiscal 2015 and Fiscal 2014, respectively. The increase was primarily driven by our improved operating results, inclusive of the impact of our August 2014 debt refinancing and changes in our incentive compensation. Partially offsetting these increases were changes in our accounts payable resulting from the timing of our inventory purchases and changes in our prepaid rent due to the timing of our rental payments in relation to our fiscal calendar.

Net cash used in investing activities was \$194.7 million and \$216.5 million during Fiscal 2015 and Fiscal 2014, respectively. This change was primarily the result of reductions in capital expenditures related to our new corporate headquarters which was completed during the fourth quarter of Fiscal 2014 and store expenditures (new stores, store refreshes and remodels and other store expenditures), partially offset by an increase in expenditures to support our supply chain initiatives.

Net cash used in financing activities was \$137.2 million during Fiscal 2015 compared to \$193.5 million during Fiscal 2014. This change in cash was primarily related to the net change in our debt obligations resulting from our August 2014 debt refinancing and our Term Loan Facility prepayment in May 2015, as well as a reduction in our deferred financing costs, partially offset by repurchases of our common stock.

Cash flow and working capital levels assist management in measuring our ability to meet our cash requirements. Changes in working capital also impact our cash flows. Working capital at January 30, 2016 was \$18.6 million compared with \$26.6 million at January 31, 2015.

Capital Expenditures

For Fiscal 2016, cash spend for capital expenditures, net of \$32.2 million of landlord allowances, amounted to \$155.3 million. These capital expenditures include approximately \$85 million, net of the previously mentioned landlord allowances, for store expenditures (new stores, store refreshes and remodels and other store expenditures). In addition, we made capital expenditures of approximately \$22 million to support our supply chain initiatives, approximately \$16 million to improve our localization efforts, with the rest to support information technology and other business initiatives. We incurred cash spend on capital expenditures of \$160.0 million, net of approximately \$41.8 million of landlord allowances, during Fiscal 2015.

We estimate that we will spend approximately \$200 million, net of approximately \$35 million of landlord allowances, in capital expenditures during Fiscal 2017, including approximately \$105 million, net of the previously mentioned landlord allowances, for store expenditures (new stores, store refreshes and remodels and other store expenditures). In addition, we estimate that we will spend approximately \$45 million to support our supply chain initiatives, with the remaining capital used to support our information technology and other business initiatives.

Share Repurchase Programs

On November 24, 2015, we announced that our Board of Directors had authorized the repurchase of up to \$200 million of our common stock, which we completed during Fiscal 2016. On November 15, 2016, our Board of Directors authorized the repurchase of up to an additional \$200 million of our common stock. This share repurchase

program will be funded using the Company's available cash and is authorized to be executed through November 2018. As of January 28, 2017, we had \$199.6 million available for purchase under this share repurchase program.

During Fiscal 2016, we repurchased 2,797,088 shares of common stock for \$200.0 million under our share repurchase programs.

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

Dividends

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

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

Debt

As of January 28, 2017, our obligations include \$1,112.0 million, inclusive of original issue discount, under our Term Loan Facility. We had no outstanding balance on our ABL Facility as of January 28, 2017. Our debt obligations also include \$23.6 million of capital lease obligations as of January 28, 2017.

Term Loan Facility

On July 29, 2016, we entered into Amendment No. 5 (the Fifth Amendment) to the Term Loan Credit Agreement (as amended, the Amended Term Loan Credit Agreement) governing our Term Loan Facility. The Fifth Amendment, among other things, reduced the interest rate margins applicable under the Term Loan Facility from 2.25% to 1.75% in the case of prime rate loans, and from 3.25% to 2.75% in the case of LIBOR loans, with the LIBOR floor being reduced from 1.00% to 0.75%. The Fifth Amendment was accomplished by replacing the outstanding \$1,117.0 million principal amount of Term B-3 Loans with a like aggregate principal amount of Term B-4 Loans. The Term B-4 Loans have the same maturity date that was applicable to the Term B-3 Loans. As a result of the Fifth Amendment, we recognized a non-cash loss on the extinguishment of debt of \$3.8 million, representing the write-off of \$2.5 million and \$1.3 million in deferred financing costs and unamortized original issue discount, respectively, which was recorded in the line item "Loss on extinguishment of debt" in our Consolidated Statements of Income. Also in connection with the Fifth Amendment, we incurred fees of \$1.3 million, primarily related to legal and placement fees, which were recorded in the line item "Costs related to debt amendments and secondary offering" in our Consolidated Statements of Income.

At January 28, 2017, our borrowing rate related to the Term Loan Facility was 3.53%.

ABL Line of Credit

At January 28, 2017, we had \$427.8 million available under the Amended ABL Line of Credit and no outstanding borrowings. The maximum borrowings under the facility during Fiscal 2016 amounted to \$350.0 million. Average borrowings during Fiscal 2016 amounted to \$173.9 million at an average interest rate of 1.8%.

Certain Information Concerning Contractual Obligations

The following table sets forth certain information regarding our obligations to make future payments under current contracts as of January 28, 2017:

| | Payments Due By Period | | | | |
|---|------------------------|-------------|-----------|-------------|-------------|
| | Less Than | | | | |
| | Total | 1 Year | 2-3 Years | 4-5 Years | Thereafter |
| | (in thousands) | | | | |
| Debt obligations | \$1,117,000 | \$— | \$— | \$1,117,000 | \$— |
| Interest on debt obligations(1) | 187,920 | 43,385 | 83,830 | 60,705 | — |
| Financing of interest rate cap contracts(2) | 11,356 | 4,867 | 6,489 | — | — |
| Capital lease obligations(3) | 35,615 | 4,111 | 8,018 | 7,706 | 15,780 |
| Operating lease obligations(4) | 2,576,190 | 320,027 | 633,276 | 519,708 | 1,103,179 |
| Purchase obligations(5) | 651,539 | 651,539 | — | — | — |
| Other(6) | 926 | 926 | — | — | — |
| Total | \$4,580,546 | \$1,024,855 | \$731,613 | \$1,705,119 | \$1,118,959 |

- (1) The average interest rates during Fiscal 2016 related to the Senior Secured Term Loan Facility and ABL Line of Credit were 3.9% and 1.8%, respectively.
- (2) Represents the financing of our interest rate cap contracts, which will be amortized through the life of the caps, which is May 31, 2019. Amounts are included in the line item “Cash payments for interest rate cap contracts” in our Consolidated Statements of Cash Flows.
- (3) Capital lease obligations include future interest payments.
- (4) Represents minimum rent payments for operating leases under the current terms.
- (5) Represents commitments to purchase goods that have not been received as of January 28, 2017. The table above excludes statements of work for services used in our business of up to \$57.7 million over the next five years.
- (6) Represents severance payments in the normal course of business that are included in the line item “Selling, general and administrative expenses” in our Consolidated Statements of Income.
- Our agreements with each of three former employees (including our former President and Chief Executive Officer) to pay their beneficiaries \$1.0 million upon their deaths for a total of \$3.0 million is not reflected in the table above because the timing of the payments is unpredictable.

The table above excludes ASC Topic No. 740 “Income Taxes” (Topic No. 740) liabilities which represent uncertain tax positions related to temporary differences. The total Topic No. 740 liability was \$23.0 million, inclusive of \$13.8 million of interest and penalties included in our total Topic No. 740 liability neither of which is presented in the table above as we are not certain if and when these payments would be required.

The table above excludes our irrevocable letters of credit guaranteeing payment and performance under certain leases, insurance contracts, debt agreements, merchandising agreements and utility agreements in the amount of \$53.1 million as of January 28, 2017.

As of January 28, 2017, insurance reserves amounted to \$70.0 million. These amounts are excluded from the table above as we are not certain if and when these payments would be required.

The table above excludes the payment of the cash portion of our stock option modification in the amount of less than \$0.1 million as of January 28, 2017 as we are not certain if payments would be required based on the vesting requirements.

Critical Accounting Policies and Estimates

Our 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 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 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 and insurance reserves. 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.

While there are a number of accounting policies, methods and estimates affecting our Consolidated Financial Statements as addressed in Note 1 to our Consolidated Financial Statements, “Summary of Significant Accounting Policies,” areas that are particularly critical and significant include:

Revenue Recognition. While revenue recognition for the Company does not involve significant judgment, it represents an important accounting policy. We record revenue at the time of sale and delivery of merchandise, net of allowances for estimated future returns. We present sales, net of sales taxes, in our Consolidated Statements of Income. We account for layaway sales and leased department revenue in accordance with ASC Topic No. 605 “Revenue Recognition.” Layaway sales are recognized upon delivery of merchandise to the customer. The amount of cash received upon initiation of the layaway is recorded as a deposit liability within the line item “Other current liabilities” in our Consolidated Balance Sheets. Store value cards (gift cards and store credits issued for merchandise returns) are recorded as a liability at the time of issuance, and the related sale is recorded upon redemption.

We estimate and recognize store value card breakage income in proportion to actual store value card redemptions and record such income in the line item “Other income, net” in our Consolidated Statements of Income. We determine an estimated store value card breakage rate by continuously evaluating historical redemption data. Breakage income is recognized on a monthly basis in proportion to the historical redemption patterns for those store value cards for which the likelihood of redemption is remote.

Inventory. Our inventory is valued at the lower of cost or market using the retail inventory method. Under the retail inventory method, the valuation of inventory and the resulting gross margin are determined by applying a calculated cost to retail ratio to the retail value of inventory. The retail inventory method is an averaging method that results in valuing inventory at the lower of cost or market provided markdowns are taken timely to reduce the retail value of inventory. Inherent in the retail inventory method calculation are certain significant management judgments and estimates including merchandise markon, markups, markdowns and shortage, which significantly impact the ending inventory valuation as well as the resulting gross margin. Management believes that our retail inventory method provides an inventory valuation which approximates cost using a first-in, first-out assumption and results in carrying value at the lower of cost or market. We reserve for aged inventory based on historical trends and specific identification. Our aged inventory reserve contains uncertainties as the calculations require management to make assumptions and to apply judgment regarding a number of factors, including market conditions, the selling environment, historical results and current inventory trends. A 1% change in the dollar amount of markdowns would have resulted in an increase in markdown expense of approximately \$2.8 million for Fiscal 2016.

Typically, estimates are used to record inventory shortage at retail stores for the first three quarters of a fiscal year. Actual physical inventories are typically conducted annually during the second or fourth quarter to calculate actual shortage. While we make estimates on the basis of the best information available to us at the time the estimates are made, over accruals or under accruals of shortage may be identified as a result of the physical inventory counts, requiring adjustments. During the fourth quarter of Fiscal 2016 and Fiscal 2014, we recorded shortage adjustment gains of \$5.1 million and \$10.0 million, respectively, as a result of actual shortage being less than what we had estimated. During the fourth quarter of Fiscal 2015, we recorded a shortage adjustment loss of \$3.5 million, as a result of actual shortage being more than what we had estimated.

Insurance Reserves. We have risk participation agreements with insurance carriers with respect to workers’ compensation, general liability insurance and health insurance. Pursuant to these arrangements, we are responsible for

paying individual claims up to designated dollar limits. The amounts included in our costs related to these claims are estimated and can vary based on changes in assumptions or claims experience included in the associated insurance programs. For example, changes in legal trends and interpretations, as well as changes in the nature and method of how claims are settled, can impact ultimate costs. An increase in workers' compensation claims by employees, health insurance claims by employees or general liability claims may result in a corresponding increase in our costs related to these claims. Insurance reserves amounted to \$70.0 million and \$63.0 million at January 28, 2017 and January 30, 2016, respectively.

Recent Accounting Pronouncements

Refer to Note 2 to our Consolidated Financial Statements, "Recent Accounting Pronouncements," for a discussion of recent accounting pronouncements and their impact in our Consolidated Financial Statements.

Fluctuations in Operating Results

We expect that our revenues and operating results may fluctuate from fiscal quarter to fiscal quarter or over the longer term. Certain of the general factors that may cause such fluctuations are discussed in Item 1A, Risk Factors and elsewhere in the Annual Report.

Seasonality

Our business, like that of most retailers, is subject to seasonal influences. In the second half of the year, which includes the back-to-school and holiday seasons, we generally realize a higher level of sales and net income. Weather is also 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.

Inflation

We do not believe that our operating results have been materially affected by inflation during Fiscal 2016, Fiscal 2015 or Fiscal 2014. Historically, as the costs of merchandising and related operating expenses have increased, we have been able to mitigate the effect of such impact on our operations.

The U.S. retail industry continues to face increased pressure on margins as commodity prices increase and the overall challenging retail conditions have led consumers to be more value conscious. Our “open to buy” paradigm, in which we purchase both pre-season and in-season merchandise, allows us the flexibility to purchase less pre-season with the balance purchased in-season and opportunistically. It also provides us 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 the expected rising costs of goods.

Market Risk

We are exposed to market risks relating to fluctuations in interest rates. Our borrowings contain floating rate obligations and are subject to interest rate fluctuations. The objective of our financial risk management is to minimize the negative impact of interest rate fluctuations on our earnings and cash flows. We manage interest rate risk through the use of our interest rate cap contracts.

As more fully described in Note 8 to our Consolidated Financial Statements, “Derivative Instruments and Hedging Activities,” we enter into interest rate cap contracts to manage interest rate risks associated with our long term debt obligations. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in the line item “Accumulated other comprehensive loss” on the Company’s Consolidated Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. We continue to have exposure to interest rate risks to the extent they are not hedged.

Off-Balance Sheet Transactions

Other than operating leases consummated in the normal course of business and letters of credit, as more fully described above under the caption “Certain Information Concerning Contractual Obligations,” we are not involved in any off-balance sheet arrangements that have or are reasonably likely to have a material current or future impact on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks as part of our ongoing business operations. Primary exposures include (i) changes in interest rates, as borrowings under our ABL Line of Credit and Term Loan Facility bear interest at floating rates based on LIBOR or the base rate, in each case plus an applicable borrowing margin, and (ii) investing activities. The interest rate of our Term Loan Facility is also dependent on the LIBOR, prime rate, and the federal funds rate as further discussed in Note 7 to our Consolidated Financial Statements, "Long Term Debt."

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

On April 24, 2015 we entered into two interest rate cap contracts which were designated as cash flow hedges. These interest rate cap contracts have an aggregate notional principal amount of \$800.0 million, cap rates of 1.0%, and mature on May 31, 2019.

On July 29, 2016, we completed the repricing of our Term Loan Facility, which, among other things, reduced the interest rate margins applicable under the Amended Term Loan Credit Agreement from 2.25% to 1.75% in the case of prime rate loans, and from 3.25% to 2.75% in the case of LIBOR loans, with the LIBOR floor being reduced from 1.00% to 0.75%.

We had exposure to changes in interest rates from the 0.78% LIBOR as of January 28, 2017 from our Term Loan Facility to the 1.00% rate under our interest rate cap contracts. In addition, we have unlimited interest rate risk related to borrowings on our variable rate debt in excess of the notional principal amount of our interest rate cap contracts.

At January 28, 2017, we had \$1,117.0 million of floating-rate debt, exclusive of original issue discount. Based on \$1,117.0 million outstanding as floating-rate debt, a one percentage point increase as of January 28, 2017 (after considering our 1.0% interest rate cap contracts), would cause an increase to cash interest expense of \$4.8 million per year, resulting in \$4.8 million less in our pre-tax earnings. This sensitivity analysis assumes our mix of financial instruments and all other variables will remain constant in future periods. These assumptions are made in order to facilitate the analysis and are not necessarily indicative of our future intentions.

If a one percentage point increase in interest rates were to occur as of January 28, 2017, such an increase would result in the following additional interest expenses (assuming current borrowing level remains constant):

| | (in millions) | | | | |
|------------------------|---------------|------------|------------|------------|------------|
| | Principal | Additional | Additional | Additional | Additional |
| | Outstanding | Interest | Interest | Interest | Interest |
| | at | Expense | Expense | Expense | Expense |
| | January | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| Floating Rate Debt | 28, 2017 | \$ 1.2 | \$ 1.2 | \$ 1.2 | \$ 1.2 |
| Term Loan Facility (a) | \$1,117.0 | \$ 1.2 | \$ 1.2 | \$ 1.2 | \$ 1.2 |
| ABL Line of Credit | — | — | — | — | — |
| | \$1,117.0 | \$ 1.2 | \$ 1.2 | \$ 1.2 | \$ 1.2 |

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Burlington Stores, Inc.

Burlington, New Jersey

We have audited the accompanying consolidated balance sheets of Burlington Stores, Inc. and subsidiaries (the "Company") as of January 28, 2017 and January 30, 2016, and the related consolidated statements of income, comprehensive income, stockholders' deficit, and cash flows for each of the three fiscal years in the period ended January 28, 2017. Our audits also included the financial statement schedules listed in the Index at Item 15 (a)(2). These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 28, 2017 and January 30, 2016, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 28, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 28, 2017, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey
March 16, 2017

BURLINGTON STORES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(All amounts in thousands, except per share data)

| | Fiscal Year Ended | | |
|--|---------------------|---------------------|---------------------|
| | January 28, 2017 | January 30, 2016 | January 31, 2015 |
| REVENUES: | | | |
| Net sales | \$5,566,038 | \$5,098,932 | \$4,814,504 |
| Other revenue | 24,912 | 30,911 | 35,130 |
| Total revenue | 5,590,950 | 5,129,843 | 4,849,634 |
| COSTS AND EXPENSES: | | | |
| Cost of sales | 3,297,373 | 3,059,641 | 2,900,819 |
| Selling, general and administrative expenses | 1,723,251 | 1,597,718 | 1,520,929 |
| Costs related to debt amendments and secondary offerings | 1,346 | 247 | 2,412 |
| Stock option modification expense | 601 | 1,368 | 2,940 |
| Depreciation and amortization | 183,586 | 172,099 | 167,580 |
| Impairment charges - long-lived assets | 2,450 | 6,111 | 2,579 |
| Other income - net | (10,835) | (5,865) | (10,753) |
| Loss on extinguishment of debt | 3,805 | 649 | 74,347 |
| Interest expense | 56,161 | 58,999 | 83,745 |
| Total costs and expenses | 5,257,738 | 4,890,967 | 4,744,598 |
| Income before income tax expense | 333,212 | 238,876 | 105,036 |
| Income tax expense | 117,339 | 88,394 | 39,081 |
| Net income | \$215,873 | \$150,482 | \$65,955 |
| Net income per common share: | | | |
| Common stock - basic | \$3.06 | \$2.03 | \$0.89 |
| Common stock - diluted | \$3.01 | \$1.99 | \$0.87 |
| Weighted average number of common shares: | | | |
| Common stock - basic | 70,480 | 74,111 | 74,101 |
| Common stock - diluted | 71,721 | 75,443 | 75,865 |

See Notes to Consolidated Financial Statements.

BURLINGTON STORES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(All amounts in thousands)

| | Fiscal Year Ended | | |
|---|------------------------|------------------------|------------------------|
| | January 28, 2017 | January 30, 2016 | January 31, 2015 |
| Net income | \$215,873 | \$150,482 | \$65,955 |
| Other comprehensive income (loss), net of tax: | | | |
| Interest rate cap contracts: | | | |
| Net unrealized gains (losses) arising during the period | 220 | (7,420) | (1,744) |
| Reclassification into earnings during the period | 1,581 | 172 | — |
| Other comprehensive income (loss), net of tax: | 1,801 | (7,248) | (1,744) |
| Total comprehensive income | \$217,674 | \$143,234 | \$64,211 |

See Notes to Consolidated Financial Statements.

BURLINGTON STORES, INC.

CONSOLIDATED BALANCE SHEETS

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

| | January 28, 2017 | January 30, 2016 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$81,597 | \$20,915 |
| Restricted cash and cash equivalents | 27,800 | 27,800 |
| Accounts receivable—net of allowance for doubtful accounts of \$262 and \$272 at January 28, 2017 and January 30, 2016, respectively | 43,252 | 38,571 |
| Merchandise inventories | 701,891 | 783,528 |
| Prepaid and other current assets | 73,784 | 62,168 |
| Total current assets | 928,324 | 932,982 |
| Property and equipment—net | 1,049,447 | 1,018,570 |
| Tradenames | 238,000 | 238,000 |
| Favorable leases—net | 213,180 | 238,753 |
| Goodwill | 47,064 | 47,064 |
| Deferred tax assets | 7,973 | — |
| Other assets | 90,495 | 96,444 |
| Total assets | \$2,574,483 | \$2,571,813 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | \$640,326 | \$598,199 |
| Other current liabilities | 354,870 | 286,986 |
| Current maturities of long term debt | 1,638 | 1,403 |
| Total current liabilities | 996,834 | 886,588 |
| Long term debt | 1,128,843 | 1,295,163 |
| Other liabilities | 290,683 | 287,389 |
| Deferred tax liabilities | 207,935 | 201,695 |
| Commitments and contingencies (Notes 1, 7, 12, 13, 14, 15 and 17) | | |
| Stockholders' deficit: | | |
| Preferred stock, \$0.0001 par value: authorized: 50,000,000 | | |
| shares; no shares issued and outstanding | — | — |
| Common stock, \$0.0001 par value: | | |
| Authorized: 500,000,000 shares; | | |
| Issued: 77,653,924 shares and 76,711,663 shares, respectively; | | |
| Outstanding: 70,180,713 shares and 72,071,177 shares, respectively | 7 | 7 |
| Additional paid-in-capital | 1,420,581 | 1,395,863 |
| Accumulated deficit | (1,060,099) | (1,275,972) |
| Accumulated other comprehensive loss | (7,191) | (8,992) |
| Treasury stock, at cost | (403,110) | (209,928) |

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| | | |
|---|-------------|-------------|
| Total stockholders' deficit | (49,812) | (99,022) |
| Total liabilities and stockholders' deficit | \$2,574,483 | \$2,571,813 |

See Notes to Consolidated Financial Statements.

BURLINGTON STORES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in thousands)

| | Fiscal Year Ended | | |
|--|---------------------|---------------------|---------------------|
| | January 28, 2017 | January 30, 2016 | January 31, 2015 |
| OPERATING ACTIVITIES | | | |
| Net income | \$215,873 | \$150,482 | \$65,955 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation and amortization | 183,586 | 172,099 | 167,580 |
| Impairment charges—long-lived assets | 2,450 | 6,111 | 2,579 |
| Amortization of deferred financing costs | 2,679 | 2,868 | 6,057 |
| Accretion of long term debt instruments | 942 | 809 | 1,579 |
| Deferred income taxes | (2,919) | 5,909 | (30,940) |
| Non-cash loss on extinguishment of debt—write-off of deferred financing costs | | | |
| and original issue discount | 3,805 | 649 | 28,051 |
| Non-cash stock compensation expense | 15,953 | 11,161 | 6,264 |
| Non-cash rent | (27,910) | (24,143) | (19,463) |
| Deferred rent incentives | 32,212 | 41,786 | 38,418 |
| Excess tax benefit from stock based compensation | (13,470) | (11,941) | (15,461) |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (3,489) | 1,263 | (8,616) |
| Merchandise inventories | 81,048 | 5,180 | (68,658) |
| Prepaid and other current assets | (13,267) | (6,454) | 27,546 |
| Accounts payable | 41,543 | (23,483) | 78,695 |
| Other current liabilities | 74,819 | (10,642) | 18,958 |
| Other long term assets and long term liabilities | 5,715 | 3,850 | 2,552 |
| Other operating activities | 2,876 | 1,957 | 1,239 |
| Net cash provided by operating activities | 602,446 | 327,461 | 302,335 |
| INVESTING ACTIVITIES | | | |
| Cash paid for property and equipment | (187,507) | (201,787) | (220,980) |
| Change in restricted cash and cash equivalents | — | — | 4,300 |
| Proceeds from sale of property and equipment and assets held for sale | 7,288 | 4,250 | 174 |
| Other investing activities | (132) | 2,805 | — |
| Net cash (used in) investing activities | (180,351) | (194,732) | (216,506) |
| FINANCING ACTIVITIES | | | |
| Proceeds from long term debt—ABL Line of Credit | 1,392,700 | 1,607,400 | 962,500 |
| Principal payments on long term debt—ABL Line of Credit | (1,560,100) | (1,503,300) | (899,200) |
| Proceeds from long term debt—Term B-4 Loans | 1,114,208 | — | — |
| Proceeds from long term debt—Term B-3 Loans | — | — | 1,194,000 |
| Principal payments on long term debt—Term B-3 Loans | (1,117,000) | (50,000) | (33,000) |
| Principal payments on long term debt—Term B-2 Loans | — | — | (834,507) |
| Principal payments on long term debt—Holdco Notes | — | — | (128,223) |

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| | | | |
|---|------------|------------|------------|
| Principal payments on long term debt—Senior Notes | — | — | (450,000) |
| Purchase of treasury shares | (202,371) | (201,670) | (3,933) |
| Proceeds from stock option exercises | 4,484 | 2,100 | 2,514 |
| Excess tax benefit from stock based compensation | 13,470 | 11,941 | 15,461 |
| Deferred financing costs | (655) | (168) | (13,658) |
| Other financing activities | (6,149) | (3,466) | (5,418) |
| Net cash used in financing activities | (361,413) | (137,163) | (193,464) |
| Increase (decrease) in cash and cash equivalents | 60,682 | (4,434) | (107,635) |
| Cash and cash equivalents at beginning of period | 20,915 | 25,349 | 132,984 |
| Cash and cash equivalents at end of period | \$81,597 | \$20,915 | \$25,349 |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid | \$51,590 | \$57,376 | \$100,047 |
| Income tax payments - net | \$68,962 | \$84,676 | \$74,363 |
| Non-cash investing activities: | | | |
| Accrued purchases of property and equipment | \$24,120 | \$18,017 | \$21,878 |
| Acquisition of capital lease | \$— | \$409 | \$3,342 |
| See Notes to Consolidated Financial Statements. | | | |

BURLINGTON STORES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

(All dollar amounts in thousands)

| | Accumulated | | | | | | | |
|---|------------------------|------------------------------|------------------------|-----------------------|--------------------------|--------------------------|-------------|-------------|
| | Additional | | | Other | | | | |
| | Common Stock Shares | Paid-in Capital Amount | Accumulated Deficit | Comprehensive Loss | Treasury Stock Shares | Treasury Stock Amount | Total | |
| Balance at February 1, 2014 | 74,218,275 | 7 | 1,346,259 | (1,492,409) | — | (531,751) | (4,325) | (150,468) |
| Net income | — | — | — | 65,955 | — | — | — | 65,955 |
| Stock options exercised and related taxes of \$15.5 million | 1,362,066 | — | 17,975 | — | — | — | — | 17,975 |
| Shares used for tax withholding | — | — | — | — | — | (139,074) | (3,933) | (3,933) |
| Issuance of restricted shares, net of forfeitures of 1,707 restricted shares | 345,166 | — | — | — | — | — | — | — |
| Stock based compensation | — | — | 6,264 | — | — | — | — | 6,264 |
| Unrealized losses on interest rate cap contracts, net of related taxes of \$1.2 million | — | — | — | — | (1,744) | — | — | (1,744) |
| Balance at January 31, 2015 | 75,925,507 | \$7 | \$1,370,498 | \$(1,426,454) | \$(1,744) | (670,825) | \$(8,258) | \$(65,951) |
| Net income | — | — | — | 150,482 | — | — | — | 150,482 |
| Stock options exercised and related taxes of \$11.9 million | 600,099 | — | 14,204 | — | — | — | — | 14,204 |
| Shares used for tax withholding | — | — | — | — | — | (25,559) | (1,313) | (1,313) |
| Shares purchased as part of publicly announced programs | — | — | — | — | — | (3,944,102) | (200,357) | (200,357) |
| Issuance of restricted shares, net of forfeitures of 40,588 restricted shares | 186,057 | — | — | — | — | — | — | — |
| Stock based compensation | — | — | 11,161 | — | — | — | — | 11,161 |
| Unrealized losses on interest rate cap contracts, net of related taxes of \$4.9 million | — | — | — | — | (7,420) | — | — | (7,420) |
| Amount reclassified into earnings, net of related taxes of \$0.1 million | — | — | — | — | 172 | — | — | 172 |
| Balance at January 30, 2016 | 76,711,663 | \$7 | \$1,395,863 | \$(1,275,972) | \$(8,992) | (4,640,486) | \$(209,928) | \$(99,022) |
| Net income | — | — | — | 215,873 | — | — | — | 215,873 |
| Stock options exercised and related taxes of \$13.5 million | 604,675 | — | 17,954 | — | — | — | — | 17,954 |
| Shares used for tax withholding | — | — | — | — | — | (35,637) | (2,371) | (2,371) |
| | — | — | — | — | — | (2,797,088) | (200,000) | (200,000) |

| | | | | | | | | |
|---|------------|-----|-------------|---------------|-----------|-------------|-------------|-------------|
| Shares purchased as part of publicly announced programs | | | | | | | | |
| Issuance of restricted shares, net of forfeitures of 17,815 restricted shares | 337,586 | — | — | — | — | — | — | — |
| Stock based compensation | — | — | 15,953 | — | — | — | — | 15,953 |
| Unrealized losses on interest rate cap contracts, net of related taxes of \$0.1 million | — | — | — | — | 220 | — | — | 220 |
| Re-issuance of shares previously held within treasury | — | — | (9,189) | — | — | — | 9,189 | — |
| Amount reclassified into earnings, net of related taxes of \$1.0 million | — | — | — | — | 1,581 | — | — | 1,581 |
| Balance at January 28, 2017 | 77,653,924 | \$7 | \$1,420,581 | \$(1,060,099) | \$(7,191) | (7,473,211) | \$(403,110) | \$(49,812) |

See Notes to Consolidated Financial Statements.

BURLINGTON STORES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Business

As of January 28, 2017, Burlington Stores, Inc. and its subsidiaries (the Company), a Delaware Corporation, through its wholly owned indirect subsidiary Burlington Coat Factory Warehouse Corporation (BCFWC), operated 592 retail stores, inclusive of an internet store, in 45 states and Puerto Rico, selling apparel, footwear and accessories for men, women and children. A majority of those stores offer a home furnishing and linens department and a juvenile furniture department. As of January 28, 2017, the Company operated stores under the names “Burlington Stores” (576 stores), “Cohoes Fashions” (2 stores), “Super Baby Depot” (2 stores), “MJM Designer Shoes” (10 stores), “Burlington Shoes” (1 store) and one online store. Cohoes Fashions offers products similar to those offered by Burlington Stores. MJM Designer Shoes and Burlington Shoes offer moderately priced designer and fashion shoes. The Super Baby Depot stores offer baby clothing, accessories, furniture and other merchandise in the middle to higher price range. During the fiscal year ended January 28, 2017 (Fiscal 2016), the Company opened 30 new stores under the name “Burlington Stores” and closed three Burlington Stores and two MJM Designer Shoes stores.

Basis of Consolidation and Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Consolidated Financial Statements include the accounts of Burlington Stores, Inc. and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

Fiscal Years

The Company defines its fiscal year as the 52 or 53 week period ending on the Saturday closest to January 31. Fiscal 2016, and the Fiscal years ended January 30, 2016 (Fiscal 2015) and January 31, 2015 (Fiscal 2014) each consisted of 52 weeks.

Use of Estimates

Certain amounts included in the Consolidated Financial Statements are estimated based on historical experience, currently available information and management’s judgment as to the expected outcome of future conditions and circumstances. While every effort is made to ensure the integrity of such estimates, actual results could differ from these estimates, and such differences could have a material impact on the Company’s Consolidated Financial Statements.

Secondary Offerings

During Fiscal 2015 and Fiscal 2014, the Company closed secondary public offerings in which 12,490,154 shares and 42,300,000 shares of its common stock, respectively, were sold by certain of the Company’s stockholders. All of the shares sold in the secondary offerings were offered by selling stockholders. The Company did not receive any of the proceeds from the secondary offerings. The Company incurred \$0.2 million and \$1.8 million in offering costs related

to the secondary offerings during Fiscal 2015 and Fiscal 2014, respectively, which are included in the line item “Costs related to debt amendments and secondary offerings” on the Company’s Consolidated Statements of Income.

Cash and Cash Equivalents

Cash and cash equivalents represent cash and short-term, highly liquid investments with maturities of three months or less at the time of purchase. Book cash overdrafts are included in the line item “Accounts payable” on the Company’s Consolidated Balance Sheets.

Accounts Receivable

Accounts receivable consist of credit card receivables, lease incentive receivables and other receivables. Accounts receivable are recorded at net realizable value, which approximates fair value. The Company provides an allowance for doubtful accounts for amounts deemed uncollectible.

Inventories

Merchandise inventories are valued at the lower of cost or market, as determined by the retail inventory method. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a calculated cost to retail ratio to the retail value of inventories. The Company regularly records a provision for estimated shortage, thereby reducing the carrying value of merchandise inventory. Complete physical inventories of all of the Company's stores and warehouses are performed no less frequently than annually, with the recorded amount of merchandise inventory being adjusted to coincide with these physical counts.

The Company records its cost of merchandise (net of purchase discounts and certain vendor allowances), certain merchandise acquisition costs (primarily commissions and import fees), inbound freight, outbound freight from distribution centers, and freight on internally transferred merchandise in the line item "Cost of sales" in the Company's Consolidated Statements of Income.

Costs associated with the Company's distribution, buying, and store receiving functions are included in the line items "Selling, general and administrative expenses" and "Depreciation and amortization" in the Company's Consolidated Statements of Income. Product sourcing costs included within the line item "Selling, general and administrative expenses" amounted to \$261.0 million, \$229.4 million and \$204.1 million during Fiscal 2016, Fiscal 2015 and Fiscal 2014, respectively. Depreciation and amortization related to the distribution and purchasing functions for the same periods amounted to \$22.6 million, \$18.3 million and \$15.3 million, respectively.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 20 and 40 years for buildings, depending upon the expected useful life of the facility, and three to ten years for store fixtures and equipment. Leasehold improvements are amortized over the lease term, including any reasonably assured renewal options or the expected economic life of the improvement, whichever is less. Repairs and maintenance expenditures are expensed as incurred. Renewals and betterments, which significantly extend the useful lives of existing property and equipment, are capitalized. Assets recorded under capital leases are recorded at the present value of minimum lease payments and are amortized over the lease term. Amortization of assets recorded as capital leases is included in the line item "Depreciation and amortization" in the Company's Consolidated Statements of Income. The carrying value of all long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, in accordance with ASC Topic No. 360 "Property, Plant, and Equipment" (Topic No. 360). The Company recorded impairment charges related to property and equipment of \$0.8 million, \$2.4 million and \$2.4 million during Fiscal 2016, Fiscal 2015 and Fiscal 2014, respectively. These charges are recorded in the line item "Impairment charges—long-lived assets" in the Company's Consolidated Statements of Income. Refer to Note 6, "Impairment Charges," for further discussion of the Company's measurement of impairment of long-lived assets.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset to undiscounted pre-tax future net cash flows expected to be generated by that asset. If the undiscounted future cash flows are not adequate to recover the carrying value of the asset, an impairment charge is recognized for the amount by which the carrying amount of the assets exceeds the fair value of such assets. Refer to Note 6, "Impairment Charges," for further discussion of the Company's measurement of impairment of long-lived assets.

Capitalized Computer Software Costs

The Company accounts for capitalized software in accordance with ASC Topic No. 350 “Intangibles—Goodwill and Other” (Topic No. 350) which requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use. The Company capitalized \$28.2 million and \$17.1 million relating to these costs during Fiscal 2016 and Fiscal 2015, respectively.

Intangible Assets

The Company accounts for intangible assets in accordance with Topic No. 350. The Company’s intangible assets primarily represent tradenames and favorable lease positions. The tradename asset “Burlington” is expected to generate cash flows indefinitely and, therefore, is accounted for as an indefinite-lived asset not subject to amortization. The values of favorable and unfavorable lease positions are amortized on a straight-line basis over the expected lease terms. Amortization of net favorable lease positions is included

in the line item “Depreciation and amortization” in the Company’s Consolidated Statements of Income. The Company evaluates its intangible assets for possible impairment as follows:

Indefinite-lived intangible assets: The Company tests identifiable intangible assets with an indefinite life for impairment on an annual basis, or when a triggering event occurs, relying on a number of factors that include operating results, business plans and projected future cash flows. The impairment test consists of a comparison of the fair value of the indefinite-lived intangible asset with its carrying amount. The Company determines fair value through the relief of royalty method which is a widely accepted valuation technique. In May 2016, the Company’s annual assessment date, the Company performed a quantitative analysis and determined that the fair values of each of the Company’s identifiable intangible assets are greater than their respective carrying values. There were no impairment charges recorded during Fiscal 2016, Fiscal 2015 or Fiscal 2014 related to indefinite-lived intangible assets.

Finite-lived intangible assets: Identifiable intangible assets that are subject to amortization are evaluated for impairment in accordance with Topic No. 360 using a process similar to that used to evaluate other long-lived assets as described in Note 6, “Impairment Charges.” An impairment charge is recognized for the amount by which the carrying value exceeds the fair value of the asset. For the favorable lease positions, if the carrying amount exceeds the estimated expected undiscounted future cash flows, the Company measures the amount of the impairment by comparing the carrying amount of the asset to its fair value. The fair value is estimated by discounting expected future cash flows using the Company’s risk adjusted rate of interest. The Company recorded impairment charges of \$1.6 million and \$3.3 million related to finite-lived intangible assets during Fiscal 2016 and Fiscal 2015, respectively. These charges are recorded in the line item “Impairment charges—long-lived assets” in the Company’s Consolidated Statements of Income. Refer to Note 6, “Impairment Charges,” for further discussion of the Company’s measurement of impairment of long-lived assets. The Company did not record an impairment charge related to finite-lived intangible assets during Fiscal 2014.

Goodwill

Goodwill represents the excess of the acquisition cost over the estimated fair value of tangible assets and other identifiable intangible assets acquired less liabilities assumed. Topic No. 350 requires a comparison, at least annually, of the carrying value of the assets and liabilities associated with a reporting unit, including goodwill, with the fair value of the reporting unit. The Company determines fair value through multiple widely accepted valuation techniques. These techniques use a variety of assumptions including projected market conditions, discount rates and future cash flows. If the carrying value of the assets and liabilities exceeds the fair value of the reporting unit, the Company would calculate the implied fair value of its reporting unit goodwill as compared with the carrying value of its reporting unit goodwill to determine the appropriate impairment charge. In May 2016, the Company’s annual assessment date, the Company performed a quantitative analysis and determined that the fair value of the Company’s reporting unit was greater than its respective carrying value. There were no impairment charges related to goodwill during Fiscal 2016, Fiscal 2015 or Fiscal 2014.

Other Assets

Other assets consist primarily of landlord owned store assets that the Company has paid for as part of its lease, deferred financing costs associated with the Company’s senior secured asset-based revolving credit facility (the ABL Line of Credit) and purchased lease rights. Landlord owned assets represent leasehold improvements at certain stores for which the Company has paid, but the landlord has retained title. These assets are amortized over the lease term inclusive of reasonably assured renewal options, and the amortization is included in the line item “Depreciation and amortization” in the Company’s Consolidated Statements of Income. Deferred financing costs are amortized over the life of the ABL Line of Credit using the interest method of amortization. Amortization of deferred financing costs is recorded in the line item “Interest expense” in the Company’s Consolidated Statements of Income. Purchased lease rights

are amortized over the lease term inclusive of reasonably assured renewal options and the amortization is recorded in the line item "Selling, general and administrative expenses" in the Company's Consolidated Statements of Income. Both landlord owned assets and purchased lease rights are assessed for impairment in accordance with Topic No. 360. During Fiscal 2016, Fiscal 2015 and Fiscal 2014, the Company recorded impairment charges of \$0.1 million, \$0.4 million and \$0.2 million, respectively, related to purchased lease rights and landlord owned assets. These charges are recorded in the line item "Impairment charges—long-lived assets" in the Company's Consolidated Statements of Income. Refer to Note 6, "Impairment Charges," for further discussion of the Company's measurement of impairment of long-lived assets.

Other Current Liabilities

Other current liabilities primarily consist of sales tax payable, customer liabilities, accrued payroll costs, self-insurance reserves, accrued operating expenses, payroll taxes payable, current portion of straight line rent liability and other miscellaneous items. Customer liabilities totaled \$33.2 million and \$32.3 million as of January 28, 2017 and January 30, 2016, respectively.

The Company has risk participation agreements with insurance carriers with respect to workers' compensation, general liability insurance and health insurance. Pursuant to these arrangements, the Company is responsible for paying individual claims up to designated dollar limits. The amounts related to these claims are estimated and can vary based on changes in assumptions or claims experience included in the associated insurance programs. An increase in workers' compensation claims, health insurance claims or general liability claims may result in a corresponding increase in costs related to these claims. Self-insurance reserves as of January 28, 2017 and January 30, 2016 were:

| | (in thousands) | |
|--------------------------------------|--------------------|------------------|
| | Fiscal Years Ended | |
| | January 28, | January 30, |
| | 2017 | 2016 |
| Short-term self-insurance reserve(a) | \$28,569 | \$ 25,566 |
| Long-term self-insurance reserve(b) | 41,404 | 37,456 |
| Total | \$69,973 | \$ 63,022 |

(a) Represents the portions of the self-insurance reserve expected to be paid in the next twelve months, which was recorded in the line item "Other current liabilities" in the Company's Consolidated Balance Sheets.

(b) The remaining self-insurance reserve balance was recorded in the line item "Other liabilities" in the Company's Consolidated Balance Sheets.

Other Liabilities

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

Deferred lease incentives are funds received or receivable from landlords used primarily to offset the costs incurred for remodeling of 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 Consolidated Statements of Income. At January 28, 2017 and January 30, 2016, deferred lease incentives were \$180.9 million and \$179.3 million, respectively.

Revenue Recognition

The Company records revenue at the time of sale and delivery of merchandise, net of allowances for estimated future returns. The Company presents sales, net of sales taxes, in its Consolidated Statements of Income. The Company accounts for layaway sales and leased department revenue in compliance with ASC Topic No. 605 "Revenue Recognition" (Topic No. 605). Layaway sales are recognized upon delivery of merchandise to the customer. The amount of cash received upon initiation of the layaway is recorded as a deposit liability in the line item "Other current liabilities" in the Company's Consolidated Balance Sheets. Store value cards (gift cards and store credits issued for merchandise returns) are recorded as a liability at the time of issuance, and the related sale is recorded upon redemption.

The Company determines an estimated store value card breakage rate by continuously evaluating historical redemption data. Breakage income is recognized monthly in proportion to the historical redemption patterns for those

store value cards for which the likelihood of redemption is remote.

Other Revenue

Other revenue consists of service fees (layaway, shipping and handling, alteration, dormancy and other service charges), subleased rental income and rental income from leased departments as shown in the table below:

| | (in thousands) | | |
|---------------------------------------|--------------------|-------------|-------------|
| | Fiscal Years Ended | | |
| | January 28, | January 30, | January 31, |
| | 2017 | 2016 | 2015 |
| Service fees | \$ 15,779 | \$ 14,782 | \$ 14,269 |
| Subleased rental income and other | 8,720 | 8,681 | 8,495 |
| Rental income from leased departments | 413 | | |