

Boot Barn Holdings, Inc.
Form 10-Q
November 06, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 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: 001-36711

BOOT BARN HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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Delaware 90-0776290
(State or other jurisdiction of (I.R.S. employer
incorporation or organization) identification no.)

15345 Barranca Pkwy

Irvine, California 92618

(Address of principal executive offices) (Zip code)

(949) 453-4400

Registrant's telephone number, including area code

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Emerging growth company

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Non-accelerated filer Smaller reporting company

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

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

As of November 2, 2017, the registrant had 26,667,221 shares of common stock outstanding, \$0.0001 par value.

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Boot Barn Holdings, Inc. and Subsidiaries

Form 10-Q

For the Thirteen and Twenty-Six Weeks Ended September 30, 2017

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Part 1. Financial Information

Item 1. Condensed Consolidated Financial Statements (Unaudited)

BOOT BARN HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

	September 30, 2017	April 1, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,434	\$ 8,035
Accounts receivable, net	6,253	4,354
Inventories	211,750	189,096
Prepaid expenses and other current assets	14,138	22,818
Total current assets	241,575	224,303
Property and equipment, net	85,767	82,711
Goodwill	193,095	193,095
Intangible assets, net	63,840	64,511
Other assets	978	961
Total assets	\$ 585,255	\$ 565,581
Liabilities and stockholders' equity		
Current liabilities:		
Line of credit	\$ 57,120	\$ 33,274
Accounts payable	90,191	77,482
Accrued expenses and other current liabilities	35,252	35,983
Current portion of notes payable, net	—	1,062
Total current liabilities	182,563	147,801
Deferred taxes	10,799	20,961
Long-term portion of notes payable, net	182,680	191,517
Capital lease obligations	7,578	7,825
Other liabilities	18,324	17,568
Total liabilities	401,944	385,672
Commitments and contingencies (Note 7)		
Stockholders' equity:		
	3	3

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Common stock, \$0.0001 par value; September 30, 2017 - 100,000 shares authorized, 26,697 shares issued; April 1, 2017 - 100,000 shares authorized, 26,575 shares issued		
Preferred stock, \$0.0001 par value; 10,000 shares authorized, no shares issued or outstanding		
	—	—
Additional paid-in capital	143,800	142,184
Retained earnings	39,666	37,791
Less: Common stock held in treasury, at cost, 28 and 14 shares at September 30, 2017 and April 1, 2017, respectively		
	(158)	(69)
Total stockholders' equity	183,311	179,909
Total liabilities and stockholders' equity	\$ 585,255	\$ 565,581

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

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BOOT BARN HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Net sales	\$ 143,072	\$ 133,969	\$ 282,451	\$ 267,382
Cost of goods sold	101,382	97,523	199,369	190,187
Gross profit	41,690	36,446	83,082	77,195
Selling, general and administrative expenses	36,052	32,003	72,503	68,302
Income from operations	5,638	4,443	10,579	8,893
Interest expense, net	3,789	3,651	7,447	7,211
Income before income taxes	1,849	792	3,132	1,682
Income tax expense	751	313	1,257	579
Net income	\$ 1,098	\$ 479	\$ 1,875	\$ 1,103
Earnings per share:				
Basic shares	\$ 0.04	\$ 0.02	\$ 0.07	\$ 0.04
Diluted shares	\$ 0.04	\$ 0.02	\$ 0.07	\$ 0.04
Weighted average shares outstanding:				
Basic shares	26,608	26,427	26,584	26,400
Diluted shares	26,950	26,897	26,960	26,736

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

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BOOT BARN HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Shares Amount	Total
Balance at April 1, 2017	26,575	\$ 3	\$ 142,184	\$ 37,791	(14)	\$ (69)	\$ 179,909
Net income	—	—	—	1,875	—	—	1,875
Issuance of common stock related to stock-based compensation	122	—	363	—	(3)	—	363
Tax withholding for net share settlement	—	—	—	—	(11)	(89)	(89)
Stock-based compensation expense	—	—	1,253	—	—	—	1,253
Balance at September 30, 2017	26,697	\$ 3	\$ 143,800	\$ 39,666	(28)	\$ (158)	\$ 183,311

	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Shares Amount	Total
Balance at March 26, 2016	26,354	\$ 3	\$ 137,893	\$ 23,594	(4)	\$ —	\$ 161,490
Net income	—	—	—	1,103	—	—	1,103
Issuance of common stock related to stock-based compensation	143	—	739	—	(3)	—	739
Tax withholding for net share settlement	—	—	—	—	(3)	(26)	(26)
Excess tax deficiency related to stock-based compensation	—	—	(17)	—	—	—	(17)
Stock-based compensation expense	—	—	1,506	—	—	—	1,506
Balance at September 24, 2016	26,497	\$ 3	\$ 140,121	\$ 24,697	(10)	\$ (26)	\$ 164,795

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

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BOOT BARN HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Twenty-Six Weeks Ended	
	September 30, 2017	September 24, 2016
Cash flows from operating activities		
Net income	\$ 1,875	\$ 1,103
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation	7,584	6,996
Stock-based compensation	1,253	1,506
Amortization of intangible assets	671	1,100
Amortization and write-off of debt issuance fees and debt discount	593	563
Loss on disposal of property and equipment	61	126
Hurricane-related asset write-off	3,222	—
Insurance recovery receivable	(3,422)	—
Accretion of above market leases	(1)	(24)
Deferred taxes	(371)	140
Changes in operating assets and liabilities:		
Insurance settlement	700	—
Accounts receivable, net	823	(439)
Inventories	(22,124)	(14,425)
Inventories from purchase of Wood's Boots	(2,752)	—
Prepaid expenses and other current assets	(1,083)	(1,728)
Other assets	(17)	1,128
Accounts payable	12,287	7,875
Accrued expenses and other current liabilities	(766)	(963)
Other liabilities	757	3,718
Net cash (used in)/provided by operating activities	\$ (710)	\$ 6,676
Cash flows from investing activities		
Purchases of property and equipment	\$ (11,279)	\$ (10,481)
Net cash used in investing activities	\$ (11,279)	\$ (10,481)
Cash flows from financing activities		
Borrowings on line of credit - net	\$ 23,846	\$ 8,168
Repayments on debt and capital lease obligations	(10,212)	(1,208)
Debt issuance fees paid	(520)	—
Tax withholding payments for net share settlement	(89)	(26)
Proceeds from the exercise of stock options	363	739
Net cash provided by financing activities	\$ 13,388	\$ 7,673

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Net increase in cash and cash equivalents	1,399	3,868
Cash and cash equivalents, beginning of period	8,035	7,195
Cash and cash equivalents, end of period	\$ 9,434	\$ 11,063
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ 393	\$ 1,182
Cash paid for interest	\$ 6,744	\$ 6,697
Supplemental disclosure of non-cash activities:		
Unpaid purchases of property and equipment	\$ 2,323	\$ 3,712

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

In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments that are of a normal and recurring nature necessary to fairly present the Company's financial position and results of operations and cash flows in all material respects as of the dates and for the periods presented. The results of operations presented in the interim condensed consolidated financial statements are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2018.

Fiscal Periods

The Company reports its results of operations and cash flows on a 52- or 53-week basis ending on the last Saturday of March unless April 1st is a Saturday, in which case the fiscal year ends on April 1st. In a 52-week year, each quarter includes thirteen weeks of operations; in a 53-week fiscal year, the first, second and third quarters each include thirteen weeks of operations and the fourth quarter includes fourteen weeks of operations. The fiscal year ending on March 31, 2018 ("fiscal 2018") will consist of 52 weeks; whereas, the fiscal year ended on April 1, 2017 ("fiscal 2017") consisted of 53 weeks.

2. Summary of Significant Accounting Policies

Information regarding the Company's significant accounting policies is contained in Note 2, "Summary of Significant Accounting Policies", to the consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on June 6, 2017. Presented below in the

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following notes is supplemental information that should be read in conjunction with those consolidated financial statements.

Comprehensive Income

The Company does not have any components of other comprehensive income recorded within its consolidated financial statements and, therefore, does not separately present a statement of comprehensive income in its consolidated financial statements.

Segment Reporting

GAAP has established guidance for reporting information about a company's operating segments, including disclosures related to a company's products and services, geographic areas and major customers. The Company operates in a single operating segment, which includes net sales generated from its retail stores and e-commerce websites. The vast majority of the Company's identifiable assets are in the U.S.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Among the significant estimates affecting the Company's consolidated financial statements are those relating to revenue recognition, inventories, goodwill, intangible and long-lived assets, stock-based compensation and income taxes. Management regularly evaluates its estimates and assumptions based upon historical experience and various other factors that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. To the extent actual results differ from those estimates, the Company's future results of operations may be affected.

Inventories

Inventory consists primarily of purchased merchandise and is valued at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis and includes the cost of merchandise and import related costs, including

freight, duty and agent commissions. The Company assesses the recoverability of inventory through a periodic review of historical usage and present demand. When the inventory on hand exceeds the foreseeable demand, the value of inventory that, at the time of the review, is not expected to be sold is written down to its estimated net realizable value.

Fair Value of Certain Financial Assets and Liabilities

The Company follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820, Fair Value Measurements and Disclosures (“ASC 820”), which requires disclosure of the estimated fair value of certain assets and liabilities defined by the guidance as financial instruments. The Company’s financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable and debt. ASC 820 defines the fair value of financial instruments as the price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities.

- Level 1 uses unadjusted quoted prices that are available in active markets for identical assets or liabilities.
- Level 2 uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data.

adoption, the Company reclassified deferred tax assets of \$9.8 million from prepaid expenses and other current assets (a component of current assets), to deferred taxes (a component of long-term liabilities) on its Condensed Consolidated Balance Sheet. Prior periods were not retrospectively adjusted for the accounting change.

In March 2016, the FASB issued ASU No. 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, ASU No. 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company adopted ASU No. 2016-09 beginning April 2, 2017, the first day of the fiscal year ending March 31, 2018. Upon adoption, the Company began to recognize, on a prospective basis, all excess tax benefits and deficiencies as income tax benefit or expense, respectively, in its Condensed Consolidated Statement of Operations. This resulted in the recognition of less than \$0.1 million of additional income tax expense associated with net tax deficiencies for awards that were exercised or vested during the thirteen weeks ended July 1, 2017, the period of adoption. Additionally, as of April 2, 2017, excess tax benefits are classified as an operating activity along with deferred tax cash flows in the Condensed Consolidated Statement of Cash Flows. The Company elected to adopt such presentation on a prospective basis. Cash paid by the Company to tax authorities when directly withholding shares for

interim periods within those years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company plans to adopt the standard in the first quarter of fiscal 2021 and does not expect the revised standard to have a material impact on the consolidated financial statements.

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3. Asset Acquisition

Wood's Boots

On September 11, 2017, Boot Barn, Inc., a wholly owned subsidiary of the Company, completed the acquisition of assets from Wood's Boots, a four-store family-owned retailer with stores in Midland and Odessa, Texas. As part of the transaction, Boot Barn, Inc. purchased the inventory, entered into new leases with the stores' landlord, offered employment to the Wood's Boots team at all four store locations and assumed certain customer credits. The cash consideration paid for the acquisition was \$2.7 million.

In allocating the purchase price, the Company recorded all assets acquired and liabilities assumed at fair value. As the acquisition did not meet the definition of a business combination under ASC 805, the Company accounted for the transaction as an asset acquisition. In an asset acquisition, goodwill is not recognized, but rather any excess consideration transferred over the fair value of the net assets acquired is allocated on a relative fair value basis to the identifiable net assets.

The Company determined the estimated fair values using Level 3 inputs after review and consideration of relevant information, including quoted market prices and estimates made by management. The inventory was valued using the comparative sales method. Based on the fair value analysis of the net assets acquired and liabilities assumed, the inventory was valued at \$2.8 million, and the customer credits were valued at less than \$0.1 million.

4. Intangible Assets, Net and Goodwill

Net intangible assets as of September 30, 2017 and April 1, 2017 consisted of the following:

	September 30, 2017			
	Gross			Weighted
	Carrying	Accumulated	Net	Average
	Amount	Amortization		Useful Life
	(in thousands, except for weighted average useful life)			
Customer lists	\$ 4,694	\$ (4,165)	\$ 529	4.6
Non-compete agreements	990	(990)	—	4.8
Below-market leases	4,918	(2,284)	2,634	11.6
Total definite lived	10,602	(7,439)	3,163	
Trademarks—indefinite lived	60,677	—	60,677	
Total intangible assets	\$ 71,279	\$ (7,439)	\$ 63,840	

	April 1, 2017			
	Gross	Accumulated		Weighted
	Carrying	Amortization	Net	Average
	Amount			Useful Life
	(in thousands, except for weighted average useful life)			
Customer lists	\$ 4,694	\$ (3,810)	\$ 884	4.6
Non-compete agreements	990	(915)	75	4.8
Below-market leases	4,918	(2,043)	2,875	11.6
Total definite lived	10,602	(6,768)	3,834	
Trademarks—indefinite lived	60,677	—	60,677	
Total intangible assets	\$ 71,279	\$ (6,768)	\$ 64,511	

Amortization expense for intangible assets totaled \$0.3 million for the thirteen weeks ended September 30, 2017 and \$0.5 million for the thirteen weeks ended September 24, 2016, and is included in selling, general and administrative expenses.

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Amortization expense for intangible assets totaled \$0.7 million for the twenty-six weeks ended September 30, 2017 and \$1.1 million for the twenty-six weeks ended September 24, 2016, and is included in selling, general and administrative expenses.

As of September 30, 2017, estimated future amortization of intangible assets was as follows:

Fiscal Year	(in thousands)
2018	\$ 458
2019	624
2020	477
2021	308
2022	215
Thereafter	1,081
Total	\$ 3,163

The Company performs its annual goodwill impairment assessment on the first day of the fourth fiscal quarter, or more frequently if it believes that indicators of impairment exist. The Company's Goodwill balance was \$193.1 million as of both September 30, 2017 and April 1, 2017. As of September 30, 2017, the Company had identified no indicators of impairment with respect to its goodwill, intangible and long-lived asset balances.

5. Revolving Credit Facilities and Long-Term Debt

On June 29, 2015, the Company, as guarantor, and its wholly-owned primary operating subsidiary, Boot Barn, Inc., entered into the \$125.0 million revolving credit facility pursuant to a Credit Agreement, dated as of June 29, 2015, by and among the Company, Boot Barn, Inc., Sheplers, Inc., Wells Fargo Bank, National Association and the other Lenders named therein (as amended from time to time, the "June 2015 Wells Fargo Revolver") and the \$200.0 million term loan Credit Agreement, dated as of June 29, 2015, by and among the Company, Boot Barn, Inc., Golub Capital Markets LLC and the other Lenders named therein (as amended from time to time, the "2015 Golub Term Loan"). The borrowing base of the June 2015 Wells Fargo Revolver is calculated on a monthly basis and is based on the amount of eligible credit card receivables, commercial accounts, inventory, and available reserves. Borrowings under the two credit agreements were initially used to refinance and replace existing credit facilities, pay costs and expenses related to the Sheplers Acquisition and the closing of such credit agreements, and may be used for working capital and other general corporate purposes.

Borrowings under the June 2015 Wells Fargo Revolver bear interest at per annum rates equal to, at the Company's option, either (i) London Interbank Offered Rate ("LIBOR") plus an applicable margin for LIBOR loans, or (ii) the base

rate plus an applicable margin for base rate loans. The base rate is calculated as the highest of (a) the federal funds rate plus 0.5%, (b) the Wells Fargo prime rate and (c) one-month LIBOR plus 1.0%. The applicable margin is calculated based on a pricing grid that in each case is linked to quarterly average excess availability. For LIBOR Loans, the applicable margin ranges from 1.00% to 1.25%, and for base rate loans it ranges from 0.00% to 0.25%. The Company also pays a commitment fee of 0.25% per annum of the actual daily amount of the unutilized revolving loans. The interest on the June 2015 Wells Fargo Revolver is payable in quarterly installments ending on the maturity date. On May 26, 2017, the Company entered into an amendment to the June 2015 Wells Fargo Revolver (the “2017 Wells Amendment”), increasing the aggregate revolving credit facility to \$135.0 million and extending the maturity date to the earlier of May 26, 2022 or 90 days prior to the maturity of the 2015 Golub Term Loan, which is currently scheduled to mature on June 29, 2021. The amount outstanding under the June 2015 Wells Fargo Revolver as of September 30, 2017 and April 1, 2017 was \$57.1 million and \$33.3 million, respectively. Total interest expense incurred in the thirteen and twenty-six weeks ended September 30, 2017 on the June 2015 Wells Fargo Revolver was \$0.5 million and \$0.9 million, respectively, and the weighted average interest rate for the thirteen weeks ended September 30, 2017 was 2.3%. Total interest expense incurred in the thirteen and twenty-six weeks ended September 24, 2016 on the June 2015 Wells Fargo Revolver was \$0.4 million and \$0.7 million, respectively, and the weighted average interest rate for the thirteen weeks ended September 24, 2016 was 1.8%.

Debt issuance costs totaling \$1.0 million were incurred under the June 2015 Wells Fargo Revolver and 2017 Wells Amendment and are included as assets on the condensed consolidated balance sheets in prepaid expenses and other current assets. Total unamortized debt issuance costs were \$0.6 million as of both September 30, 2017 and April 1, 2017. These amounts are being amortized to interest expense over the term of the June 2015 Wells Fargo Revolver.

Debt issuance costs and debt discount totaling \$6.0 million were incurred under the 2015 Golub Term Loan and 2017 Golub Amendment and are included as a reduction of the current and non-current note payable on the condensed consolidated balance sheets. Total unamortized debt issuance costs and debt discount were \$3.8 million and \$3.9 million as of September 30, 2017 and April 1, 2017, respectively. These amounts are being amortized to interest expense over the term of the 2015 Golub Term Loan.

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The following sets forth the balance sheet information related to the term loan:

(in thousands)	September 30, 2017	April 1, 2017
Term Loan	\$ 186,500	\$ 196,500
Unamortized value of the debt issuance costs and debt discount	(3,820)	(3,921)
Net carrying value	\$ 182,680	\$ 192,579

Total amortization expense of \$0.3 million and \$0.6 million related to the June 2015 Wells Fargo Revolver and 2015 Golub Term Loan is included as a component of interest expense in both the thirteen and twenty-six weeks ended September 30, 2017 and September 24, 2016.

Aggregate Contractual Maturities

Aggregate contractual maturities for the Company's long-term debt as of September 30, 2017 are as follows:

Fiscal Year	(in thousands)
2018	\$ —
2019	—
2020	—
2021	—
2022	186,500
Total	\$ 186,500

6. Stock-Based Compensation

Equity Incentive Plans

On January 27, 2012, the Company approved the 2011 Equity Incentive Plan (the “2011 Plan”). The 2011 Plan authorized the Company to issue options to employees, consultants and directors exercisable for up to a total of 3,750,000 shares of common stock. As of September 30, 2017, all awards granted by the Company under the 2011 Plan have been nonqualified stock options. Options granted under the 2011 Plan have a life of 10 years and vest over service periods of five years or in connection with certain events as defined by the 2011 Plan.

On October 19, 2014, the Company approved the 2014 Equity Incentive Plan, which was amended as of August 24, 2016 (as amended, the “2014 Plan”). The 2014 Plan authorizes the Company to issue awards to employees, consultants and directors for up to a total of 3,600,000 shares of common stock. As of September 30, 2017, all awards granted by the Company under the 2014 Plan to date have been nonqualified stock options, restricted stock awards or restricted stock units. Options granted under the 2014 Plan have a life of eight years and vest over service periods of five years or in connection with certain events as defined by the 2014 Plan. Restricted stock awards granted vest over one or four years, as determined by the Compensation Committee of the Board of Directors. Restricted stock units vest over service periods of one or five years, as determined by the Compensation Committee of the Board of Directors.

Non-Qualified Stock Options

During the thirteen weeks ended September 30, 2017, the Company granted options to purchase a total of 4,907 shares under the 2014 Plan. The total grant date fair value of stock options granted during the thirteen weeks ended September 30, 2017 was less than \$0.1 million, with a grant date fair value of \$2.91 per share. The Company is recognizing the expense on a straight-line basis over the five-year service period. The exercise price is \$8.33 per share.

During the twenty-six weeks ended September 30, 2017, the Company granted certain members of management options to purchase a total of 392,522 shares under the 2014 Plan. The total grant date fair value of stock options granted during the twenty-six weeks ended September 30, 2017 was \$0.8 million, with grant date fair values ranging from \$2.11

The fair values of stock options granted during the thirteen and twenty-six weeks ended September 30, 2017 and September 24, 2016 were estimated on the grant dates using the following assumptions:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Expected option term(1)	5.5 years	N/A	5.5 years	5.5 years
Expected volatility factor(2)	34.6 %	N/A	34.0 % - 34.6 %	35.8 % - 36.0 %
Risk-free interest rate(3)	1.8 %	N/A	1.8 %	1.4 %
Expected annual dividend yield	0 %	N/A	0 %	0 %

-
- (1) The Company has limited historical information regarding expected option term. Accordingly, the Company determined the expected life of the options using the simplified method.
- (2) Stock volatility for each grant is measured using the weighted average of historical daily price changes of the Company's competitors' common stock over the most recent period equal to the expected option term of the Company's awards.
- (3) The risk-free interest rate is determined using the rate on treasury securities with the same term.

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Intrinsic value for stock options is defined as the difference between the market price of the Company's common stock on the last business day of the fiscal quarter and the weighted average exercise price of in-the-money stock options outstanding at the end of each fiscal period.

The following table summarizes the stock award activity for the twenty-six weeks ended September 30, 2017:

	Stock Options	Grant Date Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at April 1, 2017	2,543,660	\$ 9.29		
Granted	392,522	\$ 6.18		
Exercised	(73,850)	\$ 4.92		\$ 267
Cancelled, forfeited or expired	(65,011)	\$ 9.95		
Outstanding at September 30, 2017	2,797,321	\$ 8.96	5.7	\$ 5,230
Vested and expected to vest after September 30, 2017	2,797,321	\$ 8.96	5.7	\$ 5,230
Exercisable at September 30, 2017	1,487,391	\$ 8.10	5.0	\$ 3,256

A summary of the status of non-vested stock options as of September 30, 2017 including changes during the twenty-six weeks ended September 30, 2017 is presented below:

	Shares	Weighted- Average Grant Date Fair Value
Nonvested at April 1, 2017	1,148,500	\$ 4.84
Granted	392,522	\$ 2.12
Vested	(170,766)	\$ 4.74
Nonvested shares forfeited	(60,326)	\$ 4.31
Nonvested at September 30, 2017	1,309,930	\$ 4.06

Restricted Stock

During the thirteen and twenty-six weeks ended September 30, 2017, the Company granted 21,491 and 108,043 restricted stock units, respectively, to various directors and employees under the 2014 Plan. The shares granted to employees vest in five equal annual installments beginning on the grant date, provided that the respective award recipient continues to be employed by the Company through each of those dates. The shares granted to the Company's directors vest on the first anniversary of the date of grant. The grant date fair value of these awards for the thirteen and twenty-six weeks ended September 30, 2017 totaled \$0.2 million and \$0.7 million, respectively. The Company is recognizing the expense relating to these awards on a straight-line basis over the service period of each award, commencing on the date of grant.

During the thirteen and twenty-six weeks ended September 24, 2016, the Company granted 20,000 and 136,732 restricted stock units, respectively, to various directors and employees under the 2014 Plan. The shares granted to employees vest in five equal annual installments beginning on the grant date, provided that the respective award recipient continues to be employed by the Company through each of those dates. The shares granted to the Company's directors vest on the first anniversary of the date of grant. The grant date fair value of these awards for the thirteen and twenty-six weeks ended September 24, 2016 totaled \$0.3 million and \$1.1 million, respectively. The Company is recognizing the expense relating to these awards on a straight-line basis over the service period of each award, commencing on the date of grant.

During the normal course of its business, the Company has made certain indemnifications and commitments under which the Company may be required to make payments for certain transactions. These indemnifications include those given to various lessors in connection with facility leases for certain claims arising from such facility leases, and indemnifications to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. The majority of these indemnifications and commitments do not provide for any limitation of the maximum potential future payments the Company could be obligated to make, and their duration may be indefinite. The Company has not recorded any liability for these indemnifications and commitments in the condensed consolidated balance sheets as the impact is expected to be immaterial.

8. Capital Leases and Financing Transactions

As of September 30, 2017, the Company had non-cancelable capital leases for property and equipment rentals with principal and interest payments due monthly. The liability under capital lease arrangements as of September 30, 2017 totals \$0.8 million.

During fiscal 2016, the Company acquired leases related to two retail stores, two office buildings, one distribution center facility and land as part of the Sheplers Acquisition. On July 30, 2007, Sheplers sold these properties to an unrelated third-party real estate company and simultaneously entered into an arrangement with the third-party real estate

Less: Current capital leases and financing transaction	(482)
Noncurrent capital leases and financing transaction	\$ 7,578

9. Income Taxes

The Company accounts for income taxes in accordance with ASC 740, Income Taxes (“ASC 740”). In accordance with ASC 740, the Company recognizes deferred tax assets and liabilities based on the liability method, which requires an adjustment to the deferred tax asset or liability to reflect income tax rates currently in effect. When income tax rates increase or decrease, a corresponding adjustment to income tax expense is recorded by applying the rate change to the cumulative temporary differences. ASC 740 prescribes the recognition threshold and measurement principles for financial statement disclosure of tax positions taken or expected to be taken on a tax return. ASC 740 requires the Company to determine whether it is “more likely than not” that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recognized. Additionally, ASC 740 provides guidance on recognition measurement, derecognition, classification, related interest and penalties, accounting in interim periods, disclosure and transition.

be used by the Company to purchase the shares of common stock at the average market price during the period. The dilutive effect of stock options and restricted stock is applicable only in periods of net income.

The components of basic and diluted earnings per share of common stock, in aggregate, for the thirteen and twenty-six weeks ended September 30, 2017 and September 24, 2016 are as follows:

(in thousands, except per share data)	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Net income	\$ 1,098	\$ 479	\$ 1,875	1,103
Weighted average basic shares outstanding	26,608	26,427	26,584	26,400
Dilutive effect of options and restricted stock	342	470	376	336
Weighted average diluted shares outstanding	26,950	26,897	26,960	26,736
Basic earnings per share	\$ 0.04	\$ 0.02	\$ 0.07	\$ 0.04
Diluted earnings per share	\$ 0.04	\$ 0.02	\$ 0.07	\$ 0.04

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Options to purchase 2,049,351 shares and 713,748 shares of common stock were outstanding during the thirteen weeks ended September 30, 2017 and September 24, 2016, respectively, but were not included in the computation of weighted average diluted shares of common stock outstanding as the effect of doing so would have been anti-dilutive.

Options to purchase 1,485,256 shares and 1,220,740 shares of common stock were outstanding during the twenty-six weeks ended September 30, 2017 and September 24, 2016, respectively, but were not included in the computation of weighted average diluted shares of common stock outstanding as the effect of doing so would have been anti-dilutive.

- stores that are closed for five or fewer days in any fiscal month are included in same store sales;
- stores that are closed temporarily, but for more than five days in any fiscal month, are excluded from same store sales beginning in the fiscal month in which the temporary closure begins until the first full month of operation once the store re-opens;
- stores that are closed temporarily and relocated within their respective trade areas are included in same store sales;
- stores that are permanently closed are excluded from same store sales beginning in the month preceding closure; and
- acquired stores are added to same store sales beginning on the later of (a) the applicable acquisition date and (b) the first day of the first fiscal month after the store has been open for at least 13 full fiscal months regardless of whether the store has been operated under our management or predecessor management.

If the criteria described above are met, then all net sales of an acquired store, excluding those net sales before our acquisition of that store, are included for the period presented. However, when an acquired store is included for the period presented, the net sales of such acquired store for periods before its acquisition are included (to the extent relevant) for purposes of calculating “same store sales growth” and illustrating the comparison between the applicable periods. Pre-acquisition net sales numbers are derived from the books and records of the acquired company, as prepared prior to the acquisition, and have not been independently verified by us.

expenses, and as a result, store-level profit margins at our new stores are generally lower during the start-up period of operation. The number and timing of store openings has had, and is expected to continue to have, a significant impact on our results of operations. In assessing the performance of a new store, we review its actual sales against the sales that we projected that store to achieve at the time we initially approved its opening. We also review the actual number of stores opened in a fiscal year against the number of store openings that we included in our budget at the beginning of that fiscal year.

Gross profit

Gross profit is equal to our net sales less our cost of goods sold. Cost of goods sold includes the cost of merchandise, obsolescence and shrinkage provisions, store and warehouse occupancy costs (including rent, depreciation and utilities), inbound and outbound freight, supplier allowances, occupancy-related taxes, compensation costs for merchandise purchasing and warehouse personnel, and other inventory acquisition-related costs. These costs are significant and can be expected to continue to increase as we grow. The components of our reported cost of goods sold may not be comparable to those of other retail companies, including our competitors.

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Depreciation and intangible asset amortization	(4,142)	(4,017)	(8,255)	(8,096)
Adjusted EBIT	\$ 6,201	\$ 5,452	\$ 11,736	\$ 10,759

- (a) Represents non-cash compensation expenses related to stock options, restricted stock awards and restricted stock units granted to certain of our employees and directors.

of default. In addition, the terms of the June 2015 Wells Fargo Revolver require the Company to maintain, on a consolidated basis, a Consolidated Fixed Charge Coverage Ratio of at least 1.00:1.00 during such times as a covenant trigger event shall exist. On May 26, 2017, the Company entered into an amendment to the 2015 Golub Term Loan (the “2017 Golub Amendment”). The 2017 Golub Amendment changes the maximum Consolidated Total Net Leverage Ratio requirements to 4.75:1.00 as of September 30, 2017, stepping down to 4.50:1.00 as of December 30, 2017 and 4.00:1.00 as of December 29, 2018 and for all subsequent periods. The June 2015 Wells Fargo Revolver and 2015 Golub Term Loan also require us to pay additional interest of 2% per annum upon triggering certain specified events of default as set forth therein. For financial accounting purposes, the requirement for us to pay a higher interest rate upon an event of default is an embedded derivative. As of September 30, 2017, the fair value of these embedded derivatives was estimated and was not significant.

As of September 30, 2017, we were in compliance with the June 2015 Wells Fargo Revolver and the 2015 Golub Term Loan debt covenants.

