BURLINGTON COAT FACTORY WAREHOUSE CORP
Form 10-Q
December 13, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 29, 2011

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 1-37917

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-4663833**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
1830 Route 130 North	
Burlington, New Jersey	**08016**
(Address of Principal Executive Offices)	**(Zip Code)**

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

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-Accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of December 13, 2011, the registrant has 1,000 shares of common stock outstanding, all of which are owned by Burlington Coat Factory Holdings, Inc., registrant s parent holding company, and are not publicly traded.

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BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(All amounts in thousands)

	October 29, 2011	January 29, 2011	October 30, 2010
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 45,843	$ 30,214	$ 53,723
Restricted Cash and Cash Equivalents	34,822	30,264	35,282
Accounts Receivable, Net of Allowances for Doubtful Accounts	41,946	49,875	38,105
Merchandise Inventories	945,719	644,228	892,193
Deferred Tax Assets	25,991	24,835	28,481
Prepaid and Other Current Assets	43,196	36,109	35,793
Income Tax Receivable	49,274	16,447	44,343
Assets Held for Sale	521	2,156	521
Total Current Assets	1,187,312	834,128	1,128,441
Property and Equipment Net of Accumulated Depreciation	881,442	857,589	862,054
Tradenames	238,000	238,000	238,000
Favorable Leases Net of Accumulated Amortization	367,493	389,986	397,756
Goodwill	47,064	47,064	47,064
Other Assets	90,258	91,241	92,821
Total Assets	$ 2,811,569	$ 2,458,008	$ 2,766,136
LIABILITIES AND STOCKHOLDER S (DEFICIT) EQUITY			
Current Liabilities:			
Accounts Payable	$ 650,152	$ 190,460	$ 683,351
Other Current Liabilities	239,845	212,944	230,526
Current Maturities of Long Term Debt	5,728	14,264	18,559
Total Current Liabilities	895,725	417,668	932,436
Long Term Debt	1,605,238	1,358,021	1,260,135
Other Liabilities	208,404	215,528	184,985
Deferred Tax Liabilities	273,109	279,279	270,959
Commitments and Contingencies (Notes 3 and 12)			
Stockholder s (Deficit) Equity:			
Common Stock (Par Value $0.01; 1,000 Shares Issued and Outstanding)			
Capital in Excess of Par Value	472,431	466,754	465,822
Accumulated Deficit	(643,338)	(279,242)	(348,201)
Total Stockholder s (Deficit) Equity	(170,907)	187,512	117,621
Total Liabilities and Stockholder s (Deficit) Equity	$ 2,811,569	$ 2,458,008	$ 2,766,136

See Notes to Condensed Consolidated Financial Statements.

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BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(All amounts in thousands)

	Nine Months Ended		Three Months Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
REVENUES:				
Net Sales	$ 2,621,094	$ 2,481,613	$ 898,663	$ 858,186
Other Revenue	22,483	21,925	8,140	7,850
Total Revenue	2,643,577	2,503,538	906,803	866,036
COSTS AND EXPENSES:				
Cost of Sales (Exclusive of Depreciation and Amortization)	1,625,163	1,549,042	540,807	527,301
Selling and Administrative Expenses	882,668	835,925	317,134	285,618
Restructuring and Separation Costs (Note 4)	5,621	2,152	431	
Depreciation and Amortization	113,174	109,195	39,188	36,960
Impairment Charges Long-Lived Assets	34	510		252
Other Income, Net	(7,015)	(10,033)	(1,897)	(3,590)
Loss on Extinguishment of Debt	37,764			
Interest Expense (Inclusive of Gain (Loss) on Interest Rate Cap Agreements)	97,976	78,350	34,812	24,928
Total Costs and Expenses	2,755,385	2,565,141	930,475	871,469
Loss Before Income Tax Benefit	(111,808)	(61,603)	(23,672)	(5,433)
Income Tax Benefit	(47,712)	(23,542)	(13,395)	(2,638)
Net Loss	(64,096)	(38,061)	(10,277)	(2,795)
Total Comprehensive Loss	$ (64,096)	$ (38,061)	$ (10,277)	$ (2,795)

See Notes to Condensed Consolidated Financial Statements.

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BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(All amounts in thousands)

	Nine Months Ended	
	October 29, 2011	October 30, 2010
OPERATING ACTIVITIES		
Net Loss	(64,096)	$ (38,061)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	113,174	109,195
Impairment Charges Long-Lived Assets	34	510
Amortization of Debt Issuance Costs	10,297	9,187
Accretion of New Senior Notes, Previous Senior Notes and Previous Discount Notes	60	540
Interest Rate Cap Agreement Adjustment to Market	2,355	7,065
Provision for Losses on Accounts Receivable	1,241	1,383
Provision for Deferred Income Taxes	(7,113)	(11,113)
Loss on Retirement of Fixed Assets	708	82
(Gain) on Investments in Money Market Fund		(240)
Loss on Extinguishment of Debt Write-off of Deferred Financing Fees	16,435	
Excess Tax Benefit from Stock Based Compensation	(213)	
Non-Cash Stock Based Compensation Expense	4,917	1,333
Non-Cash Rent Expense	(3,177)	(335)
Changes in Assets and Liabilities:		
Accounts Receivable	(10,670)	(8,406)
Merchandise Inventories	(301,492)	(278,898)
Prepaid and Other Current Assets	(39,934)	(45,852)
Accounts Payable	459,692	543,549
Other Current Liabilities and Income Tax Payable	20,248	(5,730)
Deferred Rent Incentives	26,934	15,616
Other Long Term Assets and Long Term Liabilities	(4,218)	1,271
Net Cash Provided by Operating Activities	225,182	301,096
INVESTING ACTIVITIES		
Cash Paid for Property and Equipment	(116,246)	(103,247)
Proceeds Received from Sale of Property and Equipment	663	227
Increase in Restricted Cash and Cash Equivalents	(4,558)	(32,677)
Lease Acquisition Costs	(557)	(422)
Redemption of Investment in Money Market Fund		240
Other	(1,064)	40
Net Cash Used in Investing Activities	(121,762)	(135,839)
FINANCING ACTIVITIES		
Proceeds from Long Term Debt ABL Line of Credit	687,800	25,400
Proceeds from Long Term Debt Notes Payable	450,000	
Proceeds from Long Term Debt Term Loan	991,158	
Principal Payments on Long Term Debt ABL Line of Credit	(698,300)	(146,600)
Principal Payments on Long Term Debt Senior Discount Notes	(99,309)	
Principal Payments on Long Term Debt Senior Notes	(302,056)	
Principal Payments on Long Term Debt	(622)	(1,797)
Principal Payments on Long Term Debt Term Loan	(790,050)	(12,202)

Payment of Dividends	(297,917)	(151)
Stock Option Exercise and Related Tax Benefits	760	
Debt Issuance Costs	(29,255)	(934)
Net Cash Used in Financing Activities	$ (87,791)	$ (136,284)
Increase in Cash and Cash Equivalents	15,629	28,973
Cash and Cash Equivalents at Beginning of Period	30,214	24,750
Cash and Cash Equivalents at End of Period	$ 45,843	$ 53,723
Supplemental Disclosure of Cash Flow Information		
Interest Paid	$ 85,507	$ 72,004
Net Income Tax Payments	$ 4,064	$ 40,221
Non-Cash Investing Activities:		
Accrued Purchases of Property and Equipment	$ 19,950	$ 14,992

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

October 29, 2011

(UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Presentation

These unaudited Condensed Consolidated Financial Statements include the accounts of Burlington Coat Factory Investments Holdings, Inc. and all of its subsidiaries (Company or Holdings). Holdings has no operations and its only asset is all of the stock of Burlington Coat Factory Warehouse Corporation. All discussions of operations in this report relate to Burlington Coat Factory Warehouse Corporation and its subsidiaries (BCFWC), which are reflected in the financial statements of Holdings. The Condensed Consolidated Financial Statements are unaudited, but in the opinion of management reflect all adjustments (which are of a normal and recurring nature) necessary for the fair presentation of the results of operations for the interim periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended January 29, 2011 (Fiscal 2010 10-K). The balance sheet at January 29, 2011 has been derived from the audited Consolidated Financial Statements contained in the Fiscal 2010 10-K. Because the Company s business is seasonal in nature, the operating results for the three and nine month periods ended October 29, 2011 are not necessarily indicative of results for the fiscal year ending January 28, 2012 (Fiscal 2011).

Accounting policies followed by the Company are described in Note 1 to the audited Consolidated Financial Statements contained in the Fiscal 2010 10-K.

In September 2011, the FASB issued guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines that it is more likely than not the fair value of a reporting unit is not less than its carrying amount, the two-step goodwill impairment test is not required. The new guidance will be effective for the Company on the first day of the fiscal year ended February 2, 2013 (Fiscal 2012). The Company does not expect the pronouncement to have a material financial impact.

There were no other new accounting standards that had a material impact on the Company s Condensed Consolidated Financial Statements during the quarter ended October 29, 2011.

2. Stockholder s (Deficit) Equity

Activity for the nine month periods ended October 29, 2011 and October 30, 2010 in the Company s common stock, capital in excess of par value, accumulated deficit, and total stockholder s (deficit) equity are summarized below:

	(in thousands)			
	Common Stock	**Capital in Excess of Par Value**	**Accumulated Deficit**	**Total**
Balance at January 29, 2011	$	$ 466,754	$ (279,242)	$ 187,512
Net Loss			(64,096)	(64,096)
Stock Options Exercised and Related Tax Benefits		760		760
Stock Based Compensation		4,917		4,917
Dividends (a)			(300,000)	(300,000)

Balance at October 29, 2011	$	$ 472,431	$ (643,338)	$ (170,907)

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	(in thousands)			
	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Total
Balance at January 30, 2010	$	$ 464,489	$ (309,989)	$ 154,500
Net Income			(38,061)	(38,061)
Stock Option Expense		1,333		1,333
Dividends			(151)	(151)
Balance at October 30, 2010	$	$ 465,822	$ (348,201)	$ 117,621

(a) Represents dividends payable to the equity holders of Burlington Coat Factory Holdings, Inc. (Parent) in conjunction with the Company s February 2011 debt refinancing, of which $297.9 million was paid as of April 30, 2011, as further discussed in Note 3 of the Company s Condensed Consolidated Financial Statements entitled Long Term Debt. The remaining $2.1 million, recorded in Current Liabilities on the Company s Condensed Consolidated Balance Sheets as of October 29, 2011, will be paid during Fiscal 2012.

3. Long Term Debt

Long term debt consists of:

	(in thousands)		
	October 29, 2011	January 29, 2011	October 30, 2010
$1,000,000 Senior Secured Term Loan Facility, LIBOR (with a floor of 1.50%) plus 4.8% due in quarterly payments of $2,500 from July 28, 2012 to January 28, 2017, matures with balance due on February 23, 2017.	978,658	$	$
$450,000 Senior Notes, 10%, due at maturity on February 15, 2019, semi-annual interest payments on August 15 and February 15, from February 15, 2012 to February 15, 2019.	450,000		
$900,000 Senior Secured Term Loan Facility, LIBOR plus 2.3%.		777,550	852,550
$600,000 ABL Senior Secured Revolving Facility, LIBOR plus spread based on average outstanding balance, expires February 4, 2014.	158,100	168,600	
Senior Notes, 11.1%.		301,997	301,804
Senior Discount Notes, 14.5%.		99,309	99,309
Promissory Note, non-interest bearing, due in monthly payments of $17 through January 1, 2012.	50	200	250
Promissory Note, 4.4% due in monthly payments of $8 through December 23, 2011.	16	82	104
Capital Lease Obligations	24,142	24,547	24,677
Total debt	1,610,966	1,372,285	1,278,694
Less: current maturities	(5,728)	(14,264)	(18,559)
Long-term debt, net of current maturities	$ 1,605,238	$ 1,358,021	$ 1,260,135

Senior Notes Offering

On February 24, 2011, BCFWC (exclusive of subsidiaries, referred to herein as BCFW) completed its sale of $450.0 million aggregate principal amount of 10% Senior Notes due 2019 at an issue price of 100% (the Notes) in a private offering exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act), to qualified institutional buyers in accordance with Rule 144A and to persons outside of the United States pursuant to Regulation S under the Securities Act. The Notes were issued pursuant to an indenture, dated February 24, 2011 (the Indenture), among BCFW, the guarantors signatory thereto and Wilmington Trust FSB.

The Notes are senior unsecured obligations of BCFW and are guaranteed on a senior basis by BCFW, the Company and each of BCFW s U.S. subsidiaries to the extent such guarantor is a guarantor of BCFW s obligations under the New Term Loan Facility (as defined below). Interest is payable on the Notes on each February 15 and August 15, commencing August 15, 2011. BCFW may redeem some or all of the Notes at any time prior to February 15, 2015 at a price equal to 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest, if any, and an applicable make-whole premium. On or after February 15, 2015, BCFW may redeem some or all of the Notes at redemption prices set forth in the Indenture. In addition, at any time prior to February 15, 2014, BCFW may redeem up to 35% of the aggregate principal amount of the Notes, at a specified redemption price with the net cash proceeds of certain equity offerings.

The Indenture contains covenants that, among other things, restrict the ability of BCFW and certain of its subsidiaries to: incur, assume or guarantee additional indebtedness; pay dividends or redeem or repurchase capital stock; make other restricted payments; incur liens; redeem debt that is junior in right of payment to the Notes; sell or otherwise dispose of assets, including capital stock of subsidiaries; enter into mergers or consolidations; and enter into transactions with affiliates. These covenants are subject to a number of exceptions and qualifications.

In connection with the issuance of the Notes, on February 24, 2011, BCFW entered into a registration rights agreement relating to the Notes, pursuant to which BCFW agreed to use its reasonable best efforts to file, and did initially file on July 15, 2011, a registration statement with the SEC (as amended, the Exchange Offer Registration Statement), enabling holders to exchange the Notes for registered notes with terms substantially identical in all material respects to the Notes, except the exchange notes would be freely tradable. BCFW and the guarantors under the Indenture also agreed to use reasonable best efforts to cause the Exchange Offer Registration Statement to become effective under the Securities Act no later than 365 days after the initial issuance of the Notes. On October 19, 2011, the Exchange Offer Registration Statement was declared effective by the SEC, and we completed the exchange offer on December 2, 2011.

Tender Offer and Redemption

In connection with the offering of the Notes, the application of proceeds there from and the previously announced early settlement of the cash tender offers of BCFW and the Company for any and all of the 11.1% Senior Notes (Previous Senior Notes) and 14.5% Senior Discount Notes (Previous Senior Discount Notes and, together with the Previous Senior Notes, the Previous Notes), respectively, on February 24, 2011, BCFW entered into a Second Supplemental Indenture, dated February 24, 2011 between BCFW, the guarantors signatory thereto and Wilmington Trust FSB, relating to an Indenture (as amended, supplemented or otherwise modified, the BCF Indenture), dated April 13, 2006, between BCFW, the guarantors signatory thereto and Wilmington Trust FSB (as successor trustee to Wells Fargo Bank, N.A.), and the Company entered into a First Supplemental Indenture, dated February 24, 2011 (the First Supplemental Indenture), between the Company and Wilmington Trust FSB, relating to an Indenture, dated April 13, 2006 (as amended, supplemented or otherwise modified, the Holdings Indenture), between the Company and the Wilmington Trust FSB (as successor trustee to Wells Fargo Bank, N.A.), to eliminate substantially all of the restrictive covenants, certain affirmative covenants, certain events of default and substantially all of the restrictions on the ability of BCFW or the Company, as applicable, to merge, consolidate or sell all or substantially all of their properties or assets contained in each indenture and the related Previous Notes.

In addition, in connection with the early tender and settlement of 100% of the Previous Senior Discount Notes by the noteholders of the Previous Senior Discount Notes on February 24, 2011, the Company satisfied and discharged its obligations under the Holdings Indenture and with respect to the Previous Senior Discount Notes.

Further, on February 24, 2011, BCFW delivered a notice of redemption for the remaining principal amount not purchased in the early tender and settlement of the Previous Senior Notes, and irrevocably deposited with Wilmington Trust FSB an amount of funds sufficient to pay the redemption price of the Previous Senior Notes to satisfy and discharge its obligations under the BCF Indenture and with respect to the Previous Senior Notes. On April 15, 2011, BCFW redeemed the remaining principal amount outstanding of the Previous Senior Notes at a redemption price equal to 102.781% of the aggregate principal amount of the Previous Senior Notes to be redeemed, plus accrued and unpaid interest on the Previous Senior Notes to the redemption date.

$1 Billion Senior Secured Term Loan Facility

In connection with the offering of the Notes, on February 24, 2011, BCFW refinanced its $900 Million Senior Secured Term Loan Facility (the Previous Term Loan Facility) with the proceeds of a new $1.0 Billion Senior Secured Term Loan Facility (New Term Loan or New Term Loan Facility).

On February 24, 2011, BCFW and the Company and the U.S. and Puerto Rican subsidiaries of BCFW from time to time party thereto, as facility guarantors (collectively, the Term Loan Guarantors) entered into a new credit agreement (the New Term Loan Credit Agreement) with JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the Term Loan Administrative Agent) and as collateral agent, the lenders party thereto, J.P. Morgan Securities LLC and Goldman Sachs Lending Partners LLC, as joint bookrunners and J.P. Morgan Securities LLC, Goldman Sachs Lending Partners LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Securities, LLC, as joint arrangers, governing the terms of the New Term Loan Facility.

Like the Previous Term Loan Facility, the New Term Loan Facility is secured by (a) a perfected first priority lien on BCFW s real estate, favorable leases, and machinery and equipment and (b) a perfected second priority lien on BCFW s inventory and receivables, in each case subject to various limitations and exceptions. The New Term Loan Facility requires BCFW to maintain a minimum consolidated interest coverage ratio and a maximum consolidated leverage ratio (each measured quarterly). The New Term

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Loan Facility also contains limitations on BCFW s ability to, among other things, incur indebtedness and liens, make investments, capital expenditures and restricted payments, sell assets and prepay certain indebtedness.

The New Term Loan Facility is to be repaid in quarterly payments of $2.5 million from July 28, 2012 to January 28, 2017, with the balance of the New Term Loan Facility due upon maturity on February 23, 2017. Beginning with the fiscal year ending on January 28, 2012, at the end of each fiscal year, BCFW is required to make a payment based on its available free cash flow (as defined in the credit agreement governing the New Term Loan Facility). This payment offsets future mandatory quarterly payments. During the second quarter of Fiscal 2011 the Company made a $10.0 million prepayment on the New Term Loan which will offset the mandatory quarterly payments through the second quarter of the Fiscal 2012.

The New Term Loan Facility contains financial, affirmative and negative covenants and requires that BCFW, among other things, maintain on the last day of each fiscal quarter a consolidated leverage ratio not to exceed a maximum amount and maintain a consolidated interest coverage ratio of at least a certain amount. Specifically, the consolidated leverage ratio is our total debt to Adjusted EBITDA, as each term is defined in the New Term Loan Credit Agreement, for the trailing twelve months most recently ended on or prior to such date, that may not exceed 6.75 to 1 through October 27, 2012; 6.25 to 1 through November 2, 2013; 5.50 to 1 through November 1, 2014; 5.00 to 1 through October 31, 2015; and 4.75 to 1 at January 30, 2016 and thereafter. The consolidated interest coverage ratio is our consolidated interest expense to Adjusted EBITDA, as each term is defined in the New Term Loan Credit Agreement, for the trailing twelve months most recently ended on or prior to such date, that must exceed 1.75 to 1 through October 27, 2012; 1.85 to 1 through November 2, 2013; 2.00 to 1 through October 31, 2015; and 2.10 to 1 at January 30, 2016 and thereafter. Adjusted EBITDA is a non-GAAP financial measure of our liquidity. Adjusted EBITDA, as defined in the credit agreement governing our New Term Loan, starts with consolidated net loss for the period and adds back (i) depreciation, amortization, impairments and other non-cash charges that were deducted in arriving at consolidated net loss, (ii) the (benefit) provision for taxes, (iii) interest expense, (iv) advisory fees, and (v) unusual, non-recurring or extraordinary expenses, losses or charges as reasonably approved by the administrative agent for such period.

The interest rates for the New Term Loan Facility are based on: (i) for LIBO rate loans for any interest period, at a rate per annum equal to (a) the greater of (x) the LIBO rate as determined by the Term Loan Administrative Agent, for such interest period multiplied by the Statutory Reserve Rate (as defined in the New Term Loan Credit Agreement) and (y) 1.50% (the New Term Loan Adjusted LIBO Rate), plus an applicable margin; and (ii) for prime rate loans, a rate per annum equal to the highest of (a) the variable annual rate of interest then announced by JPMorgan Chase Bank, N.A. at its head office as its prime rate, (b) the federal funds rate in effect on such date plus 0.50% per annum, and (c) the New Term Loan Adjusted LIBO Rate for the applicable class of term loans for one-month plus 1.00%, plus, in each case, an applicable margin. The interest rate on the New Term Loan Facility was 6.3% as of October 29, 2011.

In addition, the New Term Loan Facility provides for an uncommitted incremental term loan facility of up to $150.0 million that is available subject to the satisfaction of certain conditions. The New Term Loan Facility has a six year maturity, except that term loans made in connection with the incremental term loan facility or extended in connection with the extension mechanics of the New Term Loan Facility have the maturity dates set forth in the amendments applicable to such term loans.

BCFW used the net proceeds from the offering of the Notes, together with borrowings under the New Term Loan Facility and the ABL Line of Credit, to (i) repurchase any and all of the outstanding Previous Senior Notes and Previous Senior Discount Notes, pursuant to cash tender offers commenced by BCFW and the Company on February 9, 2011, and to redeem any Previous Notes that remained outstanding after the completion of the cash tender offers, and pay related fees and expenses, including tender or redemption premiums and accrued interest on the Previous Notes, (ii) to repay the indebtedness under the Previous Term Loan Facility and (iii) to pay a special cash dividend of approximately $300.0 million in the aggregate to the equity holders of the Parent on a pro rata basis, and to pay related fees and expenses.

In accordance with ASC Topic No. 470-50, *Debt Modifications and Extinguishments* (Topic No. 470), the transactions noted above were determined to be an extinguishment of the existing debt and an issuance of new debt. As a result, the Company recorded a loss on the extinguishment of debt in the amount of $37.8 million in the line item Loss on Extinguishment of Debt in its Condensed Consolidated Statements of Operations and Comprehensive Loss. Of the $37.8 million loss on the extinguishment of debt, $21.4 million represented early call premiums that the Company paid to the holders of its Previous Senior Notes and Previous Senior Discount Notes as a result of repurchasing both notes prior to their maturity. The remaining $16.4 million represented the write off of deferred financing fees related to the extinguished debt facilities.

In conjunction with the issuance of the new debt facilities, the Company paid $25.3 million of legal, consulting, audit related and placement fees. These costs were all deferred and recorded in the line item Other Assets in the Company s Condensed Consolidated Balance Sheets and will be amortized through the line item Interest Expense in the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss over the respective lives of the new debt facilities using the interest method.

ABL Line of Credit

Prior to the September 2, 2011 ABL modification, the ABL Line of Credit carried an interest rate of LIBOR plus a spread which was determined by the Company s annual average borrowings outstanding. Commitment fees of 0.75% to 1.0%, based on the Company s usage of the line of credit, were charged on the unused portion of the facility and were included in the line item Interest Expense on the Company s Consolidated Statements of Operations and Comprehensive Loss.

In connection with the offering of the Notes and the refinancing of the Term Loan Facility, on February 24, 2011, BCFW entered into a first amendment (the First Amendment) to the Amended and Restated Credit Agreement, dated January 15, 2010 (as amended, supplemented and otherwise modified, the Amended ABL Credit Agreement), among BCFW, as lead borrower, the borrowers party thereto, the facility guarantors party thereto, Bank of America, N.A. as administrative agent and collateral agent, the lenders party thereto, Wells Fargo Retail Finance, LLC and Regions Bank as co-syndication agents, J.P. Morgan Securities Inc. and UBS Securities LLC as co-documentation agents and General Electric Capital Corporation, US Bank, National Association and SunTrust Bank as senior managing agents, governing the ABL Line of Credit to permit BCFW to, among other things, (i) issue and guarantee the Notes, (ii) incur additional indebtedness in connection with the refinancing of the Previous Term Loan Facility by increasing the limitation on term loan indebtedness from $900.0 million to $1.0 billion, (iii) have additional flexibility to make investments, capital expenditures, and dividends and other distributions with respect to equity interests and (iv) make a cash dividend of approximately $300.0 million in the aggregate to the equity holders of Parent, on a pro rata basis. Borrowings on the ABL Line of Credit related to the refinancing transactions were $101.6 million.

On September 2, 2011, the Company completed an amendment and restatement of the credit agreement governing the Company s $600 million ABL Line of Credit, which, among other things, extended the maturity date to September 2, 2016. The aggregate amount of commitments under the amended and restated credit agreement is $600 million and, subject to the satisfaction of certain conditions, the Company may increase the aggregate amount of commitments up to $900 million. Interest rates under the amended and restated credit agreement are based on LIBO rates as determined by the administrative agent plus an applicable margin of 1.75% to 2.25% based on daily availability, or various prime rate loan options plus an applicable margin of 0.75% to 1.25% based on daily availability. The fee on the average daily balance of unused loan commitments is 0.375%.

The Company believes that the amended and restated credit agreement provides the liquidity and flexibility to meet its operating and capital requirements over the next five years. Further, the calculation of the borrowing base under the amended and restated credit agreement has been amended to allow for increased availability, particularly during the September 1st through December 15th period of each year. As a result of the amended and restated credit agreement, the Company capitalized $4.2 million in deferred debt charges that will be expensed over the life of the amended and restated credit agreement and has written off $4.7 million in deferred charges from the existing credit agreement.

At October 29, 2011, the Company had $401.3 million available under the ABL Line of Credit and $158.1 million of outstanding borrowings. The maximum borrowings under the facility during each of the three and nine month periods ended October 29, 2011 amounted to $195.0 million for both periods. Average borrowings during the three and nine month periods ended October 29, 2011 amounted to $142.1 million and $82.3 million, respectively, at an average interest rate of 2.6% and 3.5%, respectively. At October 29, 2011 the Company s borrowing rate related to the ABL Line of Credit was 2.7%. At January 29, 2011, $168.6 million was outstanding under this credit facility.

At October 30, 2010, the Company had $559.9 million available under the ABL Line of Credit and no borrowings outstanding. Maximum borrowings under the facility during the three and nine month periods ended October 30, 2010 amounted to $25.4 million and $121.2 million, respectively. Average borrowings during the three and nine months ended October 30, 2010 amounted to $1.7 million and $7.1 million at an average interest rate of 4.6% and 3.0%, respectively.

Both the New Term Loan and the ABL Line of Credit are fully, jointly, severally, unconditionally, and irrevocably guaranteed by all of the Company s subsidiaries (with the exception of one immaterial non-guarantor subsidiary). The ABL Line of Credit is collateralized by a first lien on the Company s inventory and receivables and a second lien on the Company s real estate and property and equipment. The New Term Loan is collateralized by a first lien on the Company s real estate, favorable leases, and machinery and equipment and a second lien on the Company s inventory and receivables.

As of October 29, 2011, the Company was in compliance with all of its debt covenants. The agreements regarding the ABL Line of Credit and the New Term Loan Facility, as well as the indenture governing the Notes, contain covenants that, among other things, limit the Company s ability, and the ability of the Company s restricted subsidiaries, to pay dividends on, redeem or repurchase capital stock; make investments; incur additional indebtedness or issue preferred stock; create liens; permit dividends or other restricted payments by the Company s subsidiaries; sell all or substantially all of the Company s assets or consolidate or merge with or into other companies; and engage in transactions with affiliates.

The Company had $31.8 million, $29.2 million and $32.0 million in deferred financing fees, net of accumulated amortization, as of October 29, 2011, January 29, 2011 and October 30, 2010, respectively, related to its debt instruments recorded in the line item Other Assets on the Company s Condensed Consolidated Balance Sheets. Amortization of deferred financing fees amounted to $5.3

million and $3.1 million for the three month periods ended October 29, 2011 and October 30, 2010, respectively, and is included in the line item Interest Expense in the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss. Amortization of deferred financing fees amounted to $10.3 million and $9.2 million for the nine months ended October 29, 2011 and October 30, 2010, respectively. During the nine months ended October 29, 2011, the Company recorded $29.3 million of new deferred financing costs related to the New Term Loan Facility, the Notes and the ABL Line of Credit and wrote off $16.4 million of previously capitalized deferred debt costs related to the Previous Term Loan, the Previous Senior Notes and Previous Senior Discount Notes and the ABL Line of Credit which were all settled in connection with the refinancing transactions described above.

4. Restructuring and Separation

The Company accounts for restructuring and separation costs in accordance with ASC Topic No. 420, *Exit or Disposal Cost Obligations* (Topic No. 420). In an effort to improve workflow efficiencies and realign certain responsibilities, the Company effected a reorganization of certain positions within its stores and corporate locations. Changes in the Company s workforce during the three and nine months ended October 29, 2011 resulted in severance charges of $0.4 million and $5.6 million, respectively, which were recorded in the line item Restructuring and Separation Costs in the Company s Condensed Consolidated Statement of Operations and Comprehensive Income.

There were no restructuring and severance charges incurred during the three months ended October 30, 2010. During the nine months ended October 30, 2010, restructuring and severance charges amounted to $2.2 million.

The table below summarizes the charges incurred related to the Company s restructuring and separation costs, which are included in the line items Other Current Liabilities and Other Liabilities in the Company s Condensed Consolidated Balance Sheet as of October 29, 2011 and October 30, 2010:

	(in thousands)				
	January 29, 2011	Charges	Cash Payments	Other	October 29, 2011
Severance Restructuring (a)	$ 6	$ 3,503	$ (3,286)	$	$ 223
Severance Separation Cost (b)	1,231	2,118	(2,260)		1,089
Total	$ 1,237	$ 5,621	$ (5,546)	$	$ 1,312

	(in thousands)				
	January 30, 2010	Charges	Cash Payments	Other	October 30, 2010
Severance Restructuring (a)	$ 1,560	$	$ (1,332)	$ (110)	$ 118
Severance Separation Cost (b)	912	2,152	(1,439)		1,625
Total	$ 2,472	$ 2,152	$ (2,771)	$ (110)	$ 1,743

(a) The balances as of January 30, 2010, October 30, 2010, January 29, 2011 and October 29, 2011 are recorded in the line item Other Current Liabilities in the Company s Condensed Consolidated Balance Sheets.

(b) The balances as of October 30, 2010, January 29, 2011 and October 29, 2011 are recorded in the line item Other Current Liabilities in the Company s Condensed Consolidated Balance Sheets. Approximately $0.7 million and $0.2 million of the balance as of January 30, 2010 are recorded in the line items Other Current Liabilities and Other Liabilities, respectively, in the Company s Condensed Consolidated Balance Sheets.

5. Fair Value Measurements

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

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

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

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

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

Financial Assets

The Company s financial assets as of October 29, 2011 included cash equivalents, interest rate cap agreements and a note receivable. The Company s financial liabilities are discussed below. The carrying value of cash equivalents approximates fair value due to its short-term nature. The fair values of the interest rate cap agreements are determined using quotes that are based on models whose inputs are observable LIBOR forward interest rate curves. To comply with the provisions of Topic No. 820, the Company incorporates credit valuation adjustments to appropriately reflect both the Company s non-performance risk and the respective counterparty s non-performance risk in the fair value measurements. In adjusting the fair value of the Company s interest rate cap agreements for the effect of non-performance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. As a result, the Company has determined that the inputs used to value this investment fall within Level 2 of the fair value hierarchy.

The fair value of the note receivable is based on a discounted cash flow analysis whose inputs are unobservable, and therefore it falls within Level 3 of the fair value hierarchy.

Although the Company has determined that the majority of the inputs used to value its interest rate cap agreements fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with the Company s interest rate cap agreements utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default. As of October 29, 2011, the Company recorded credit valuation adjustments of less than $0.1 million to the overall valuation of the Company s interest rate cap agreements. The credit valuation adjustment is not considered significant to the valuation of each of the individual interest rate cap agreements and as a result, the Company has determined that its interest rate cap agreement valuations in their entirety are classified as Level 2 within the fair value hierarchy.

The fair values of the Company s financial assets and the hierarchy of the level of inputs are summarized below:

	(in thousands) Fair Value Measurements at		
	October 29, 2011	**January 29, 2011**	**October 30, 2010**
Assets:			
Level 1			
Cash equivalents (including restricted cash)	$ 34,924	$ 30,331	$ 57,222
Level 2			
Interest rate cap agreements (a)	$ 924	$ 3,279	$ 1,714
Level 3			
Note Receivable (b)	$ 1,099	$ 1,090	$ 1,407

(a) Included in Other Assets within the Company s Condensed Consolidated Balance Sheets (refer to Note 6 of the Company s Condensed Consolidated Financial Statements, entitled Derivative Instruments and Hedging Activities, for further discussion regarding the Company s interest rate cap agreements).

(b) Included in Prepaid and Other Current Assets and Other Assets on the Company s Consolidated Balance Sheets. The change in fair value of the Company s Level 3 note receivable from January 29, 2011 to October 29, 2011 is related to unrealized gains. The change in fair value of the Company s Level 3 note receivable from October 30, 2010 to January 29, 2011 is related to the Company receiving a partial payment in the amount of $0.5 million, which was partially offset by unrealized gains in the amount of $0.2 million.

Financial Liabilities

The fair value of the Company s debt as of October 29, 2011, January 29, 2011 and October 30, 2010 is noted in the table below:

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	(in thousands)					
	October 29, 2011		**January 29, 2011**		**October 30, 2010**	
	Carrying Amount (c)	**Fair Value (c)**	**Carrying Amount (c)**	**Fair Value (c)**	**Carrying Amount (c)**	**Fair Value (c)**
$1,000,000 Senior Secured Term Loan Facility, LIBOR (with a floor of 1.50%) plus 4.8% due in quarterly payments of $2,500 from July 28, 2012 to January 28, 2017, matures with balance due on February 23, 2017.	$ 978,658	$ 955,823	$	$	$	$
$450,000 Senior Notes, 10% due at maturity on February 15, 2019, semi-annual interest payments on August 15 and February 15, from February 15, 2012 to February 15, 2019.	450,000	442,125				
$900,000 Senior Secured Term Loan Facility, LIBOR plus 2.3%.			777,550	773,986	852,550	830,171
$600,000 ABL Senior Secured Revolving Facility, LIBOR plus spread based on average outstanding balance. (a)	158,100	158,100	168,600	168,600		
Senior Notes, 11.1%.			301,997	313,322	301,804	318,026
Senior Discount Notes, 14.5%.			99,309	104,274	99,309	106,012
Other debt (b)	66	66	282	282	354	354
Total debt	$ 1,586,824	$ 1,556,114	$ 1,347,738	$ 1,360,464	$ 1,254,017	$ 1,254,563

(a) The carrying value of the ABL Line of Credit approximates its fair value due to its short term nature (borrowings are typically done in increments of 30 days or less) and its variable interest rate. On September 2, 2011, the Company completed an amendment and restatement of the credit agreement governing the Company s $600 million ABL Line of Credit, which, among other things, extended the maturity date to September 2, 2016. Refer to Note 3 to the Company s Condensed Consolidated Financial Statements entitled Long-Term Debt for further details.

(b) Other debt includes the industrial revenue bonds and both promissory notes, as further described in Note 3 of the Company s Condensed Consolidated Financial Statements entitled Long Term Debt.

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

As of October 29, 2011, the fair value of the Company s debt, exclusive of capital leases, was $1,556.1 million compared with the carrying value of $1,586.8 million. The fair values presented herein are based on estimates using quoted market prices for the same or similar issues and other pertinent information available to management as of the respective period end dates. Although management is not aware of any factors that could significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these Condensed Consolidated Financial Statements since October 29, 2011, and current estimates of fair value may differ from amounts presented herein.

6. Derivative Instruments and Hedging Activities

The Company accounts for derivatives and hedging activities in accordance with ASC Topic No. 815 *Derivatives and Hedging* (Topic No. 815). Topic No. 815 provides disclosure requirements to provide users of financial statements with an enhanced understanding of: (i) How and why an entity uses derivative instruments; (ii) How derivative instruments and related hedged items are accounted for under Topic No. 815 and its related interpretations; and (iii) How derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows.

The Company is exposed to certain risks relating to its ongoing business operations, including market risks relating to fluctuations in interest rates. The Company s senior secured credit facilities contain floating rate obligations and are subject to interest rate fluctuations. The Company uses interest rate cap agreements, which are designated as economic hedges, to manage interest rate risk associated with the Company s variable-rate borrowings and to minimize the negative impact of interest rate fluctuations on its earnings and cash flows, thus reducing the Company s exposure to variability in expected future cash flows attributable to the changes in LIBOR rates.

Topic No. 815 requires recognition of all derivative instruments as either assets or liabilities at fair value in the statement of financial position. The Company does not monitor its interest rate cap agreements for hedge effectiveness and therefore does not designate its interest rate cap agreements as cash flow hedges of certain future interest payments on variable-rate debt. Instead, the interest rate cap agreements are adjusted to market on a quarterly basis. As a result, gains or losses associated with the interest rate cap

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agreements are recorded in the line item Interest Expense on the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss and in the line item Interest Rate Cap Contract Adjustment to Market on the Company s Condensed Consolidated Statements of Cash Flows.

As of October 29, 2011, the Company was party to two outstanding interest rate cap agreements to manage the interest rate risk associated with future interest payments on variable-rate debt. As of January 29, 2011 and October 30, 2010, the Company was party to four outstanding interest rate cap agreements to manage the interest rate risk associated with future interest payments on variable-rate debt.

(in thousands)

Fair Values of Derivative Instruments

	Asset Derivatives					
	October 29, 2011		**January 29, 2011**		**October 30, 2010**	
Derivatives Not Designated as Hedging Instruments Under Topic No. 815	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest Rate Cap Agreements	Other Assets	$ 924	Other Assets	$ 3,279	Other Assets	$ 1,714

	Liability Derivatives					
	October 29, 2011		**January 29, 2011**		**October 30, 2010**	
Derivatives Not Designated as Hedging Instruments Under Topic No. 815	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest Rate Cap Agreements	Other Liabilities	$	Other Liabilities	$	Other Liabilities	$

	Loss on Derivative Instruments				
Derivatives Not Designated as Hedging Instruments Under Topic No. 815	**Location of Loss Recognized in Income on Derivatives**	**Amount of Loss Recognized in Income on Derivatives**			
		Nine Months Ended		**Three Months Ended**	
		October 29, 2011	**October 30, 2010**	**October 29, 2011**	**October 30, 2010**
Interest Rate Cap Agreements	Interest Expense	$ 2,355	$ 7,065	$ 493	$ 768

On May 31, 2011, the Company s $600 million and $300 million interest rate cap agreements, both with a cap rate of 7%, terminated and two new interest rate cap agreements became effective. Each new agreement has a notional principal amount of $450 million with a cap rate of 7.0% and terminates on May 31, 2015. The Company has determined that it will not monitor them for hedge effectiveness. The Company will adjust these interest rate cap agreements to fair value on a quarterly basis and as a result, gains or losses associated with these agreements will be included in the line item Interest Expense on the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss and in the line item Interest Rate Cap Contract Adjustment to Market on the Company s Condensed Consolidated Statements of Cash Flows.

7. Income Taxes

As of October 29, 2011, the Company had a current deferred tax asset of $26.0 million and a non-current deferred tax liability of $273.1 million. As of January 29, 2011, the Company had a current deferred tax asset of $24.8 million and a non-current deferred tax liability of $279.3 million. As of October 30, 2010, the Company had a current deferred tax asset of $28.5 million and a non-current deferred tax liability of $271.0 million. Current deferred tax assets consisted primarily of certain operating costs and inventory related costs not currently deductible for tax purposes. Non-current deferred tax liabilities primarily related to rent expense, intangible costs, and depreciation expense where the Company has a future obligation for tax purposes.

In accordance with ASC Topic No. 270, *Interim Reporting* (Topic No. 270) and ASC Topic No. 740, *Income Taxes* (Topic No. 740), at the end of each interim period the Company is required to determine the best estimate of its annual effective tax rate and then apply that rate in providing for income taxes on a current year-to-date (interim period) basis, subject to certain limitations due to the seasonality of our business. As of October 29, 2011, the Company s best estimate of its annual effective income tax rate was 39.8%, excluding discrete items, in comparison to 37.4%, excluding discrete items, as of October 30, 2010. The estimated annual rate is higher in Fiscal 2011 primarily due to the impact of work opportunity tax credits relative to the change in forecasted pre-tax book loss.

As of October 29, 2011, January 29, 2011 and October 30, 2010, valuation allowances amounted to $5.8 million, $5.8 million and $7.0 million, respectively, and related primarily to state tax net operating losses. The Company believes that it is more likely than not that a portion of the benefit of the state tax net operating losses will not be realized. The state net operating losses have been generated in a number of taxing jurisdictions and are subject to various expiration periods ranging from five to twenty years beginning with Fiscal 2011. Any future tax benefit recognized by the use of a state tax net operating loss where a valuation allowance has been established, will be recorded to the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss according to the provisions of ASC Topic No. 805, *Business Combinations* (Topic No. 805). Within the next twelve months, the Company does not expect material changes in its liability for uncertain tax positions. During the second quarter of Fiscal 2011, the Company closed federal income tax audits covering all fiscal periods through January 30, 2010.

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

On April 13, 2006, Parent s Board of Directors adopted the 2006 Management Incentive Plan (the Plan). The Plan provides for the granting of service-based and performance-based stock options, restricted stock and other forms of awards to key employees and directors of the Company or its affiliates. Grants made pursuant to the Plan are comprised of units of Parent s common stock. Each unit consists of nine shares of Parent s Class A common stock and one share of Parent s Class L common stock. The shares comprising a unit are in the same proportion as the shares of Class A and Class L common stock held by all stockholders of the Parent. Options granted pursuant to the Plan are exercisable only for whole units and cannot be separately exercised for the individual classes of Parent s common stock. As of October 29, 2011, there were 730,478 units reserved under the Plan consisting of 6,574,302 shares of Parent s Class A common stock and 730,478 shares of Parent s Class L common stock.

Non-cash stock compensation expense for the three and nine months ended October 29, 2011 amounted to $4.0 million and $4.9 million, respectively. In comparison, non-cash stock compensation expense for the three and nine months end October 30, 2010 amounted to $0.5 million and $1.3 million, respectively. The increase in non-cash stock compensation expense for both the three and nine month periods ended October 29, 2011 compared with the three and nine month periods ended October 30, 2010 was primarily related to an adjustment to the Company s forfeiture rate during the three and nine months ended October 29, 2011. The table below summarizes the types of stock compensation:

	(in thousands)			
	Three Months Ended		**Nine Months Ended**	
Type of Non-Cash Stock Compensation	**October 29, 2011**	**October 30, 2010**	**October 29, 2011**	**October 30, 2010**
Stock Option Compensation (a)	$ 3,726	$ 295	$ 4,271	$ 720
Restricted Stock Compensation (a)	291	201	646	613
Total	$ 4,017	$ 496	$ 4,917	$ 1,333

(a) Included in the line item Selling and Administrative Expense in the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss.

Stock Options

Options granted during the nine month period ended October 29, 2011 were all service-based awards and were granted at exercise prices of $50 per unit and $120 per unit. Options granted during the nine month period ended October 30, 2010 were all service-based awards and were granted at exercise prices of $90 per unit and $180 per unit.

In April 2011, the Parent s Board of Directors, in order to reflect the dividends paid in connection with the debt refinancing, approved a reduction of the exercise prices of each then outstanding option from $90 per unit and $180 per unit, respectively, to $30.60 and $120.60 per unit, respectively, without affecting the existing vesting schedules thereof. Upon application of modification accounting, which contemplates fair value of awards both before and after the debt refinancing and related dividends, the stock compensation cost did not change as a result of this modification.

All of the service-based awards granted during the nine month period ended October 29, 2011 and October 30, 2010 vest 40% on the second anniversary of the award with the remaining amount vesting ratably over the subsequent three years. The final exercise date for any option granted is the tenth anniversary of the grant date.

All options awarded pursuant to the Plan become exercisable upon a change of control. Unless determined otherwise by the plan administrator and except as otherwise set forth in the option holders stock agreement, upon cessation of employment, (1) options that have not vested will terminate immediately; (2) units previously issued upon the exercise of vested options will be callable at the Company s option; and (3) unexercised vested options will be exercisable for a period of 60 days.

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As of October 29, 2011, the Company had 511,500 options outstanding to purchase units, all of which are service-based awards. The Company accounts for awards issued under the Plan in accordance with ASC Topic No. 718, *Stock Compensation.* For the three and nine months ended October 29, 2011, the Company recognized non-cash stock option compensation expense of $3.7 million ($1.6 million after tax) and $4.3 million ($2.5 million after tax), respectively, inclusive of a $3.2 million and $2.5 million forfeiture adjustment. These forfeiture adjustments were the result of actual forfeitures being less than initially estimated. For the three and nine months ended October 30, 2010, the Company recognized non-cash stock option compensation expense of $0.3million ($0.1 million after tax) and $0.7 million ($0.4 million after tax), respectively, net of a respective $0.4 million and $1.3 million forfeiture adjustment that was recorded as a result of actual forfeitures being higher than initially estimated.

As of October 29, 2011 there was approximately $5.2 million of unearned non-cash stock-based option compensation that the Company expected to recognize as expense over the next 5.0 years. The service-based awards are expensed on a straight-line basis over the requisite service period of five years. As of October 29, 2011, 41.7% percent of outstanding options to purchase units had vested.

Stock option transactions during the nine month period ended October 29, 2011 are summarized as follows:

	Number of Units	Weighted Average Exercise Price Per Unit
Options Outstanding January 29, 2011	489,499	$ 123.62
Options Granted	75,500	71.82
Options Forfeited	(40,877)	85.90
Options Exercised	(12,622)	42.49
Options Outstanding October 29, 2011	511,500	$ 67.40

Non-vested stock option unit transactions during the nine months ended October 29, 2011 are summarized below:

	Number of Units	Weighted Average Grant Date Fair Value Per Unit
Non-Vested Options Outstanding, January 29, 2011	324,100	$ 38.28
Granted	75,500	24.42
Vested	(70,464)	38.30
Forfeited	(31,104)	36.82
Non-Vested Options Outstanding, October 29, 2011	298,032	$ 35.96

The following table summarizes information about the exercise price and weighted average remaining contractual life of options to purchase units that were outstanding under the Plan as well as options that were exercisable under the Plan as of October 29, 2011:

	Options Outstanding		Options Exercisable	
Exercise Prices	**Number Outstanding At October 29, 2011**	**Weighted Average Remaining Contractual Life (Years)**	**Number Exercisable At October 29, 2011**	**Weighted Average Remaining Contractual Life (Years)**

$30.60	290,664	7.0	117,835	5.7
$50.00	44,337	9.7		
$120.00	22,163	9.7		
$120.60	140,336	6.2	81,633	4.9
$270.00	14,000	1.3	14,000	1.3
	511,500		213,468	

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The following table summarizes information about the exercise prices and weighted average remaining contractual life of vested options and options expected to vest during the contractual term:

Exercise Prices	Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
Vested and Expected to Vest as of October 29, 2011			
$30.60	242,267	6.9	$ 30.60
$50.00	35,467	9.7	$ 50.00
$120.00	17,733	9.7	$ 120.00
$120.60	121,999	6.0	$ 120.60
$270.00	14,000	1.3	$ 270.00
	431,466		

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants under the Plan during the nine months ended October 29, 2011 and October 30, 2010:

	Nine Months Ended	
	October 29, 2011	October 30, 2010
Risk-Free Interest Rate	2.4 3.4%	1.8 3.4%
Expected Volatility	30.3%	38.5%
Expected Life (years)	6.4 8.5	6.6 9.5
Contractual Life (years)	10	10
Expected Dividend Yield	0.0%	0.0%
Weighted Average Grant Date Fair Value of Options Issued at an exercise price of:		
$50.00	$ 26.75	
$120.00	$ 17.67	
$90.00		$ 49.62
$180.00		$ 34.45

The weighted average grant date fair value of options granted has varied from period to period due to changes in the Company s business enterprise value resulting from changes in the Company s business forecast, market conditions and the refinancing of the Company s debt and related dividend payments (as further described in Note 3 to the Condensed Consolidated Financial Statements entitled Long Term Debt).

Restricted Stock Awards

Under the Plan, the Company also has the ability to grant restricted stock awards. Restricted stock awards typically vest 50% on the second anniversary of the grant and 50% on the third anniversary of the grant. Following a change of control, as defined by the Plan, all unvested units shall accelerate and vest as of the date of such change of control.

During the three and nine month periods ended October 29, 2011, the Company recorded $0.3 million and $0.6 million, respectively, of non-cash restricted stock compensation expense. Included in the $0.3 million of restricted stock compensation expense during the three months ended October 29, 2011, the Company recognized $0.1 million of incremental expense related to forfeiture adjustments which increased the expense during the period, as a result of actual forfeitures during the period being less than initially estimated. During the nine month period ended October 29, 2011, the Company s restricted stock compensation expense was reduced by $0.1 million as a result of forfeitures during the nine months ended October 29, 2011 being higher than initially estimated.

During the three and nine months ended October 30, 2010, the Company recorded $0.2 million and $0.6 million, respectively, of non-cash restricted stock compensation expense, inclusive of forfeitures of $0.1 million and $0.2 million, respectively. As of October 29, 2011, there was approximately $0.2 million of unearned non-cash stock-based compensation that the Company expects to recognize as expense over the next year. Awards of restricted stock are expensed on a straight-line basis over the requisite service period of three years. At October 29, 2011, 61,282 of the outstanding awards of restricted stock were vested.

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Restricted stock transactions for the nine months ended October 29, 2011 are summarized below:

	Number of Awards
Restricted Stock Awards Outstanding January 29, 2011	98,367
Restricted Stock Awards Granted	
Restricted Stock Awards Forfeited	(6,462)
Restricted Stock Awards Outstanding October 29, 2011	91,905

Non-vested restricted stock transactions during the nine months ended October 29, 2011 are summarized below:

	Number of Awards	Weighted Average Grant Date Fair Value Per Awards
Non-Vested Restricted Stock Award Outstanding, January 29, 2011	71,140	$ 47.27
Restricted Stock Awards Granted		
Restricted Stock Awards Vested	(34,055)	45.96
Restricted Stock Awards Forfeited	(6,462)	45.80
Non-Vested Restricted Stock Awards Outstanding, October 29, 2011	30,623	$ 49.08

9. Comprehensive Loss

The Company presents comprehensive loss on its Condensed Consolidated Statements of Operations and Comprehensive Loss in accordance with ASC Topic No. 220 *Comprehensive Income.* For the three and nine month periods ended October 29, 2011 and October 30, 2010, comprehensive loss consisted of net loss.

10. Other Current Liabilities

Other current liabilities primarily consist of sales tax payable, liabilities due to customers, accrued payroll costs, self-insurance reserves, accrued operating expenses, payroll taxes payable, current portion of deferred rent expense and other miscellaneous items. Liabilities due to customers totaled $32.2 million, $30.2 million and $33.4 million as of October 29, 2011, January 29, 2011 and October 30, 2010, 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 included in costs 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 worker s compensation or health insurance claims by employees or general liability claims may result in a corresponding increase in costs related to these claims. Self-insurance reserves were $47.3 million, $49.6 million and $46.0 million, as of October 29, 2011, January 29, 2011 and October 30, 2010, respectively. At October 29, 2011, January 29, 2011 and October 30, 2010, the portion of self-insurance reserve expected to be paid in the next twelve months of $18.0 million, $19.1 million and $24.3 million, respectively, were recorded in the line item Other Current Liabilities in the Company s Condensed Consolidated Balance Sheets. The remaining respective balances of $29.3 million, $30.5 million and $21.7 million were recorded in the line item Other Liabilities in the Company s Condensed Consolidated Balance Sheets.

11. Segment Information

The Company reports segment information in accordance with ASC Topic No. 280 *Segment Reporting* (Topic No. 280). The Company has one reportable segment.

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12. Commitments and Contingencies

Legal

The Company establishes reserves relating to legal claims in connection with litigation to which the Company is party from time to time in the ordinary course of business. The aggregate amounts of such reserves were $3.9 million, $6.9 million and $6.9 million as of October 29, 2011, January 29, 2011 and October 30, 2010, respectively. The Company believes that potential liabilities in excess of those recorded will not have a material adverse effect on the Company s Consolidated Financial Statements. However, there can be no assurances to this effect.

There have been no significant changes in the Company s commitments and contingencies from those disclosed in the Fiscal 2010 10-K, except as noted below:

Lease Agreements

The Company enters into lease agreements during the ordinary course of business in order to secure favorable store locations. As of October 29, 2011, the Company was committed to six new lease agreements for locations at which stores are expected to be opened during the remainder of Fiscal 2011. Inclusive of these new leases, the Company s minimum lease payments for all operating leases are expected to be $52.1 million, $204.5 million, $200.3 million, $173.6 million, and $657.6 million for the remainder of the fiscal year ended January 28, 2012, and the fiscal years ended February 2, 2013, February 1, 2014, January 31, 2015 and January 30, 2016 and subsequent years thereafter, respectively.

Letters of Credit

The Company had letter of credit arrangements with various banks in the aggregate amount of $40.5 million as of October 29, 2011 and October 30, 2010. Based on the terms of the credit agreement related to the ABL Line of Credit, the Company had available letters of credit of $401.3 million and $559.9 million as of October 29, 2011 and October 30, 2010, respectively. Among these arrangements as of October 29, 2011 and October 30, 2010, the Company had letters of credit in the amount of $30.7 million and $30.4 million, respectively, guaranteeing performance under various insurance contracts and utility agreements and outstanding letters of credit agreements in the amount of $9.8 million and $10.1 million at October 29, 2011 and October 30, 2010, respectively, related to certain merchandising agreements.

The Company had irrevocable letters of credit in the amount of $39.6 million as of January 29, 2011. Based on the terms of the credit agreement relating to the ABL Line of Credit, the Company had available letters of credit of $180.0 million as of January 29, 2011. Letters of credit outstanding at January 29, 2011 amounted to $30.4 million, guaranteeing performance under various lease agreements, insurance contracts and utility agreements. The Company also had letters of credit in the amount of $9.2 million at January 29, 2011 related to certain merchandising agreements.

13. Condensed Guarantor Data

The following condensed consolidating financial statements present the financial position, results of operations and cash flows of Holdings, BCFWC (exclusive of subsidiaries, referred to herein as BCFW), and the guarantor subsidiaries. The Company has one immaterial non-guarantor subsidiary that is not wholly-owned and is considered to be minor as that term is defined in Rule 3-10 of Regulation S-X promulgated by the Securities and Exchange Commission.

Neither the Company nor any of its subsidiaries may declare or pay cash dividends or make other distributions of property to any affiliate unless such dividends are used for certain specified purposes including, among others, to pay general corporate and overhead expenses incurred by Holdings in the ordinary course of business, or the amount of any indemnification claims made by any director or officer of Holdings or the Company, or to pay taxes that are due and payable by Holdings or any of its direct or indirect subsidiaries.

Amounts reported for intercompany receivables/payables and capital in excess of par value as of January 29, 2011 and October 30, 2010 have been adjusted in the Condensed Consolidating Balance Sheets presented below from that originally reported, to separately present certain intercompany activities between BCFW and the Guarantors that had previously been netted in shareholder s equity. Such adjustments totaled $400.0 million and $11.1 million as of January 29, 2011 and October 30, 2010, respectively. The Company also made adjustments to reflect a change of $215.8 million in the Condensed Consolidating Statement of Cash Flows for the nine months ended October 30, 2010 within BCFW s and the Guarantors net cash provided by (used in) operating activities and net cash provided by (used in) financing activities. The adjustments had no impact to the Company s condensed consolidated balance sheets, statements of operations and comprehensive loss and cash flows for any period presented.

The adjustment to the Consolidating Balance Sheet within the Condensed Guarantor Data as of January 30, 2010 had the effect of increasing capital in excess of par value of the Guarantors by $226.4 million. The impact to the consolidating statements of cash flows within the Condensed Guarantor Data increased (decreased) net cash provided by financing activities of the Guarantors by $256.1 million with a corresponding change to net cash used in operating activities and a reciprocal change to BCFW for the 35 week transition period ended January 30, 2010 and by $255.6 million and $578.9 million for the fiscal years ended May 30, 2009 and May 31, 2008, respectively.

The adjustment to the quarterly Condensed Consolidating Balance Sheets within the Condensed Guarantor Data as of April 30, 2011, May 1, 2010, July 30, 2011 and July 31, 2010 had the effect of increasing capital in excess of par value of the Guarantors by $132.3 million, $54.9 million, $199.0 million and $180.6 million, respectively. The impact to the condensed consolidating statements of cash flows within the Condensed Guarantor Data increased (decreased) net cash provided by financing activities of the Guarantors with a corresponding change to net cash used in operating activities and a reciprocal change to BCFW amounts for each of these periods by $85.2 million, $171.7 million, $18.7 million and $46.2 million, respectively.

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Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries

Condensed Consolidating Balance Sheets

(All amounts in thousands)

	As of October 29, 2011				
	Holdings	BCFW	Guarantors	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$	$ 12,789	$ 33,054	$	$ 45,843
Restricted Cash and Cash Equivalents		34,800	22		34,822
Accounts Receivable		30,520	11,426		41,946
Merchandise Inventories			945,719		945,719
Deferred Tax Asset		7,421	18,570		25,991
Prepaid and Other Current Assets		15,047	28,149		43,196
Income Tax Receivable		45,973	3,301		49,274
Intercompany Receivable			92,440	(92,440)	
Assets Held for Sale			521		521
Total Current Assets		146,550	1,133,202	(92,440)	1,187,312
Property and Equipment Net of Accumulated Depreciation		79,979	801,463		881,442
Tradenames		238,000			238,000
Favorable Leases Net of Accumulation Amortization			367,493		367,493
Goodwill		47,064			47,064
Investment in subsidiaries		1,876,968		(1,876,968)	
Other Assets		33,627	56,631		90,258
Total Assets	$	$ 2,422,188	$ 2,358,789	$ (1,969,408)	$ 2,811,569
LIABILITIES AND STOCKHOLDER S EQUITY					
Current Liabilities:					
Accounts Payable	$	$ 650,079	$ 73	$	$ 650,152
Other Current Liabilities		127,899	111,946		239,845
Intercompany Payable		92,440		(92,440)	
Current Maturities of Long Term Debt		5,000	728		5,728
Total Current Liabilities		875,418	112,747	(92,440)	895,725
Long Term Debt		1,581,759	23,479		1,605,238
Other Liabilities		48,495	159,909		208,404
Deferred Tax Liability		87,423	185,686		273,109
Investment in Subsidiaries	170,907			(170,907)	
Stockholder s (Deficit) Equity:					
Common Stock					
Capital in Excess of Par Value	472,431	472,431	1,063,182	(1,535,613)	472,431
(Accumulated Deficit) Retained Earnings	(643,338)	(643,338)	813,786	(170,448)	(643,338)
Total Stockholder s (Deficit) Equity	(170,907)	(170,907)	1,876,968	(1,706,061)	(170,907)
Total Liabilities and Stockholder s (Deficit) Equity	$	$ 2,422,188	$ 2,358,789	$ (1,969,408)	$ 2,811,569

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Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

(All amounts in thousands)

	As of January 29, 2011				
	Holdings	BCFW	Guarantors	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$	$ 7,168	$ 23,046	$	$ 30,214
Restricted Cash and Cash Equivalents		27,800	2,464		30,264
Accounts Receivable		19,691	30,184		49,875
Merchandise Inventories			644,228		644,228
Deferred Tax Assets		10,144	14,691		24,835
Prepaid and Other Current Assets		12,617	23,492		36,109
Prepaid Income Taxes		13,934	2,513		16,447
Intercompany Receivable			379,785	(379,785)	
Assets Held for Disposal			2,156		2,156
Total Current Assets		91,354	1,122,559	(379,785)	834,128
Property and Equipment Net of Accumulated Depreciation		68,181	789,408		857,589
Tradenames		238,000			