

BURLINGTON COAT FACTORY WAREHOUSE CORP  
Form 10-Q  
December 14, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 30, 2010

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  
(State or Other Jurisdiction of  
Incorporation or Organization)

20-4663833  
(I.R.S. Employer  
Identification No.)

1830 Route 130 North  
Burlington, New Jersey  
(Address of Principal Executive Offices)

08016  
(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  No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of December 14, 2010, 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.

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 30, 2010	January 30, 2010	October 31, 2009
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 53,723	\$ 24,750	\$ 64,404
Restricted Cash and Cash Equivalents	35,282	2,605	2,608
Accounts Receivable, Net of Allowances for Doubtful Accounts	38,105	31,278	31,837
Merchandise Inventories	892,193	613,295	845,973
Deferred Tax Assets	28,481	29,644	52,541
Prepaid and Other Current Assets	35,793	29,443	31,107
Prepaid Income Taxes	44,343	4,841	1,729
Assets Held for Disposal	521	521	521
<b>Total Current Assets</b>	<b>1,128,441</b>	<b>736,377</b>	<b>1,030,720</b>
Property and Equipment - Net of Accumulated Depreciation	862,054	856,149	885,884
Tradenames	238,000	238,000	238,000
Favorable Leases - Net of Accumulated Amortization	397,756	421,091	458,383
Goodwill	47,064	47,064	47,064
Other Assets	92,821	95,313	90,033
<b>Total Assets</b>	<b>\$ 2,766,136</b>	<b>\$ 2,393,994</b>	<b>\$ 2,750,084</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>			
Current Liabilities:			
Accounts Payable	\$ 683,351	\$ 139,802	\$ 587,713
Income Taxes Payable	1,040	14,223	30,788
Other Current Liabilities	229,486	215,814	247,288
Current Maturities of Long-Term Debt	18,559	14,201	7,243
<b>Total Current Liabilities</b>	<b>932,436</b>	<b>384,040</b>	<b>873,032</b>
Long-Term Debt	1,260,135	1,399,152	1,284,918
Other Liabilities	184,985	173,067	147,477
Deferred Tax Liability	270,959	283,235	317,553

Commitments and Contingencies (Note 17)

Stockholder's Equity:

Common Stock	-	-	-
Capital in Excess of Par Value	465,822	464,489	463,721
Accumulated Deficit	(348,201)	(309,989)	(336,617)
Total Stockholder's Equity	117,621	154,500	127,104
Total Liabilities and Stockholder's Equity	\$ 2,766,136	\$ 2,393,994	\$ 2,750,084

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME  
(Unaudited)  
(All amounts in thousands)

	Nine Months Ended		Three Months Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
<b>REVENUES:</b>				
Net Sales	\$ 2,481,613	\$ 2,403,395	\$ 858,186	\$ 872,374
Other Revenue	21,925	21,772	7,850	7,988
<b>Total Revenue</b>	<b>2,503,538</b>	<b>2,425,167</b>	<b>866,036</b>	<b>880,362</b>
<b>COSTS AND EXPENSES:</b>				
Cost of Sales (Exclusive of Depreciation and Amortization)	1,549,042	1,501,925	527,301	523,465
Selling and Administrative Expenses	835,925	810,218	285,618	281,569
Restructuring and Separation Costs (Note 4)	2,152	6,294	-	1,190
Depreciation and Amortization	109,195	113,555	36,960	36,210
Interest Expense (Inclusive of Gain (Loss) on Interest Rate Cap Agreements)	78,350	58,271	24,928	20,587
Impairment Charges – Long-Lived Assets	510	15,865	252	6,437
Impairment Charges – Tradenames	-	15,250	-	-
Other Income, Net	(10,033)	(8,904)	(3,590)	(2,558)
<b>Total Costs and Expenses</b>	<b>2,565,141</b>	<b>2,512,474</b>	<b>871,469</b>	<b>866,900</b>
<b>(Loss) Income Before Income Tax (Benefit) Expense</b>	<b>(61,603)</b>	<b>(87,307)</b>	<b>(5,433)</b>	<b>13,462</b>
<b>Income Tax (Benefit) Expense</b>	<b>(23,542)</b>	<b>(45,382)</b>	<b>(2,638)</b>	<b>5,951</b>
<b>Net (Loss) Income</b>	<b>\$ (38,061)</b>	<b>\$ (41,925)</b>	<b>\$ (2,795)</b>	<b>\$ 7,511</b>
<b>Total Comprehensive (Loss) Income</b>	<b>\$ (38,061)</b>	<b>\$ (41,925)</b>	<b>\$ (2,795)</b>	<b>\$ 7,511</b>

See Notes to Condensed Consolidated Financial Statements.





BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(All amounts in thousands)

Nine Months Ended  
October 30,    October 31,  
2010            2009

OPERATING ACTIVITIES

Net Loss	\$ (38,061)	\$ (41,925)
Adjustments to Reconcile Net Loss to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	109,195	113,555
Impairment Charges – Long-Lived Assets	510	15,865
Impairment Charges – Tradenames	-	15,250
Amortization of Debt Issuance Costs	9,187	7,751
Accretion of Senior Notes and Senior Discount Notes	540	483
Interest Rate Cap Agreement - Adjustment to Market	7,065	(8,353)
Provision for Losses on Accounts Receivable	1,383	1,859
Provision for Deferred Income Taxes	(11,113)	(14,510)
Loss on Retirement of Fixed Assets	82	(230)
(Gain) Loss on Investments in Money Market Fund	(240)	2,887
Non-Cash Stock Option Expense	1,333	3,623
Non-Cash Rent Expense	(335)	(4,166)
Changes in Assets and Liabilities:		
Accounts Receivable	(8,406)	(2,545)
Merchandise Inventories	(278,898)	(150,936)
Prepaid and Other Current Assets	(45,852)	(5,316)
Accounts Payable	543,549	189,085
Other Current Liabilities and Income Tax Payable	(5,730)	23,440
Deferred Rent Incentives	15,616	7,874
Other Long Term Assets and Long Term Liabilities	1,271	(18,566)
Net Cash Provided by Operating Activities	301,096	135,125
INVESTING ACTIVITIES		
Cash Paid for Property and Equipment	(103,247)	(70,151)
Proceeds Received from Sale of Property	227	905
Increase in Restricted Cash and Cash Equivalents	(32,677)	(318)
Lease Acquisition Costs	(422)	(1,337)

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Redemption of Investment in Money Market Fund	240	7,371
Purchase of Tradenames Rights	-	(6,250)
Other	40	64
<b>Net Cash Used in Investing Activities</b>	<b>(135,839)</b>	<b>(69,716)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from Long-Term Debt – ABL Line of Credit	25,400	593,915
Principal Payments on Long-Term Debt	(1,797)	(1,563)
Principal Payments on Long-Term Debt – Term Loan	(12,202)	(8,055)
Principal Payments on Long-Term Debt – ABL Line of Credit	(146,600)	(623,915)
Payment of Dividends	(151)	(3,094)
<b>Debt Issuance Costs</b>	<b>(934)</b>	<b>-</b>
<b>Net Cash Used in Financing Activities</b>	<b>(136,284)</b>	<b>(42,712)</b>
<b>Increase in Cash and Cash Equivalents</b>	<b>28,973</b>	<b>22,697</b>
Cash and Cash Equivalents at Beginning of Period	24,750	41,707
Cash and Cash Equivalents at End of Period	\$ 53,723	\$ 64,404
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest Paid	\$ 72,004	\$ 75,515
Net Income Tax Payments (Refunds)	\$ 40,221	\$ (13,641)
<b>Non-Cash Investing Activities:</b>		
Accrued Purchases of Property and Equipment	\$ 14,992	\$ 12,497
Sale of Assets Held for Disposal for Notes Receivable	\$ -	\$ (2,000)

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

October 30, 2010

(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 (the 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 Transition Report on Form 10-K/T for the 35 week period ended January 30, 2010. The balance sheet at January 30, 2010 has been derived from the audited Consolidated Financial Statements contained in the Company's Transition Report on Form 10-K/T. At January 30, 2010, the Company revised the presentation of the amortization of deferred financing fees related to the Company's debt instruments by recording it in the line item "Interest Expense" in the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. The amortization of deferred financing fees had previously been included as a component of the line item "Depreciation and Amortization" in the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income prior to January 30, 2010. At January 30, 2010, the Company also revised the presentation of the amortization of deferred financing fees in its Condensed Consolidated Statements of Cash Flows by reclassifying the amortization of deferred financing fees out of the line item "Depreciation and Amortization" within the Company's Condensed Consolidated Statement of Cash Flows and including it within the line item "Amortization of Debt Issuance Costs" within the Company's Condensed Consolidated Statements of Cash Flows. Because the Company's business is seasonal in nature, the operating results for the three and nine month periods ended October 30, 2010 are not necessarily indicative of results for the fiscal year ending January 29, 2011.

Fiscal Year

In order to conform to the predominant fiscal calendar used within the retail industry, on February 25, 2010, the Company's Board of Directors approved a change in the Company's fiscal year from a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to May 31 to a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to January 31. Accordingly, the Company's Transition Report on Form 10-K/T relates to the 35 week transition period beginning on May 31, 2009, the day following the end of the Company's 2009 fiscal year, and ended on January 30, 2010 (the Transition Period).

Statements that are made about fiscal year 2010 refer to the first full fiscal year after the Transition Period, which is the 52 week period commencing on January 31, 2010 and ending on January 29, 2011 (Fiscal 2010). Fiscal 2009

ended on May 30, 2009 and was a 52 week year (Fiscal 2009). Fiscal 2008 ended on May 31, 2008 and was a 52 week year (Fiscal 2008).

As a result of the Company's fiscal year end change and the seasonality of the Company's results, the Company recast its prior quarterly interim financial information for the 12 month period ended January 30, 2010 on the basis of the new fiscal year for comparative purposes.

#### Current Conditions

Prior to the Transition Period, the Company had experienced recurring annual net losses since its formation in April 2006, in part due to the interest expense associated with its leveraged debt structure detailed in Note 3 to the Company's Condensed Consolidated Financial Statements entitled "Long-Term Debt." At October 30, 2010, working capital was \$160.7 million, cash and cash equivalents were \$53.7 million and unused availability under the Company's \$721 million ABL Senior Secured Revolving Facility (ABL Line of Credit) was \$559.9 million. Significant declines in the United States and international financial markets which began during Fiscal 2009 and the resulting impact of such events on macroeconomic conditions have impacted and are anticipated to continue to impact customer behavior and consumer spending at retailers, which in turn impacts the Company's sales trends. In response to these economic conditions, the Company accelerated several initiatives to restructure its workforce and reduce its cost structure (refer to Note 4 to the Company's Condensed Consolidated Financial Statements entitled "Restructuring and Separation Costs" for further discussion). The Company continues to focus on a number of ongoing initiatives aimed at improving its comparative store sales and its operating results.

Despite the current trends in the retail environment and their negative impact on the Company's comparative store sales, the Company believes that cash generated from operations, along with existing cash and the ABL Line of Credit, will be sufficient to fund the Company's expected cash flow requirements and planned capital expenditures for at least the next twelve months as well as the foreseeable future. However, there can be no assurance that, should the economy continue to decline, the Company would be able to continue to offset the decline in its comparative store sales with continued savings initiatives.

## 2. Stockholder's Equity

Activity for the three and nine month periods ended October 30, 2010 and October 31, 2009 in the Company's common stock, capital in excess of par value, and accumulated deficit are summarized below:

	(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	-	-	5,213	5,213
Stock Option Expense	-	233	-	233
Dividends	-	-	(151)	(151)
Balance at May 1, 2010	-	464,722	(304,927)	159,795
Net Loss	-	-	(40,479)	(40,479)
Stock Option Expense	-	604	-	604
Balance at July 31, 2010	-	465,326	(345,406)	119,920
Net Loss	-	-	(2,795)	(2,795)
Stock Option Expense	-	496	-	496
Balance at October 30, 2010	\$ -	\$ 465,822	\$ (348,201)	\$ 117,621

	(in thousands)			
	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Total
Balance at January 31, 2009	\$ -	\$ 460,098	\$ (291,598)	\$ 168,500
Net Loss	-	-	(36,916)	(36,916)
Stock Option Expense	-	580	-	580
Stock Option Restructuring	-	2,426	-	2,426
Dividends	-	-	(3,000)	(3,000)
Balance at May 2, 2009	-	463,104	(331,514)	131,590
Net Loss	-	-	(12,520)	(12,520)

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Stock Option Expense	-	1,238	-	1,238
Balance at August 1, 2009	-	464,342	(344,034)	120,308
Net Loss	-	-	7,511	7,511
Stock Option Expense	-	(621)	-	(621)
Dividends	-	-	(94)	(94)
Balance at October 31, 2009	\$	-	\$ 463,721	\$ (336,617) \$ 127,104

## 3. Long-Term Debt

Long-Term debt consists of:

	(in thousands)		
	October 30, 2010	January 30, 2010	October 31, 2009
\$900,000 Senior Secured Term Loan Facility, LIBOR plus 2.3% due in quarterly payments of \$2,250 from August 26, 2011 to May 28, 2013.	\$852,550	\$864,752	\$864,752
\$721,000 ABL Senior Secured Revolving Facility, LIBOR plus spread based on average outstanding balance, expires February 4, 2014. (a)	-	121,200	-
Senior Notes, 11.1% due at maturity on April 15, 2014, semi-annual interest payments from April 15, 2011 to April 15, 2014.	301,804	301,264	301,092
Senior Discount Notes, 14.5% due at maturity on October 15, 2014, semi-annual interest payments from April 15, 2011 to October 15, 2014.	99,309	99,309	99,309
Industrial Revenue Bonds, 6.1% due September 1, 2010.	-	1,210	1,210
Promissory Note, non-interest bearing, due in monthly payments of \$17 through January 1, 2012.	250	400	450
Promissory Note, 4.4% due in monthly payments of \$8 through December 23, 2011.	104	167	187
Capital Lease Obligations	24,677	25,051	25,161
<b>Total debt</b>	<b>1,278,694</b>	<b>1,413,353</b>	<b>1,292,161</b>
<b>Less: current maturities</b>	<b>(18,559 )</b>	<b>(14,201 )</b>	<b>(7,243 )</b>
<b>Long-term debt, net of current maturities</b>	<b>\$1,260,135</b>	<b>\$1,399,152</b>	<b>\$1,284,918</b>

(a) The \$721 million ABL Line of Credit is effective through May 31, 2011, at which time the facility is reduced to a \$600 million ABL Line of Credit. The \$600 million ABL Line of Credit expires February 4, 2014, but is subject to a springing maturity requirement whereby the ABL Line of Credit will mature 45 days prior to May 28, 2013 (the maturity date of the \$900 million Senior Secured Term Loan Facility (Term Loan) if the Term Loan is not extended or refinanced prior to that date). Additional information regarding the ABL Line of Credit and Term Loan is included below.

The Term Loan is to be repaid in quarterly payments of \$2.3 million from August 26, 2011 to May 28, 2013. As of October 31, 2010, the borrowing rate related to the Company's Term Loan was 2.5%. At the end of each fiscal year, the Company is required to make a payment based on 50% of its available free cash flow (as defined in the credit agreement governing the Term Loan). This payment offsets future mandatory quarterly payments. Based on its available free cash flow for the Transition Period, the Company made a payment of \$11.5 million during the three months ended May 1, 2010. This payment offsets mandatory quarterly payments through the second quarter of the fiscal year ending January 28, 2012 (Fiscal 2011) and \$0.3 million of the mandatory quarterly payment for the third quarter of Fiscal 2011.



On February 25, 2010, the Company entered into a second amendment to the credit agreement governing the Term Loan. Among other things, the amendment provides that consolidated EBITDA (as defined in credit agreement governing the Term Loan) will be increased or decreased for any period to the extent necessary to eliminate the effects during such period of any increase or decrease in legal, auditing, consulting, and accounting related expenses for such period relating directly to the Company's change in fiscal year compared to the amount of such expenses that would have been incurred in such period had the fiscal year change not occurred. The amendment also provides that for purposes of any calculation of consolidated interest coverage ratio and consolidated leverage ratio, as of the last day of any fiscal quarter ending on or after January 30, 2010 and prior to the completion of the fiscal year ending the Saturday closest to January 31, 2011, consolidated EBITDA and consolidated interest expense will be determined for the most recent period of twelve consecutive fiscal months. Pursuant to the terms of the amendment, the Company paid a fee to each lender consenting to the amendment in the amount of 0.05% (or \$0.4 million in the aggregate) of the principal amount of such lender's outstanding loan under the credit agreement governing the Term Loan. A further description of the second amendment to the credit agreement governing the Term Loan is contained in Item 1.01 of the Company's Current Report on Form 8-K, filed with the SEC on February 26, 2010.

The Company's Term Loan agreement contains financial, affirmative and negative covenants and requires that the Company, among other things, maintain on the last day of each fiscal quarter a consolidated leverage ratio not to exceed a maximum amount. Specifically, the Company's total debt to Adjusted EBITDA, as each term is defined in the credit agreement governing the Term Loan, for the trailing twelve months most recently ended on or prior to such date, may not exceed 5.25 to 1 at October 30, 2010; 5.00 to 1 at January 29, 2011; and 4.75 to 1 at April 30, 2011 and thereafter. Adjusted EBITDA is a non-GAAP financial measure of the Company's liquidity. Adjusted EBITDA, as defined in the credit agreement governing the Company's Term Loan, starts with consolidated net income (loss) for the period and adds back (i) depreciation, amortization, impairments and other non-cash charges that were deducted in arriving at consolidated net income (loss), (ii) the provision (benefit) 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.

On January 15, 2010, the Company completed an amendment and restatement of the credit agreement governing the Company's ABL Line of Credit, which (among other things) extended the maturity date for consenting lenders constituting \$600 million of commitments to February 4, 2014. As part of the amendment and restatement, the Company eliminated the outstanding \$65 million A-1 tranche commitments, although the Company maintained the ability to restore up to \$65 million of the A-1 tranche with the consent of lenders holding the majority of outstanding commitments. The Company offered the banks in the terminated A-1 tranche the option to convert to the A tranche or opt out of the agreement altogether. This reduced the Company's total line of credit to \$721 million through May 31, 2011, after which the line of credit will be reduced to \$600 million through the new maturity date. The \$600 million ABL Line of Credit has a springing maturity requirement whereby the ABL Line of Credit will mature 45 days prior to May 28, 2013, the maturity date of the Term Loan, if the Term Loan is not extended or refinanced prior to such date unless the pro forma credit availability condition has been satisfied after implementation of a Term Loan maturity reserve or the outstanding principal amount under the Term Loan maturing prior to February 4, 2014 is not more than \$75 million. The Company believes the \$600 million line of credit will provide adequate liquidity to support its operating activities. A further description of the amended and restated credit agreement governing the ABL Line of Credit and related transactions, including a description of covenants, fees and interest rates, is contained in Item 1.01 of the Company's Current Report on Form 8-K, filed with the SEC on January 19, 2010.

The ABL Line of Credit carries an interest rate of LIBOR plus a spread which is determined by annual average borrowings outstanding. Commitment fees of 0.75% to 1.0%, based on the Company's actual usage of the line of credit, will be charged on the unused portion of the ABL Line of Credit and will be included in the line item "Interest Expense" on the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

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 each of 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 month periods ended October 30, 2010 amounted to \$1.7 million and \$7.1 million, respectively, at average interest rates of 4.6% and 3.0%, respectively.

At October 31, 2009, the Company had \$575.7 million available under the then \$800 million ABL Line of Credit. At January 30, 2010, the Company had \$158.6 million available under the \$721 million ABL Line of Credit. The maximum borrowings under the ABL Line of Credit during each of the three and nine month periods ended October 31, 2009 amounted to \$79.4 million and \$150.3 million, respectively. Average borrowings during the three and nine month periods ended October 31, 2009 amounted to \$27.3 million and \$35.2 million at average interest rates of 3.0% and 2.9%, respectively. There were no borrowings outstanding under the ABL Line of Credit at October 31, 2009. At January 30, 2010, \$121.1 million was outstanding under the ABL Line of Credit and was included in the line item "Long-Term Debt" in the Company's Consolidated Balance Sheets.

Holdings and certain subsidiaries of BCFWC fully and unconditionally guarantee BCFWC's obligations under the \$721 million ABL Line of Credit and the \$900 million Term Loan. These guarantees are both joint and several.

As part of the Company's issuance of its 14.5% Senior Discount Notes, the Company is required to make a \$13.4 million High Yield Discount Obligation payment by April 13, 2011. The amount of the payment is included in the line item "Current Maturities of Long-Term Debt" on the Company's Condensed Consolidated Balance Sheet as of October 30, 2010.

As of October 30, 2010, the Company was in compliance with all of its debt covenants. The credit agreements regarding the ABL Line of Credit and Term Loan, as well as the indentures governing the BCFWC Senior Notes and Holdings Senior Discount 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 \$32.0 million, \$40.3 million and \$—30.5 million in deferred financing fees, net of accumulated amortization, as of October 30, 2010, January 30, 2010 and October 31, 2009, respectively, related to its debt instruments recorded in the line item "Other Assets" on the Company's Condensed Consolidated Balance Sheets. As a result of the amendment of the Term Loan on February 25, 2010, the Company incurred an additional \$0.9 million of deferred financing fees. Amortization of deferred financing fees amounted to \$3.1 million and \$2.6 million for the three month periods ended October 30, 2010 and October 31, 2009, respectively, and is included in the line item "Interest Expense" in the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. Amortization of deferred financing fees amounted to \$9.2 million and \$7.8 million for the nine months ended October 30, 2010 and October 31, 2009, respectively.

#### 4. Restructuring and Separation Costs

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 better align the Company's resources with its business objectives, during Fiscal 2009, the Company reviewed all areas of the business to identify efficiency opportunities to enhance the organization's performance. In light of the then challenging economic and retail sales environments, the Company accelerated the implementation of several initiatives, including some that resulted in the elimination of certain positions and the restructuring of certain other jobs and functions. Certain of these initiatives have continued through the Transition Period and Fiscal 2010.

On February 16, 2009, the Company's former President and Chief Executive Officer (Former CEO) entered into a separation agreement with the Company. As part of his separation agreement, the Company paid the Former CEO's salary through January 30, 2010 at which time continuation payments and other benefits payable as provided in his separation agreement commenced. The continuation payments will be paid out in biweekly installments through May 30, 2011. The total amount of all continuation payments and other benefits payable to the Former CEO pursuant to the terms of his separation agreement was approximately \$4.2 million, \$2.4 million of which was stock compensation. At October 30, 2010, \$0.4 million of the total amount remained to be paid to the Former CEO.

There were no changes to the Company's workforce during the three months ended October 30, 2010 that resulted in restructuring and severance charges. During the nine months ended October 30, 2010, restructuring and severance charges amounted to \$2.2 million. In comparison, restructuring and severance charges for the three and nine months ended October 31, 2009 amounted to \$1.2 million and \$6.3 million, respectively.

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 30, 2010:

	(in thousands)				October
	January		Cash		30,
	30,	Charges	Payments	Other	2010
	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

(in thousands)					
	January		Cash	Capital	October
	31, 2009	Charges	Payments	in Excess of Par Value	31, 2009

Severance-Restructuring (a)	\$ 1,697	2,104	(2,670 )	(56 )	\$ 1,075
Severance-Separation Cost					
(b)	-	4,190	(698 )	(2,426 )	1,066
Total	\$ 1,697	6,294	(3,368 )	(2,482 )	\$ 2,141

- (a) The balances as of October 30, 2010, January 30, 2010, October 31, 2009 and January 31, 2009 are recorded in the line item "Other Current Liabilities" in the Company's Condensed Consolidated Balance Sheets.
- (b) The balance as of October 30, 2010 is recorded in the line item "Other Current Liabilities." 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. Approximately \$0.7 million and \$0.4 million of the balance as of October 31, 2009 are recorded in the line items "Other Current Liabilities" and "Other Liabilities," respectively.

## 5. Assets Held for Disposal

Assets held for disposal represent assets owned by the Company that management has committed to sell in the near term. The Company either identified or was actively seeking out potential buyers for these assets as of the balance sheet dates. The asset listed as “Assets Held for Disposal” in the Company’s Condensed Consolidated Balance Sheets as of October 30, 2010, January 30, 2010, and October 31, 2009 was an owned parcel of land adjacent to one of the Company’s stores.

Assets held for disposal are valued at the lower of their carrying value or fair value, less cost to sell, as follows:

	(in thousands)		
	October 30, 2010	January 30, 2010	October 31, 2009
Property and Equipment	\$ 521	\$ 521	\$ 521

## 6. Restricted Cash and Cash Equivalents

At October 30, 2010, restricted cash and cash equivalents consisted of \$32.8 million of collateral in lieu of a letter of credit for certain insurance contracts and \$2.5 million restricted contractually for the acquisition and maintenance of a building related to a store operated by the Company. As a result, the Company’s outstanding letters of credit guaranteeing performance under various insurance contracts decreased \$32.8 million from May 1, 2010 through October 30, 2010.

At both January 30, 2010 and October 31, 2009, restricted cash and cash equivalents amounted to \$2.6 million restricted contractually for the acquisition and maintenance of a building related to a store operated by the Company.

## 7. Intangible Assets

Intangible assets at October 30, 2010, January 30, 2010, and October 31, 2009 consisted primarily of tradenames and favorable lease positions as follows:

	(in thousands)					
	October 30, 2010			January 30, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Tradenames	\$ 238,000	\$ -	\$ 238,000	\$ 238,000	\$ -	\$ 238,000

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Favorable Leases	\$ 521,561	\$ (123,805)	\$ 397,756	\$ 521,775	\$ (100,684)	\$ 421,091
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(in thousands)  
October 31, 2009

	Gross Carrying Amount	Accumulated Amortization	Net Amount
Tradenames	\$ 238,000	\$ -	\$ 238,000
Favorable Leases	\$ 561,441	\$ (103,058)	\$ 458,383

### Favorable Leases

The decrease in the gross carrying amount of favorable leases from January 30, 2010 to October 30, 2010 was related to a \$0.2 million cost adjustment recorded during the nine months ended October 30, 2010 which represented certain favorable leases becoming fully amortized during the period.

The increase in favorable lease accumulated amortization from January 30, 2010 through October 30, 2010 was primarily related to amortization expense of \$23.3 million which was incurred during the nine months ended October 30, 2010. This increase was partially offset by a \$0.2 million cost adjustment as described above.

The decrease in the gross carrying amount of the Company's favorable leases from October 31, 2009 to January 30, 2010 was primarily related to a reduction of \$39.7 million as a result of the impairment of 22 stores.

The decrease in favorable lease accumulated amortization from October 31, 2009 to January 30, 2010 was primarily related to a cost adjustment of \$10.6 million resulting from the impairment charge noted above, which decreased both the carrying cost and the accumulated amortization of the favorable leases, which was partially offset by amortization expense of \$8.2 million.

Amortization expense of favorable leases for each of the next five fiscal years is estimated to be as follows:

Fiscal year:	(in thousands)
2011	\$ 31,105
2012	29,854
2013	28,590
2014	27,972
2015	26,812
<b>Total</b>	<b>\$ 144,333</b>

### 8. 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.

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 30, 2010 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.

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 30, 2010, the Company recorded credit valuation adjustments of \$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 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.

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 30,	January	October
	2010	30,	31, 2009
	2010	2010	2009
Assets:			
Level 1			
Cash equivalents (including restricted cash)	\$ 57,222	\$ 2,758	\$ 2,611
Level 2			
Interest rate cap agreements (a)	\$ 1,714	\$ 8,779	\$ 11,689
Level 3			
Note Receivable (b)	\$ 1,407	\$ 1,407	\$ 1,721

- (a) Included in "Prepaid and Other Current Assets" and "Other Assets" within the Company's Condensed Consolidated Balance Sheets (refer to Note 9 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 Condensed Consolidated Balance Sheets.

#### Financial Liabilities

The fair value of the Company's debt as of October 30, 2010, January 30, 2010 and October 31, 2009 is noted in the table below:

	(in thousands)		
October 30, 2010	January 30, 2010	October 31, 2009	

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	Carrying Amount (c)	Fair Value (c)	Carrying Amount (c)	Fair Value (c)	Carrying Amount (c)	Fair Value (c)
\$900,000 Senior Secured Term Loan Facility, LIBOR plus 2.3% due in quarterly payments of \$2,250 from August 26, 2011 to May 28, 2013.	\$ 852,550	\$ 830,171	\$ 864,752	\$ 804,219	\$ 864,752	\$ 777,916
\$721,000 ABL Senior Secured Revolving Facility, LIBOR plus spread based on average outstanding balance, expires February 14, 2014. (a)	-	-	121,200	121,200	-	-

Senior Notes, 11.1% due at maturity on April 15, 2014, semi-annual interest payments from April 15, 2011 to April 15, 2014	301,804	318,026	301,264	310,051	301,092	310,877
Senior Discount Notes, 14.5% due at maturity on October 15, 2014, semi-annual interest payments from April 15, 2011 to October 15, 2014	99,309	106,012	99,309	98,812	99,309	98,316
Other debt (b)	354	354	1,777	1,777	1,847	1,847
Total debt	\$ 1,254,017	\$ 1,254,563	\$ 1,388,302	\$ 1,336,059	\$ 1,267,000	\$ 1,188,956

- (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.
- (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 30, 2010, the fair value of the Company's debt, exclusive of capital leases, was \$1,254.6 million compared with the carrying value of \$1,254.0 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 30, 2010, and current estimates of fair value may differ from amounts presented herein.

## 9. Derivative Instruments and Hedging Activities

The Company accounts for derivatives in accordance with ASC Topic No. 815 "Disclosures 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 agreements are recorded in the line item "Interest Expense" on the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income 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 30, 2010, January 30, 2010, and October 31, 2009 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

Derivatives Not Designated as Hedging Instruments Under Topic No. 815	October 30, 2010		January 30, 2010		October 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest Rate Cap Agreements	Other Assets	\$ 1,714	Other Assets	\$ 8,779	Other Assets	\$ 11,689

Liability Derivatives

Derivatives Not Designated as Hedging Instruments Under Topic No. 815	October 30, 2010		January 30, 2010		October 31, 2009	
	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	\$ -

(Gain) Loss on Derivative Instruments

Derivatives Not Designated as Hedging Instruments Under Topic No. 815	Location of (Gain) or Loss Recognized in Income on Derivatives	Amount of (Gain) or Loss Recognized in Income on Derivatives	
		October 30, 2010	Nine Months Ended October 31, 2009
Interest Rate		\$ 7,065	

Cap	Interest	\$	
Agreements	Expense		(8,353)

One of the four interest rate cap agreements became effective on May 12, 2006. It has a notional principal amount of \$300 million with a cap rate of 7.0% and terminates on May 31, 2011. Upon the effective date the Company determined that it would not monitor this interest rate cap agreement for hedge effectiveness. The Company adjusts this interest rate cap agreement to fair value on a quarterly basis and records all gains and losses associated with this contract in the line item "Interest Expense" in the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

On December 20, 2007, the Company entered into an additional interest rate cap agreement. The agreement has a notional principal amount of \$600 million with a cap rate of 7.0% and terminates on May 31, 2011. The agreement became effective on May 29, 2009 upon the termination of an expiring \$700 million interest rate cap agreement. As of the effective date, the Company determined that it would not monitor this interest rate cap agreement for hedge effectiveness. Instead, the Company adjusts the interest rate cap to fair value on a quarterly basis and records all gains and losses associated with this contract in the line item "Interest Expense" in the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

On January 16, 2009, the Company entered into two additional interest rate cap agreements, each of which will be effective on May 31, 2011 upon termination of the Company's existing \$300 million and \$600 million interest rate cap agreements described above. Each agreement has a notional principal amount of \$450 million with a cap rate of 7.0% and terminates on May 31, 2015. The Company will determine prior to the effective date of each agreement whether it will monitor them for hedge effectiveness. Until the Company determines the accounting treatment that will be used, 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) Income and in the line item "Interest Rate Cap Contract – Adjustment to Market" on the Company's Condensed Consolidated Statements of Cash Flows.

#### 10. Income Taxes

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. As of January 30, 2010, the Company had a current deferred tax asset of \$29.6 million and a non-current deferred tax liability of \$283.2 million. As of October 31, 2009, the Company had a current deferred tax asset of \$52.5 million and a non-current deferred tax liability of \$317.6 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 relate to rent expense, pre-opening costs, intangible costs and depreciation expense where the Company has a future obligation for tax purposes.

In accordance with ASC Topic No. 270, "Interim Financial 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. For the nine months ended October 30, 2010, the Company's best estimate of its annual effective income tax rate was 37.4% (before discrete items).

As of October 30, 2010, January 30, 2010 and October 31, 2009, valuation allowances amounted to \$7.0 million, \$7.0 million and \$8.6 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 that was established prior to the April 13, 2006 merger transaction involving Bain Capital, LLC (Merger Transaction), where a valuation allowance has been established, and any future tax benefits related to the recognition of any state tax net operating losses, where a valuation allowance has been established, will be recorded to the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income according to the provisions of ASC Topic No. 805, "Business Combinations" (Topic No. 805).

#### 11. Barter Transactions

The Company accounts for barter transactions under ASC Topic No. 845 "Nonmonetary Transactions." Barter transactions with commercial substance are recorded at the estimated fair value of the products exchanged, unless the products received have a more readily determinable estimated fair value. Revenue associated with barter transactions is recorded at the time of the exchange of the related assets. During the nine months ended October 30, 2010 and the nine months ended October 31, 2009, the Company did not enter into any new barter transactions.

The following table summarizes the prepaid advertising expense in the line items "Prepaid and Other Current Assets" and "Other Assets" in the Company's Condensed Consolidated Balance Sheets as of October 30, 2010, January 30, 2010, and October 31, 2009:



	October 30, 2010	(in thousands) January 30, 2010	October 31, 2009
Prepaid and Other Current Assets	\$ 3,340	\$ 2,681	\$ 3,193
Other Assets	6,198	7,508	8,884
Total Prepaid Advertising Expense	\$ 9,538	\$ 10,189	\$ 12,077

The following table details barter credit usage for the three and nine month periods ended October 30, 2010 and October 31, 2009:

	(in thousands)			
	Three Months Ended		Nine Months Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Barter Credit Usage	\$ 428	\$ 441	\$ 1,310	\$ 983

## 12. Stock Option and Award Plans and Stock-Based Compensation

On April 13, 2006, the Parent's Board of Directors (the Board) 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 executive officers and other key employees of the Company and its subsidiaries. Awards made pursuant to the Plan are comprised of units of Parent's common stock. Each unit consists of nine shares of Class A common stock and one share of Class L common stock of the Parent. 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 the Parent common stock. As of October 30, 2010, there were 730,478 units reserved under the Plan consisting of 6,574,302 shares of Class A common stock of Parent and 730,478 shares of Class L common stock of Parent.

Non-cash stock compensation expense for the three and nine months ended October 30, 2010 amounted to \$0.5 million and \$1.3 million, respectively. In comparison, non-cash stock compensation expense for the three and nine months ended October 31, 2009 amounted to a contra expense of \$0.6 million and expense of \$3.6 million, respectively. The table below summarizes the types of stock compensation:

Type of Non-Cash Stock Compensation	(in thousands)			
	Three Months Ended		Nine Months Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Stock Compensation – Separation Costs (A)	\$ -	\$ 56	\$ -	\$ 2,481
Stock Option Compensation (B)	295	(768)	720	525
Restricted Stock Compensation (B)	201	91	613	617
Total	\$ 496	\$ (621)	\$ 1,333	\$ 3,623

(A) Included in the line item "Restructuring and Separation Costs" in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income.

(B) Included in the line item "Selling and Administrative Expense" in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income.

Of the \$2.5 million of stock compensation – separation costs \$2.4 million was related to the repurchase of a portion of the Former CEO's restricted stock, under the terms of his separation agreement, and a modification of his options. The remaining \$0.1 million related to the separation of two former employees from the Company under the terms of their respective separation agreements.

#### Stock Options

Options granted during the nine months ended October 30, 2010 and October 31, 2009 were all service-based awards and were granted at exercise prices of \$90 per unit and \$180 per unit. All of the service-based awards granted in the nine months ended October 30, 2010 and October 31, 2009 vest 40% on the second anniversary of the award (or the modification 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' 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.

As of October 30, 2010, the Company had 492,666 options outstanding to purchase units, all of which are service-based awards. The Company accounts for awards issued under the Plan in accordance with Topic No. 718 using the modified prospective method, which requires companies to record stock compensation expense for all non-vested and new awards beginning as of the adoption date (June 4, 2006 for the Company). For the three and nine months ended October 30, 2010, the Company recognized non-cash stock compensation expense of \$0.3 million (\$0.1 million after tax) and \$0.7 million (\$0.4 million after tax), respectively, net of a \$0.4 million and \$1.3 million forfeiture adjustment that was recorded as a result of actual forfeitures being higher than initially estimated. In comparison, for the three and nine months ended October 31, 2009, the Company recognized contra expense of \$0.8 million (\$0.4 million after tax), and expense of \$0.5 million (\$0.2 million after tax), respectively, net of a \$1.3 million and \$2.5 million forfeiture adjustment that was recorded as a result of actual forfeitures being higher than initially estimated.

Non-cash stock option compensation expense is included in the line item "Selling and Administrative Expense" in the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. As of October 30, 2010 there was approximately \$6.9 million of unearned non-cash stock-based compensation that the Company expected to recognize as expense over the next 4.9 years. The service-based awards are expensed on a straight-line basis over the requisite service period of 5 years. As of October 30, 2010, 25.8% of outstanding options to purchase units had vested.

Stock Option Unit Transactions are summarized as follows:

	Number of Units	Weighted Average Exercise Price Per Unit
Options Outstanding January 30, 2010	478,500	\$ 123.70
Options Issued	76,500	120.00
Options Forfeited	(62,334)	(120.00)
Options Outstanding October 30, 2010	492,666	\$ 123.59

Non-vested stock option unit transactions during the nine months ended October 30, 2010 are summarized below:

	Number of Units	Weighted Average Grant Date Fair Value Per Unit
Non-Vested Options Outstanding, January 30, 2010	361,500	\$ 36.50
Granted	76,500	44.56

Vested	(32,200)	(43.75)
Forfeited	(40,110)	(36.70)
Non-Vested Options Outstanding, October 30, 2010	365,690	\$ 40.13

The following table summarizes information about the options to purchase units that were outstanding under the Plan as well as options that were exercisable under the plan as of October 30, 2010:

Exercise Prices	Stock Option Units Outstanding		Option Units Exercisable	
	Number Outstanding at October 30, 2010	Weighted Average Remaining Contractual Life (Years)	Number Exercisable at October 30, 2010	Weighted Average Remaining Contractual Life (Years)
\$ 90.00	322,778	8.0	70,650	5.3
\$ 180.00	155,888	7.2	42,326	4.9
\$ 270.00	14,000	2.6	14,000	2.6
	492,666		126,976	

The following table summarizes information about the stock options expected to vest during the contractual term:

Exercise Prices Expected to Vest as of October 30, 2010	Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$ 90.00	261,023	7.9	\$ 90.00
\$ 180.00	127,510	7.1	\$ 180.00
\$ 270.00	14,000	2.6	\$ 270.00
	402,533		

The fair value of each stock 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 30, 2010 and October 31, 2009:

Risk-Free Interest Rate	Nine Months Ended	
	October 30, 2010	October 31, 2009
	1.8 – 3.4%	2.6 – 3.5%

Expected Volatility	38.5%	52.5%
Expected Life (years)	6.6 – 9.5	6.9 – 10.0
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:		
\$ 90.00	\$ 49.62	\$ 21.97
\$180.00	\$ 34.45	\$ 19.68

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 changes in the fair value and book value of the Company's debt.

#### Restricted Stock Grants

Under the Plan, the Company also has the ability to grant restricted stock units ("Units"). Each Unit consists of nine shares of Class A common stock and one share of Class L common stock of the Parent.

As of October 30, 2010, the Company had 76,829 Units outstanding, all of which are service based awards. During the three and nine month periods ended October 30, 2010, the Company recorded \$0.2 million and \$0.6 million, respectively, of non-cash stock compensation expense, net of \$0.1 million and \$0.2 million of forfeiture adjustments that were recorded as a result of actual forfeitures being higher than initially estimated. These amounts are included in the line item "Selling and Administrative Expense" on the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. In comparison, as of October 31, 2009, the Company had 101,496 Units outstanding. During the three and nine months ended October 31, 2009, the Company recognized expense of \$0.1 million and \$0.6 million, respectively, of non-cash stock compensation, net of \$0.1 million and \$0.1 million of forfeiture adjustments that were recorded as a result of actual forfeitures being higher than initially estimated. As of October 30, 2010 there was approximately \$1.4 million of unearned non-cash stock based compensation that the Company expects to recognize as an expense over the next 1.6 years. The service based Units are expensed on a straight-line basis over the requisite service period of three years. At October 30, 2010, 2,500 of the outstanding Units were vested.

Restricted Stock Unit Transactions for the nine months ended October 30, 2010 are summarized below:

	Number of Units
Units Outstanding, January 30, 2010	95,052
Forfeited	(18,223)
Units Outstanding, October 30, 2010	76,829

Non-vested Unit transactions for the nine months ended October 30, 2010 are summarized below:

	Number of Units	Weighted Average Grant Date Fair Value Per Unit
Non-vested Units Outstanding, January 30, 2010	92,552	\$ 47.97
Forfeited	(18,223)	(45.80)
Non-vested Units Outstanding, October 30, 2010	74,329	\$ 48.50

### 13. Comprehensive (Loss) Income

The Company presents comprehensive (loss) income on its Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income in accordance with ASC Topic No. 220 "Comprehensive Income." For the three and nine month periods ended October 30, 2010 and October 31, 2009, comprehensive (loss) income consisted of net (loss) income.

### 14. Other Revenue

Other revenue consists of rental income received from leased departments; sublease rental income and other miscellaneous items; and layaway, alteration and other service charges (Service Fees), which are summarized below:

	(in thousands)			
	Three Months Ended October 30, 2010	October 31, 2009	Nine Months Ended October 30, 2010	October 31, 2009
Rental Income from Leased Departments	\$1,548	\$1,631	\$4,866	\$5,649
Sublease Rental Income and Other Miscellaneous Items	2,571	2,668	8,217	8,025
Service Fees	3,731	3,689	8,842	8,098



Total	\$7,850	\$7,988	\$21,925	\$21,772
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15. 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 \$33.4 million, \$33.2 million, and \$42.8 million as of October 30, 2010, January 30, 2010, and October 31, 2009, 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. At October 30, 2010, January 30, 2010, and October 31, 2009, self-insurance reserves of \$24.3 million, \$24.2 million, and \$41.8 million, respectively, were recorded in the line item "Other Current Liabilities" in the Company's Condensed Consolidated Balance Sheets. The remaining reserve balances of \$21.7 million and \$21.5 million as of October 30, 2010 and January 30, 2010, respectively, were recorded in the line item "Other Liabilities" in the Company's Condensed Consolidated Balance Sheets. Prior to January 30, 2010, all of the Company's self-insurance reserves were recorded in the line item "Other Current Liabilities" in the Company's Condensed Consolidated Balance Sheets.

#### 16. Segment Information

The Company reports segment information in accordance with ASC Topic No. 280 "Segment Reporting" (Topic No. 280). The Company has identified operating segments at the store level. However, each store's operating performance has been aggregated into one reportable segment. Each store meets the aggregation criteria set forth in Topic No. 280. The Company's operating segments are aggregated for financial reporting purposes because they are similar in each of the following areas: economic characteristics, class of consumer, nature of products, nature of production processes and distribution methods. Revenues from customers are derived from merchandise sales and the Company does not rely on any major customers as a source of revenue.

#### 17. Commitments and Contingencies

##### Legal

The Company establishes reserves relating to legal claims in connection with litigation to which the Company is party to from time to time in the ordinary course of business. The aggregate amounts of such reserves were \$6.9 million, \$11.6 million, and \$5.0 million as of October 30, 2010, January 30, 2010, and October 31, 2009, 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.

A putative class action lawsuit, entitled May Vang, and all others similarly situated, v Burlington Coat Factory Warehouse Corporation, Case No. 09-CV-08061-CAS, was filed in the Superior Court of the State of California on September 17, 2009. The named plaintiff purports to assert claims on behalf of all current, former, and future employees in the United States and the State of California for the relevant statutory time period. Plaintiff filed an amended complaint on November 16, 2009. The amended complaint asserts claims for failure to pay all earned hourly wages in violation of the Fair Labor Standards Act (FLSA), failure to pay all earned hourly wages in violation of the California Labor Code, providing compensatory time off in lieu of overtime pay, forfeiture of vacation pay, failure to provide meal and rest periods, secret payment of lower wages than that required by statute or contract, failure to provide accurate, written wage statements, and unfair competition. The complaint seeks certification as a class with respect to the FLSA claims, certification of a class with respect to California law claims, appointment of class counsel and class representative, civil penalties, statutory penalties, declaratory relief, injunctive relief, actual damages, liquidated damages, restitution, pre-judgment interest, costs of suit and attorney's fees. The Company intends to vigorously defend this action.

There have been no significant changes in the Company's commitments and contingencies from those disclosed in the Company's Transition Report on Form 10-K/T, 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 30, 2010, the Company was committed to two new lease agreements for locations at which stores are expected to be opened in Fiscal 2010. The two new stores are expected to have minimum lease payments of \$0.3 million, \$1.6 million, \$1.6 million, \$1.6 million, and \$11.5 million for the remainder of the fiscal year ending January 29, 2011, and the fiscal years ending January 28, 2012, February 2, 2013, February 1, 2014, and January 31, 2015 and all subsequent years thereafter, respectively.

#### Letters of Credit

The Company had irrevocable letter of credit arrangements with various banks in the aggregate amount of \$40.5 million and \$54.2 million as of October 30, 2010 and October 31, 2009, respectively. Based on the terms of the credit agreement related to the ABL Line of Credit, the Company had available letters of credit of \$559.9 million and \$575.7 million as of October 30, 2010 and October 31, 2009, respectively. Among these arrangements as of October 30, 2010 and October 31, 2009, the Company had letters of credit in the amount of \$30.4 million and \$44.7 million, respectively, guaranteeing performance under various insurance contracts and utility agreements. The Company also had no outstanding letter of credit at October 30, 2010 and \$1.2 million at October 31, 2009 guaranteeing its Industrial Revenue Bonds. Finally, the Company had outstanding commercial letter of credit agreements in the amount of \$10.1 million and \$8.3 million at October 30, 2010 and October 31, 2009, respectively, for purchase commitments related to imported inventory.

The Company had irrevocable letters of credit in the amount of \$79.6 million as of January 30, 2010. Based on the terms of the credit agreement relating to the ABL Line of Credit, the Company had available letters of credit of \$79.0 million as of January 30, 2010. Letters of credit outstanding at January 30, 2010 amounted to \$68.5 million, guaranteeing performance under various insurance contracts, and utility agreements. The Company also had letters of credit, in the amount of \$1.2 million at January 30, 2010, guaranteeing the Company's Industrial Revenue Bonds and \$9.9 million for purchase commitments related to imported inventory.

#### 18. Recent Accounting Pronouncements

In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic No. 820): Improving Disclosures about Fair Value Measurements" (ASU 2010-06). This ASU provides amendments that will require more robust disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early application is permitted. The adoption of ASU 2010-06 on January 31, 2010, did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In March 2010, the FASB issued ASU No. 2010-11, "Derivatives and Hedging (Topic No. 815): Scope Exception Related to Embedded Credit Derivatives" (ASU 2010-11). ASU 2010-11 clarifies the only form of embedded credit derivative that is exempt from embedded derivative bifurcation requirements is one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The amendments in this ASU are effective at the beginning of a reporting entity's first fiscal quarter beginning after June 15, 2010. The adoption of ASU 2010-11 on August 1, 2010 did not have a material impact on the Company's Condensed Consolidated Financial Statements.

#### 19. Subsequent Events

On November 3, 2010, BCFWC and the Company announced their intention to commence cash tender offers for any and all of BCFW's outstanding 11.1% Senior Notes due 2014 and the Company's outstanding 14.5% Senior Discount Notes due 2014. In connection with these offers, BCFWC announced its intention to offer \$500.0 million aggregate principal amount of senior unsecured notes in a private offering exempt from the registration requirements of the Securities Act of 1933, as amended.

Subject to market conditions, BCFWC intended to raise approximately \$1,500.0 million of new debt financing, the proceeds of which would be used to repay the Company's existing term loan facility, repurchase or redeem BCFWC's outstanding 11.1% Senior Notes due 2014 and the Company's outstanding 14.5% Senior Discount Notes due 2014, make a distribution to the Company's equity holders, pay related fees and expenses and for general corporate purposes.

Based on changing market conditions and less favorable pricing, on November 18, 2010, BCFWC and the Company announced the termination of their previously announced cash tender offers, as well as the Company's previously announced proposed financing transactions.

In connection with the termination of these transactions, certain costs incurred, which would have been capitalized as deferred financing fees and amortized over the life of the new facilities through the line item "Interest Expense" in the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income, in the event that the transaction had been completed, will now be charged as expense in the line item "Selling and Administrative Expenses" in the Company's Condensed Consolidated Statement of Operations and Comprehensive Net (Loss) Income. The Company estimates that approximately \$3 million of expense related to these transactions will be incurred during the fourth quarter of Fiscal 2010.

## 20. Condensed Guarantor Data

On April 13, 2006, BCFWC issued \$305 million aggregate principal amount of 11.1% Senior Notes due 2014. The notes were issued under an indenture issued on April 13, 2006. Holdings and subsidiaries of BCFWC have fully and unconditionally guaranteed these notes. These guarantees are both joint and several. 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 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, to pay taxes that are due and payable by Holdings or any of its direct or indirect subsidiaries, or to pay interest on Holdings Senior Discount Notes, provided that no event of default under BCFWC's debt agreements has occurred or will occur as the result of such interest payment.

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries  
Condensed Consolidating Balance Sheets  
(All amounts in thousands)

As of October 30, 2010

ASSETS	Holdings	BCFW	Guarantors	Eliminations	Consolidated
<b>Current Assets:</b>					
Cash and Cash Equivalents	\$-	\$4,402	\$49,321	\$-	\$53,723
Restricted Cash and Cash Equivalents	-	32,815	2,467	-	35,282
Accounts Receivable	-	27,326	10,779	-	38,105
Merchandise Inventories	-	-	892,193	-	892,193
Deferred Tax Asset	-	9,166	19,315	-	28,481
Prepaid and Other Current Assets	-	15,599	20,194	-	35,793
Prepaid Income Tax	-	42,222	2,121	-	44,343
Assets Held for Sale	-	-	521	-	521
<b>Total Current Assets</b>	<b>-</b>	<b>131,530</b>	<b>996,911</b>	<b>-</b>	<b>1,128,441</b>
<b>Property and Equipment - Net of Accumulated Depreciation</b>					
Tradenames	-	62,424	799,630	-	862,054
Favorable Leases - Net of Accumulation	-	238,000	-	-	238,000
Amortization	-	-	397,756	-	397,756
Goodwill	-	47,064	-	-	47,064
Other Assets	117,621	1,723,050	51,876	(1,799,726)	92,821
<b>Total Assets</b>	<b>\$117,621</b>	<b>\$2,202,068</b>	<b>\$2,246,173</b>	<b>\$(1,799,726)</b>	<b>\$2,766,136</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>					
<b>Current Liabilities:</b>					
Accounts Payable	\$-	\$683,351	\$-	\$-	\$683,351
Income Taxes Payable	-	617	423	-	1,040
Other Current Liabilities	-	136,342	93,144	-	229,486
Current Maturities of Long-Term Debt	-	4,300	14,259	-	18,559
<b>Total Current Liabilities</b>	<b>-</b>	<b>824,610</b>	<b>107,826</b>	<b>-</b>	<b>932,436</b>
Long-Term Debt	-	1,150,054	110,081	-	1,260,135
Other Liabilities	-	21,460	173,525	(10,000 )	184,985

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Deferred Tax Liability	-	88,323	182,636	-	270,959
Stockholder's Equity:					
Common Stock	-	-	-	-	
Capital in Excess of Par Value	465,822	465,822	1,052,051	(1,517,873)	465,822
(Accumulated Deficit)/ Retained Earnings	(348,201 )	(348,201 )	620,054	(271,853 )	(348,201 )
Total Stockholder's Equity	117,621	117,621	1,672,105	(1,789,726)	117,621
Total Liabilities and Stockholder's Equity	\$117,621	\$2,202,068	\$2,246,173	\$(1,799,726)	\$2,766,136

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets  
(All amounts in thousands, except share data)

As of January 30, 2010

	Holdings	BCFW	Guarantors	Eliminations	Consolidated
<b>ASSETS</b>					
Current Assets:					
Cash and Cash Equivalents	\$ -	\$ 4,176	\$ 20,574	\$ -	\$ 24,750
Restricted Cash and Cash Equivalents	-	-	2,605	-	2,605
Accounts Receivable	-	19,886	11,392	-	31,278
Merchandise Inventories	-	540	612,755	-	613,295
Deferred Tax Assets	-	10,001	19,643	-	29,644
Prepaid and Other Current Assets	-	12,959	16,484	-	29,443
Prepaid Income Taxes	-	3,870	971	-	4,841
Assets Held for Disposal	-	-	521	-	521
<b>Total Current Assets</b>	<b>-</b>	<b>51,432</b>	<b>684,945</b>	<b>-</b>	<b>736,377</b>
Property and Equipment—Net of Accumulated					
Depreciation	-	52,526	803,623	-	856,149
Tradenames	-	238,000	-	-	238,000
Favorable Leases—Net of Accumulated					
Amortization	-	-	421,091	-	421,091
Goodwill	-	47,064	-	-	47,064
Other Assets	154,500	1,441,062	37,792	(1,538,041)	95,313
<b>Total Assets</b>	<b>\$ 154,500</b>	<b>\$ 1,830,084</b>	<b>\$ 1,947,451</b>	<b>\$ (1,538,041)</b>	<b>\$ 2,393,994</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>					
Current Liabilities:					
Accounts Payable	\$ -	\$ 139,802	\$ -	\$ -	\$ 139,802
Income Taxes Payable	-	10,628	3,595	-	14,223
Other Current Liabilities	-	125,839	89,975	-	215,814
Current Maturities of Long-Term Debt	-	12,202	1,999	-	14,201
<b>Total Current Liabilities</b>	<b>-</b>	<b>288,471</b>	<b>95,569</b>	<b>-</b>	<b>384,040</b>
Long-Term Debt	-	1,275,014	124,138	-	1,399,152
Other Liabilities	-	23,374	159,693	(10,000)	173,067
Deferred Tax Liability	-	88,725	194,510	-	283,235



Stockholder's Equity:

Common Stock	-	-	-	-	-
Capital in Excess of Par Value	464,489	464,489	836,784	(1,301,273)	464,489
(Accumulated Deficit) / Retained Earnings	(309,989)	(309,989)	536,757	(226,768)	(309,989)
Total Stockholder's Equity	154,500	154,500	1,373,541	(1,528,041)	154,500
Total Liabilities and Stockholder's Equity	\$ 154,500	\$ 1,830,084	\$ 1,947,451	\$ (1,538,041)	\$ 2,393,994

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries  
Condensed Consolidating Balance Sheets  
(All amounts in thousands)

ASSETS	As of October 31, 2009					Consolidated
	Holdings	BCFW	Guarantors	Eliminations		
<b>Current Assets:</b>						
Cash and Cash						\$
Equivalents	\$ -	\$ 35,858	\$ 28,546	\$ -		64,404
Restricted Cash and Cash						
Equivalents	-	-	2,608	-		2,608
Accounts Receivable	-	21,800	10,037	-		31,837
Merchandise Inventories	-	1,207	844,766	-		845,973
Deferred Tax Asset	-	14,770	37,771	-		52,541
Prepaid and Other						
Current Assets	-	14,753	16,354	-		31,107
Prepaid Income Tax	-	1,729	-	-		1,729
Assets Held for Sale	-	-	521	-		521
<b>Total Current Assets</b>	<b>-</b>	<b>90,117</b>	<b>940,603</b>	<b>-</b>		<b>1,030,720</b>
<b>Property and Equipment</b>						
- Net of Accumulated						
Depreciation	-	52,930	832,954	-		885,884
Tradenames	-	238,000	-	-		238,000
Favorable Leases - Net of						
Accumulation						
Amortization	-	-	458,383	-		458,383
Goodwill	-	47,064	-	-		47,064
Other Assets	127,104	1,741,129	38,144	(1,816,344)		90,033
<b>Total Assets</b>	<b>\$ 127,104</b>	<b>\$ 2,169,240</b>	<b>\$ 2,270,084</b>	<b>\$ (1,816,344)</b>		<b>\$ 2,750,084</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>						
<b>Current Liabilities:</b>						
Accounts Payable	\$ -	\$ 587,713	\$ -	\$ -		\$ 587,713
Income Taxes Payable	-	25,055	5,733	-		30,788
Other Current Liabilities	-	120,799	126,489	-		247,288
Current Maturities of						
Long-Term Debt	-	5,252	1,991	-		7,243

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Total Current Liabilities	-	738,819	134,213	-	873,032
Long-Term Debt	-	1,159,497	125,421	-	1,284,918
Other Liabilities	-	45,891	111,586	(10,000)	147,477
Deferred Tax Liability	-	97,929	219,624	-	317,553
Stockholder's Equity:					
Common Stock	-	-	-	-	-
Capital in Excess of Par Value	463,721	463,721	1,337,756	(1,801,477)	463,721
(Accumulated Deficit)/ Retained Earnings	(336,617)	(336,617)	341,484	(4,867)	(336,617)
Total Stockholder's Equity	127,104	127,104	1,679,240	(1,806,344)	127,104
Total Liabilities and Stockholder's Equity	\$ 127,104	\$ 2,169,240	\$ 2,270,084	\$ (1,816,344)	\$ 2,750,084

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries  
Condensed Consolidating Statement of Operations  
(All amounts in thousands)

For the Nine Months Ended October 30, 2010

	Holdings	BCFW	Guarantors	Eliminations	Consolidated
<b>REVENUES:</b>					
Net Sales	\$ -	\$ 861	\$ 2,480,752	\$ -	\$ 2,481,613
Other Revenue	-	373	21,552	-	21,925
Total Revenue	-	1,234	2,502,304	-	2,503,538
<b>COSTS AND EXPENSES:</b>					
Cost of Sales	-	844	1,548,198	-	1,549,042
Selling and Administrative Expenses	-	121,108	714,817	-	835,925
Restructuring and Separation Costs	-	1,739	413	-	2,152
Depreciation and Amortization	-	13,456	95,739	-	109,195
Interest Expense	-	65,944	12,406	-	78,350
Impairment Charges – Long-Lived Assets	-	-	510	-	510
Other (Income) Expense, Net	-	(5,434)	(4,599)	-	(10,033)
Loss (Earnings) from Equity Investment	38,061	(83,297)	-	45,236	-
Total Costs and Expenses	38,061	114,360	2,367,484	45,236	2,565,141
(Loss) Income Before (Benefit) Provision for Income Taxes	(38,061)	(113,126)	134,820	(45,236)	(61,603)
(Benefit) Provision for Income Taxes	-	(75,065)	51,523	-	(23,542)
Net (Loss) Income	\$ (38,061)	\$ (38,061)	\$ 83,297	\$ (45,236)	\$ (38,061)



Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries  
Condensed Consolidating Statement of Operations  
(All amounts in thousands)

For the Three Months Ended October 30, 2010

	Holdings	BCFW	Guarantors	Eliminations	Consolidated
<b>REVENUES:</b>					
Net Sales	\$-	\$-	\$858,186	\$ -	\$ 858,186
Other Revenue	-	140	7,710	-	7,850
Total Revenue	-	140	865,896	-	866,036
<b>COSTS AND EXPENSES:</b>					
Cost of Sales	-	-	527,301	-	527,301
Selling and Administrative Expenses	-	34,835	250,783	-	285,618
Restructuring and Separation Costs	-	-	-	-	-
Depreciation and Amortization	-	5,343	31,617	-	36,960
Interest Expense	-	21,043	3,885	-	24,928
Impairment Charges – Long-Lived Assets	-	-	252	-	252
Other (Income) Expense, Net	-	(1,366 )	(2,224 )	-	(3,590 )
Loss (Earnings) from Equity Investment	2,795	(32,730 )	-	29,935	-
Total Costs and Expenses	2,795	27,125	811,614	29,935	871,469
(Loss) Income Before (Benefit)					
Provision for Income Taxes	(2,795 )	(26,985 )	54,282	(29,935 )	(5,433 )
(Benefit) Provision for Income Taxes	-	(24,190 )	21,552	-	(2,638 )
Net (Loss) Income	\$(2,795 )	\$(2,795 )	\$32,730	\$(29,935 )	\$(2,795 )

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries  
Condensed Consolidating Statement of Operations  
(All amounts in thousands)

For the Nine Months Ended October 31, 2009

	Holdings	BCFW	Guarantors	Eliminations	Consolidated
<b>REVENUES:</b>					
Net Sales	\$ -	\$ 1,399	\$ 2,401,996	\$ -	\$ 2,403,395
Other Revenue	-	424	21,348	-	21,772
Total Revenue		1,823	2,423,344		2,425,167
	-			-	
<b>COSTS AND EXPENSES:</b>					
Cost of Sales	-	932	1,500,993	-	1,501,925
Selling and Administrative Expenses	-	118,501	691,717	-	810,218
Restructuring and Separation Costs	-	5,337	957	-	6,294
Depreciation and Amortization		15,467	98,088		113,555
Interest Expense	-	45,419	12,852	-	58,271
Impairment Charges – Long-Lived Assets	-	-	15,865	-	15,865
Impairment Charges – Tradenames	-	15,250	-	-	15,250
Other (Income) Expense, Net	-	(5,787)	(3,117)	-	(8,904)
Loss (Earnings) from Equity Investment	41,925	(50,897)	-	8,972	-
Total Costs and Expenses	41,925	144,222	2,317,355	8,972	2,512,474
(Loss) Income Before (Benefit) Provision for Income Taxes	(41,925)	(142,399)	105,989	(8,972)	(87,307)
(Benefit) Provision for Income Taxes	-	(100,474)	55,092	-	(45,382)
Net (Loss) Income	\$ (41,925)	\$ (41,925)	\$ 50,897	\$ (8,972)	\$ (41,925)

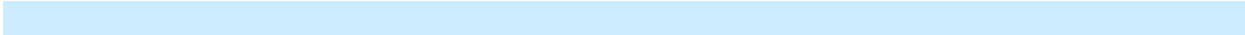




Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries  
Condensed Consolidating Statement of Operations  
(All amounts in thousands)

For the Three Months Ended October 31, 2009

	Holdings	BCFW	Guarantors	Eliminations	Consolidated
<b>REVENUES:</b>					
Net Sales	\$ -	\$ 429	\$ 871,945	\$ -	\$ 872,374
Other Revenue	-	173	7,815	-	7,988
Total Revenue	-	602	879,760	-	880,362
<b>COSTS AND EXPENSES:</b>					
Cost of Sales	-	292	523,173	-	523,465
Selling and Administrative Expenses	-	35,857	245,712	-	281,569
Restructuring and Separation Costs	-	1,032	158	-	1,190
Depreciation and Amortization	-	4,234	31,976	-	36,210
Interest Expense	-	16,316	4,271	-	20,587
Impairment Charges – Long-Lived Assets	-	-	6,437	-	6,437
Impairment Charges – Tradenames	-	-	-	-	-
Other (Income) Expense, Net	-	(1,326)	(1,232)	-	(2,558)
(Earnings) Loss from Equity Investment	(7,511)	(32,870)	-	40,381	-
Total Costs and Expenses	(7,511)	23,535	810,495	40,381	866,900
Income (Loss) Before (Benefit) Provision for Income Taxes	7,511	(22,933)	69,265	(40,381)	13,462
(Benefit) Provision for Income Taxes	-	(30,444)	36,395	-	5,951
Net Income (Loss)	\$ 7,511	\$ 7,511	\$ 32,870	\$ (40,381)	\$ 7,511



Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries  
Condensed Consolidating Statements of Cash Flows  
(All amounts in thousands)

For the Nine Months Ended October 30, 2010

Holdings      BCFW      Guarantors      Elimination      Consolidated

**OPERATING ACTIVITIES**

Net Cash Provided by Operating Activities	\$	-	\$	196,717	\$	104,379	\$	-	\$	301,096
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**INVESTING ACTIVITIES**

Cash Paid For Property and Equipment	-	(29,367)		(73,880)		-		(103,247)
Proceeds Received from Sale of Fixed Assets	-	-		227		-		227
Lease Acquisition Costs	-	-		(422)		-		(422)
Redemption of Investment in Money Market Fund		-		240		-		240
Change in Restricted Cash and Cash Equivalents	-	(32,677)		-		-		(32,677)
Investing Activity-Other	-	40		-		-		40
<b>Net Cash Used in Investing Activities</b>	-	(62,004)		(73,835)		-		(135,839)

**FINANCING ACTIVITIES**

Proceeds from Long-Term Debt – ABL Line of Credit	-	25,400		-		-		25,400		
Proceeds from Long-Term Debt	-	-		(1,797)		-		(1,797)		
Principal Payments on Long-Term Debt	-	(12,202)		-		-		(12,202)		
Principal Payments on Long-Term Debt – ABL Line of Credit	-	(146,600)		-		-		(146,600)		
Debt Issuance Cost	-	(934)		-		-		(934)		
Payment of Dividends	(151)	(151)		-		151		(151)		
Receipt of Dividends	151	-		-		(151)		-		
<b>Net Cash Used In Financing Activities</b>	-	(134,487)		(1,797)		-		(136,284)		
Increase in Cash and Cash Equivalents	-	226		28,747		-		28,973		
Cash and Cash Equivalents at Beginning of Period	-	4,176		20,574		-		24,750		
<b>Cash and Cash Equivalents at End of Period</b>	\$	-	\$	4,402	\$	49,321	\$	-	\$	53,723



Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries  
Condensed Consolidating Statements of Cash Flows  
(All amounts in thousands)

For the Nine Months Ended October 31, 2009

	Holdings	BCFW	Guarantors	Elimination	Consolidated
<b>OPERATING ACTIVITIES</b>					
Net Cash Provided by Operating Activities	\$ -	\$ 104,576	\$ 30,549	\$ -	\$ 135,125
<b>INVESTING ACTIVITIES</b>					
Cash Paid For Property and Equipment	-	(23,978)	(46,173)	-	(70,151)
Proceeds Received from Sale of Property	-	-	905	-	905
Change in Restricted Cash and Cash Equivalents	-	-	(318)	-	(318)
Lease Acquisition Costs	-	-	(1,337)	-	(1,337)
Redemption of Investment in Money Market Fund	-	-	7,371	-	7,371
Purchase of Tradename Rights	-	(6,250)	-	-	(6,250)
Investing Activity-Other	-	64	-	-	64
Net Cash Used in Investing Activities	-	(30,164)	(39,552)	-	(69,716)
<b>FINANCING ACTIVITIES</b>					
Proceeds from Long-Term Debt – ABL Line of Credit	-	593,915	-	-	593,915
Principal Payments on Long-Term Debt	-	-	(1,563)	-	(1,563)
Principal Payments on Long-Term Debt – ABL Line of Credit	-	(8,055)	-	-	(8,055)
Principal Payments on Long-Term Debt – Term Loan	-	(623,915)	-	-	(623,915)
Payment of Dividends	(3,094)	(3,094)	-	3,094	(3,094)
Receipt of Dividends	3,094	-	-	(3,094)	-
Net Cash Used In Financing Activities	-	(41,149)	(1,563)	-	(42,712)
Increase (Decrease) in Cash and Cash Equivalents	-	33,263	(10,566)	-	22,697
Cash and Cash Equivalents at Beginning of Period	-	2,595	39,112	-	41,707
Cash and Cash Equivalents at End of Period	\$ -	\$ 35,858	\$ 28,546	\$ -	\$ 64,404



## BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

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

The Company's management intends for this discussion to provide the reader with information that will assist in understanding the Company's financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. All discussions of operations in this report relate to Burlington Coat Factory Warehouse Corporation and its subsidiaries, which are reflected in the financial statements of Burlington Coat Factory Investments Holdings, Inc. and its subsidiaries (hereinafter we or our or Holdings). The following discussion contains forward-looking information and should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this report and our Transition Report on Form 10-K/T related to the 35 week period ended January 30, 2010. Our actual results could differ materially from the results contemplated by these forward-looking statements due to various factors, including those discussed under the section of this Item 2 entitled "Safe Harbor Statement."

#### Fiscal Year

In order to conform to the predominant fiscal calendar used within the retail industry, on February 25, 2010 our Board of Directors approved a change in our fiscal year from a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to May 31 to a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to January 31. Accordingly, our Transition Report on Form 10-K/T was for the 35 week transition period beginning on May 31, 2009, the day following the end of our 2009 fiscal year, and ended on January 30, 2010 (the Transition Period).

Statements that we make about fiscal year 2010 refer to our first full fiscal year after the Transition Period, which is the 52 week period commencing on January 31, 2010 and ending on January 29, 2011 (Fiscal 2010). Fiscal 2009 ended on May 30, 2009 and was a 52 week year (Fiscal 2009). Fiscal 2008 ended on May 31, 2008 and was a 52 week year (Fiscal 2008).

As a result of our fiscal year end change and the seasonality of our results, we recast our prior quarterly interim financial information for the 12 month period ended January 30, 2010 on the basis of the new fiscal year for comparative purposes.

#### Overview

##### Three Month Period Ended October 30, 2010 Compared With Three Month Period Ended October 31, 2009

We experienced a decrease in net sales for the three months ended October 30, 2010 compared with the three months ended October 31, 2009. Consolidated net sales decreased \$14.2 million, or 1.6%, to \$858.2 million for the three months ended October 30, 2010 from \$872.4 million for the three months ended October 31, 2009. This decrease was primarily attributable to a decrease in comparative store sales, partially offset by sales generated by new stores and stores previously opened that are not included in our comparative store sales. We believe the comparative store sales (as discussed below under the caption "Key Performance Measures") decrease was due primarily to warmer weather in September and October of 2010 as compared with the same period in the prior year, as discussed below (refer to the

section below entitled “Three Month Period Ended October 30, 2010 Compared With Three Month Period Ended October 31, 2009” for further explanation).

Our gross margin as a percentage of sales decreased to 38.6% during the three month period ended October 30, 2010 as compared with 40.0% for the three month period ended October 31, 2009. The reduction in gross margin as a percentage of sales was due primarily to planned increases in both markdowns and shrink for the three month period ended October 30, 2010 compared with the three month period ended October 31, 2009.

Selling and administrative expenses as a percentage of sales increased to 33.3% during the three months ended October 30, 2010 from 32.3% during the three months ended October 31, 2009. This increase was primarily due to the impact of our comparative store sales decrease of 5.6%.

Total selling and administrative expenses increased \$4.0 million, or 1.4%, during the three months ended October 30, 2010 compared with the three months ended October 31, 2009. The increase in our selling and administrative expenses was primarily due to an increase in occupancy costs and payroll and payroll related costs due to the opening of 17 net new stores since October 31, 2009 and nine stores that were opened during the three months ended October 31, 2009, but which did not operate for the full fiscal period, partially offset by a decrease in legal reserves.

We recorded a net loss of \$2.8 million for the three month period ended October 30, 2010 compared with net income of \$7.5 million for the three month period ended October 31, 2009. The decline in our operating results during the three months ended October 30, 2010 compared with the three months ended October 31, 2009 was primarily attributable to the results discussed above, as well an increase in interest expense which primarily related to the change in the fair values of our interest rate cap agreements during the three months ended October 30, 2010 compared with the three months ended October 31, 2009.



#### Nine Month Period Ended October 30, 2010 Compared With Nine Month Period Ended October 31, 2009

We experienced an increase in net sales for the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009. Consolidated net sales increased \$78.2 million, or 3.3%, to \$2,481.6 million for the nine months ended October 30, 2010 from \$2,403.4 million for the nine months ended October 31, 2009. This increase was primarily attributable to sales generated by new stores and stores previously opened that are not included in our comparative store sales partially offset by a decrease in comparative store sales. We believe the comparative store sales (as discussed below under the caption "Key Performance Measures") decrease was due to warmer weather during September and October of 2010 as compared with the same period in the prior year, partially offset by gains made as part of our ongoing initiatives to improve our comparative store sales, as discussed below (refer to the section below entitled "Nine Month Period Ended October 30, 2010 Compared With Nine Month Period Ended October 31, 2009" for further explanation).

Our gross margin as a percentage of sales increased slightly to 37.6% during the nine month period ended October 30, 2010 compared with 37.5% for the nine month period ended October 31, 2009 as a result of fewer markdowns.

Selling and administrative expenses as a percentage of sales during the nine months ended October 30, 2010 remained in line with the nine months ended October 31, 2009 at 33.7%.

Total selling and administrative expenses increased \$25.7 million, or 3.2% during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009. The increase in our selling and administrative expenses was primarily due to new store openings. At October 30, 2010, we operated 459 stores compared with 442 stores at October 31, 2009.

We recorded a net loss of \$38.1 million for the nine month period ended October 30, 2010 compared with a net loss of \$41.9 million for the nine month period ended October 31, 2009. The improvement in our operating results during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009 was primarily attributable to the results discussed above, as well as fewer impairment charges, partially offset by increased interest expense, during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009.

#### Current Conditions

##### Store Openings, Closings, and Relocations

During the nine months ended October 30, 2010, we opened 24 Burlington Coat Factory Warehouse Stores (BCF Stores) and closed seven BCF Stores, four of which were in locations within the same trading market as four of the new stores that were opened prior to Fiscal 2010, and two that were in locations within the same trading market as two of the new stores that we opened during the nine month period ended October 30, 2010. As of October 30, 2010, we operated 459 stores under the names "Burlington Coat Factory Warehouse" (442 stores), "Cohoes Fashions" (two stores), "MJM Designer Shoes" (14 stores) and "Super Baby Depot" (one store).

We continue to pursue our growth plans and invest in capital projects that meet our financial requirements. We currently plan to open two new stores during the remainder of Fiscal 2010.

##### Ongoing Initiatives for Fiscal 2010

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

- I. Offering a Leading Selection of Branded Apparel at Every Day Low Prices (EDLP): We offer a merchandise selection substantially broader than that of our off-price competitors and similar to the selection found at a department store. In contrast to merchandise at department and specialty stores, our merchandise is offered at EDLP, allowing customers to obtain the best value at our stores without waiting for sales or promotions. We focus on delivering exceptional values that fit within a good, better, and best pricing strategy.
- II. Transition our Open to Buy Model and Improve Merchandising: Our “open to buy” paradigm, in which we purchase both pre-season and in-season merchandise, improves our receipt-to-reduction ratio and enables more flexibility for buying “wear-now” products. From fiscal 2006 to 2009, a significant portion of our purchasing was pre-season with the balance in-season and opportunistic. With our new model, we have moved towards purchasing less pre-season, with the majority in-season and opportunistically. This enables us to determine and stock for trends with better consumer data as well as drive better terms with our suppliers. By maximizing our in-season buys, we believe that we are able to take advantage of known trends and emerging businesses. We are also able to better focus on our core female customer by enhancing our merchandise content as well as keeping inventory fresh.

III. Refining Our Store Experience Through the Eyes of the Customer: We have empowered our store teams to provide an outstanding customer experience for every customer in every store, every day. We have, and will continue to strive, to streamline processes to create opportunities for fast and effective customer interactions. Our mission is to have stores that reflect clean, organized merchandise presentations that highlight the brands, value and diversity of our selection within our assortments. Through proper staffing flexibility we provide sales floor coverage during peak shopping hours to better serve the customer on the sales floor and at the check-out.

We are executing these initiatives during Fiscal 2010 by:

- a) Continuing with our in-store customer satisfaction survey and program that measures 13 different aspects of customer satisfaction. Examples include: friendliness of associates, interior cleanliness and selection of merchandise.
- b) Continuing the implementation of a store refresh program with respect to stores that we have identified as having certain needs such as new carpet, painting, fitting room improvements and various other improvements. We have completed store refreshes at more than 50 stores over the past two fiscal years and we expect to continue an aggressive refresh program going forward.
- c) Continuing the implementation of upgraded lighting retrofits in our stores which will make them more energy efficient and easier for customers to navigate. We have completed upgraded lighting retrofits at more than 130 stores over the last two fiscal years and expect to continue an aggressive lighting retrofit program going forward.

IV. Deliver Consistent Gross Margin: We continue to focus on having stable gross margin as a percentage of net sales.

We are executing this initiative during Fiscal 2010 by:

- a) Continuing to manage our inventory receipt to reduction ratio. By matching receipt dollars to sales dollars we will continue to be able to take advantage of in season buying opportunities and to capitalize on those businesses that are trending well.
- b) Continuing to ensure adequate open to buy and buying more opportunistically in season. By staying liquid, we put ourselves in a position to be able to take advantage of opportunistic in-season buys that will maximize our sales.
  - c) Continuing to improve the amount of current inventory as a percentage of our total inventory. By having more current inventory in our merchandise mix, we will be afforded more pricing flexibility to provide additional value to our customers without reducing our overall margins.
- d) Reducing our shrink as a percentage of net sales. We have added additional resources to help improve existing controls and processes to reduce our shrink as a percentage of net sales without negatively impacting the store experience. We expect improved results to occur over time becoming more apparent in the fiscal year ending January 28, 2012.

V. The Continued Reduction of Our Cost Structure:

- a) Reduce store payroll costs. We are planning to implement an automated workforce management system in our stores which will be piloted in early 2011 and completed prior to the fourth quarter of Fiscal 2011. This new

scheduling system will provide numerous efficiencies including, but not limited to, better forecasting of volume and workload, improved allocation of manpower to meet customer demand, and will support our store experience and service initiatives. The majority of these efficiencies are expected to be fully recognized in Fiscal 2012. We believe that these actions will allow us to operate our business more efficiently without sacrificing our ability to serve our customers.

- b) Supply chain efficiencies. We continue to work on several logistics initiatives to improve supply chain efficiencies and service levels. We have consolidated our Burlington, New Jersey distribution center into our Edgewater Park, NJ distribution center and have implemented a new warehouse management system within the Edgewater Park, NJ and San Bernardino, CA distribution centers. This new system allows for further improvements in productivity by providing functionality not previously available and allows for flexibility in processing any goods received at either of the two facilities. Accordingly, both facilities can process all receipts in a more efficient manner, continuing to reduce the amount of transportation miles required to service our stores. Finally, we have implemented a performance management program designed to drive productivity improvements within the four walls of our distribution centers.

## Uncertainties and Challenges

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

**General Economic Conditions.** Consumer spending habits, including spending for the merchandise that we sell, are affected by, among other things, prevailing economic conditions, inflation, levels of employment, salaries and wage rates, prevailing interest rates, housing costs, energy costs, income tax rates and policies, consumer confidence and consumer perception of economic conditions. In addition, consumer purchasing patterns may be influenced by consumers' disposable income, credit availability and debt levels. A continued or incremental slowdown in the U.S. economy, an uncertain economic outlook or an expanded credit crisis could continue to adversely affect consumer spending habits resulting in lower net sales and profits than expected on a quarterly or annual basis. Beginning in Fiscal 2009, there was significant deterioration in the global financial markets and economic environment, which we believe continues to negatively impact consumer spending at many retailers, including us. We continue to take steps to increase opportunities to profitably drive sales and to curtail operating expenses where prudent. Where appropriate, we have reinvested some of these savings back into our business and store experience.

We closely monitor our net sales, gross margin, expenses and working capital. We have performed scenario planning such that if our net sales decline, we have identified variable costs that could be reduced to partially mitigate the impact of these declines. If adverse economic trends continue to deteriorate, or if our efforts to counteract the impacts of these trends are not sufficiently effective, there could be a negative impact on our financial performance and position in future fiscal periods. For further discussion of the risks to us regarding general economic conditions, please refer to the section below entitled "Liquidity and Capital Resources" and Part II, Item 1A of this report entitled "Risk Factors."

## Key Performance Measures

We consider numerous factors in assessing our performance. Key performance measures used by management include comparative store sales, gross margin, inventory levels, receipt-to-reduction ratio, liquidity and store payroll as a percentage of net sales.

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

During the Transition Period, we changed our definition of comparative store sales. We now define comparative store sales as sales of those stores commencing on the first day of the fiscal month one year after the end of their grand opening activities, which normally conclude within the first two months of operations. Previously, we defined comparative store sales as sales of those stores (net of sales discounts) following their four hundred and twenty-fifth day of operation (approximately one year and two months). This change aligns our external reporting of comparative store sales with how the metric is reviewed internally by management. For the three and nine months ended October 30, 2010, we experienced decreases in comparative store sales of 5.6% and 0.8%, respectively, compared with the

three and nine month periods ended October 31, 2009, respectively.

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

**Gross Margin.** Gross margin is a measure used by management to indicate whether we are selling merchandise at an appropriate gross profit. Gross margin is the difference between net sales and the cost of sales. Our cost of sales and gross margin may not be comparable to those of other entities, since some entities include all of the costs related to their buying and distribution functions in cost of sales. We include certain of these costs in the "Selling and Administrative Expenses" and "Depreciation and Amortization" line items in our Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. We include in our "Cost of Sales" line item all costs of merchandise (net of purchase discounts and certain vendor allowances), inbound freight, distribution center outbound freight and certain merchandise acquisition costs, primarily commissions and import fees. Gross margin as a percentage of net sales was 38.6% and 37.6% for the three and nine months ended October 30, 2010 compared with 40.0% and 37.5% for the three and nine months ended October 31, 2009. Refer to the sections below entitled "Three Month Period Ended October 30, 2010 Compared With Three Month Period Ended October 31, 2009" and "Nine Month Period Ended October 30, 2010 Compared With Nine Month Period Ended October 31, 2009" for further explanation of the fluctuations in our gross margin.

**Inventory Levels.** Inventory at October 30, 2010 was \$892.2 million compared with \$613.3 million as of January 30, 2010. Average store inventory at October 30, 2010 increased approximately 40.1% to \$1.9 million per store compared with average store inventory of \$1.4 million at January 30, 2010. This increase is the result of the seasonality of our business as January typically represents the low point of our inventory and as of the end of October we had begun building our inventory levels for the holiday selling season.

Inventory at October 30, 2010 increased \$46.2 million from \$846.0 million at October 31, 2009. Average store inventory at October 30, 2010 increased approximately 1.6% to \$1.9 million per store compared with average store inventory at October 31, 2009. Average inventory per comparative store increased 0.5%. The increase in average inventory per comparative store was a result of the timing of inventory receipts at the stores. As part of our holiday selling season plan, we accelerated certain inventory shipments to the stores in order to ensure they were properly merchandised for the holiday season.

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

**Receipt-to-Reduction Ratio.** We are in the process of developing a more consistent merchandise flow based on a receipt-to-reduction ratio. We are attempting to match forecasted levels of receipts to forecasted sales, taking into consideration the levels of markdown dollars on a monthly basis. We believe this will result in a more normalized receipt cadence and minimize peaks and valleys in our receiving process, ultimately leading to an improved inventory turnover ratio.

Inventory turnover is a measure that indicates how efficiently inventory is bought and sold. It measures the length of time that we own our inventory. This is significant because usually the longer the inventory is owned, the more likely markdowns may be required to sell the inventory. Inventory turnover is calculated by dividing retail sales before sales discounts by the average retail value of the inventory for the period being measured. Our annualized inventory turnover rate as of October 30, 2010 increased to 2.7 turns per year over the annualized inventory turnover rate as of October 31, 2009 of 2.5 turns per year, which represents an 8.0% increase over the prior year.

**Liquidity.** Liquidity measures our ability to generate cash. Management measures liquidity through cash flow and working capital position. Cash flow is the measure of cash generated from operating, financing, and investing activities. We experienced an increase in cash and cash equivalents of \$29.0 million during the nine month period

ended October 30, 2010. During the nine month period ended October 31, 2009 we experienced an increase in cash and cash equivalents of \$22.7 million. The increase during the nine month period ended October 30, 2010 was primarily due to increased accounts payable at October 30, 2010 compared with January 30, 2010 as a result of our working capital management strategy at the end of the Transition Period. Based on the working capital management strategy we accelerated certain payments that typically would not have been made until the first quarter of Fiscal 2010, which lowered our accounts payable balance at the end of the Transition Period. As our accounts payable balance returned to historical levels at October 30, 2010, this created additional cash flow. Partially offsetting this increase was an increase in merchandise inventory and increased net repayments on our ABL Line of Credit. During the nine months ended October 30, 2010 and October 31, 2009, we made net repayments on our ABL Line of Credit of \$121.2 million and \$30.0 million, respectively. Cash and cash equivalents increased \$29.0 million from January 30, 2010 to \$53.7 million at October 30, 2010 (discussed in more detail under the caption below entitled "Liquidity and Capital Resources").

Changes in working capital also impact our cash flows. Working capital equals current assets (exclusive of restricted cash and cash equivalents) minus current liabilities. Working capital at October 30, 2010 was \$160.7 million compared with \$349.7 million at January 30, 2010. The decrease in working capital from January 30, 2010 was primarily attributable to an increase in accounts payable related to the Company's year end working capital management strategy, partially offset by increased levels of merchandise inventory.

Working capital at October 30, 2010 increased \$5.6 million to \$160.7 million at October 30, 2010 from \$155.1 million at October 31, 2009. The increase in working capital was primarily attributable to an increase in accounts payable, partially offset by an increase in inventory.



**Store Payroll as a Percentage of Net Sales.** Store payroll as a percentage of net sales measures our ability to manage our payroll in accordance with increases or decreases in net sales. The method of calculating store payroll varies across the retail industry. As a result, our store payroll as a percentage of net sales may differ from other retailers. Store payroll as a percentage of net sales was 10.8% and 10.9% during the three and nine months ended October 30, 2010 compared with 10.9% and 11.2% during the three and nine months ended October 31, 2009.

The improvement in store payroll as a percentage of net sales for both the three and nine month periods ended October 30, 2010 compared with both the three and nine months ended October 31, 2009, is due to our ongoing initiative to reduce store payroll costs, as further described above under the caption "Ongoing Initiatives for Fiscal 2010".

### Critical Accounting Policies and Estimates

Our Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities; (ii) the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and (iii) the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to inventories, long lived assets, intangible assets, goodwill impairment, insurance, sales returns, allowances for doubtful accounts and income taxes. Historical experience and various other factors, that are believed to be reasonable under the circumstances, form the basis for making estimates and judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our critical accounting policies and estimates are consistent with those disclosed in our Transition Report on Form 10-K/T.

### Results of Operations

The following table sets forth certain items in the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income as a percentage of net sales for the three and nine month periods ended October 30, 2010 and October 31, 2009.

	Percentage of Net Sales							
	Nine Months Ended		Three Months Ended		October		October	
	October	October	October	October	October	October	October	October
	30,	31,	30,	31,	30,	31,	30,	31,
	2010	2009	2010	2009	2010	2009	2010	2009
Net Sales	100.0	%	100.0	%	100.0	%	100.0	%
Other Revenue	0.9		0.9		0.9		0.9	
Total Revenue	100.9		100.9		100.9		100.9	
Cost of Sales	62.4		62.5		61.4		60.0	
Selling and Administrative Expenses	33.7		33.7		33.3		32.3	
Restructuring and Separation Costs	0.1		0.3		0.0		0.1	

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Depreciation and Amortization	4.4	4.7	4.3	4.2
Interest Expense	3.2	2.4	2.9	2.4
Impairment Charges – Long-Lived Assets	0.0	0.7	0.0	0.7
Impairment Charges – Tradenames	0.0	0.6	0.0	0.0
Other (Income) Expense, Net	(0.4 )	(0.4 )	(0.4 )	(0.3 )
Total Expense	103.4	104.5	101.5	99.4
(Loss) Income before Income Tax (Benefit) Expense	(2.5 )	(3.6 )	(0.6 )	1.5
Income Tax (Benefit) Expense	(1.0 )	(1.9 )	(0.3 )	0.7
Net (Loss) Income	(1.5 )%	(1.7 )%	(0.3 )%	0.8 %

Three Month Period Ended October 30, 2010 Compared With Three Month Period Ended October 31, 2009

Net Sales

We experienced a decrease in net sales for the three months ended October 30, 2010 compared with the three months ended October 31, 2009. Consolidated net sales decreased \$14.2 million, or 1.6%, to \$858.2 million for the three months ended October 30, 2010 from \$872.4 million for the three months ended October 31, 2009. This decrease was primarily attributable to a combination of the following:

- a decrease in comparative store sales of \$48.8 million, or 5.6%, to \$826.5 million of comparative store sales,
  - a decrease in net sales of \$5.5 million from stores closed since the comparable period last year, and
- a decrease in net sales of \$1.2 million for stores previously opened that were not included in our comparative store sales, partially offset by
  - an increase of \$6.5 million as a result of changes in sales allowances, layaways and other sales, and
- an increase in net sales of \$34.8 million related to 14 new stores opened during the three months ended October 30, 2010.

We believe the comparative store sales decrease was due primarily to warmer weather in September and October of 2010 as compared with the same period in the prior year.

Other Revenue

Other revenue (consisting of rental income from leased departments, sublease rental income, layaway, alteration and other service charges, and miscellaneous revenue items) decreased slightly to \$7.9 million for the three months ended October 30, 2010 compared with \$8.0 million for the three month period ended October 31, 2009. This decrease was primarily related to decreases in rental income and sublease rental income of \$0.1 million and 0.2 million, respectively, offset by an increase in service fees.

Cost of Sales

Cost of sales increased \$3.8 million, or 0.7%, for the three month period ended October 30, 2010 compared with the three month period ended October 31, 2009. Cost of sales as a percentage of net sales increased to 61.4% during the three months ended October 30, 2010 compared with the three months ended October 31, 2009 of 60.0%. The increase in cost of sales as a percentage of net sales was a function of planned increases in both markdowns and shrink during the three months ended October 30, 2010 compared with the three months ended October 31, 2009.

Selling and Administrative Expenses

Selling and administrative expenses increased \$4.0 million, or 1.4%, for the three month period ended October 30, 2010 compared with the three month period ended October 31, 2009. The increase in selling and administrative expenses is summarized in the table below:

(in thousands)			
Three Months Ended			
October 30,	October 31,		
2010	2009	\$ Variance	% Change

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Occupancy	\$97,047	\$94,529	\$2,518	2.7	%
Payroll & Payroll Related	126,216	124,088	2,128	1.7	
Benefit Costs	3,304	2,724	580	21.3	
Advertising	21,134	20,705	429	2.1	
Business Insurance	7,199	7,334	(135 )	(1.8 )	
Other	30,718	32,189	(1,471 )	(4.6 )	
Selling & Administrative Expenses	\$285,618	\$281,569	\$4,049	1.4	%

The increase in occupancy related costs of \$2.5 million during the three months ended October 30, 2010 compared with the three months ended October 31, 2009 was primarily related to our opening of 14 new stores during the three months ended October 30, 2010 and stores that were opened during the three months ended October 31, 2009 that did not operate for the full fiscal period. These stores resulted in increased occupancy costs of \$6.2 million. These increases were partially offset by decreased occupancy costs of \$3.7 million at comparative stores and corporate expenses as part of our ongoing initiative to reduce our cost structure.

The increase in payroll and payroll related expense of \$2.1 million during the three months ended October 30, 2010 compared with the three months ended October 31, 2009 was primarily related to an increase in new store payroll as a result of our opening 14 new stores during the three months ended October 30, 2010 as well as the impact of stores that were opened during the three months ended October 31, 2009 that were not operating for the full fiscal period. These stores contributed an increase in payroll and payroll related expenses of \$7.4 million. These increases were partially offset by a \$5.3 million decrease in payroll and payroll related costs associated with comparative stores and corporate expenses as part of our ongoing initiative to reduce our cost structure.

The decrease in other selling and administrative expenses of \$1.5 million for the three months ended October 30, 2010 compared with the three months ended October 31, 2009 was primarily due to a \$2.5 million decrease in our legal reserve as a result of the settlement of ongoing litigation, partially offset by a \$1.3 million increase in temporary help primarily related to our distribution centers.

#### Restructuring and Separation Costs

During the third and fourth quarters of Fiscal 2009, in an effort to better align our resources with our business objectives, we reviewed all areas of the business to identify efficiency opportunities to enhance our performance. This initiative has continued through Fiscal 2010. There were no restructuring and separation costs during the three months ended October 30, 2010 compared with \$1.2 million during the three months ended October 31, 2009.

#### Depreciation and Amortization

Depreciation and amortization expense related to the depreciation of fixed assets and the amortization of favorable and unfavorable leases amounted to \$37.0 million during the three month period ended October 30, 2010 compared with \$36.2 million during the three month period ended October 31, 2009. The increase in depreciation and amortization expense during the three months ended October 30, 2010 compared with the three months ended October 31, 2009 was primarily a result of the 14 new stores opened during the three months ended October 30, 2010.

#### Interest Expense

Interest expense was \$24.9 million compared with \$20.6 million for the three month periods ended October 30, 2010 and October 31, 2009, respectively. The increase in interest expense was primarily driven by an increase in our interest rate cap expense. As discussed in detail in Note 9 to our Condensed Consolidated Financial Statements entitled "Derivative Instruments and Hedging Activities," at October 30, 2010, we were party to four outstanding interest rate cap agreements to manage the interest rate risk associated with future interest payments on variable rate debt. Adjustments of the interest rate cap agreements to fair value, which are recorded in the line item "Interest Expense" in our Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income, contributed \$1.8 million to the total increase in interest expense for the three months ended October 30, 2010 compared with the three months ended October 31, 2009. Adjustments of the interest rate cap agreements to fair value amounted to a loss of \$0.8 million for the three months ended October 30, 2010 compared with a gain of \$1.0 million for the three months ended October 31, 2009. The loss recognized during the three months ended October 30, 2010 was primarily

the result of a decrease in the underlying market rates, which in turn, decreased the value of the interest rate cap agreements.

Also contributing to the increase in interest expense was increased other interest, increased amortization of deferred financing fees and increased commitment fees. The increase of other interest of \$1.6 million was related to interest incurred as part of a litigation settlement. The increase in commitment fees of \$0.7 million was due to a higher commitment fee charge based on the terms of the amended ABL agreement. The amortization of deferred financing fees increased \$0.5 million from \$2.6 million during the three months ended October 31, 2009 to \$3.1 million for the three months ended October 30, 2010. This increase is the result of increased deferred financing fees as a result of the new ABL Line of Credit in January of 2010.

These increases are partially offset by decreased interest expense associated with our Term Loan and our ABL Line of Credit. Our average interest rates related to our Term Loan and our ABL Line of Credit, as well as the average balances on our ABL Line of Credit and Term Loan, for the three months ended October 30, 2010 compared with the three months ended October 31, 2009 are summarized in the table below:

	Three Months Ended	
	October 30, 2010	October 31, 2009
Average Interest Rate – ABL Line of Credit	4.6%	3.0%
Average Interest Rate – Term Loan	2.6%	2.6%
Average Balance – ABL Line of Credit	\$ 1.7 million	\$ 27.3 million
Average Balance – Term Loan	\$ 852.6 million	\$ 866.5 million

#### Impairment Charges - Long-Lived Assets

Impairment charges of \$0.3 million were incurred during the three month periods ended October 30, 2010 compared with impairment charges of \$6.4 million during the three months ended October 31, 2009. During the three months ended October 30, 2010, the impairment charge was related to fixed asset additions at stores that had been previously impaired and therefore could not support the additional asset value. There was no triggering event during the three months ended October 30, 2010 that would have required us to perform additional impairment testing.

Impairment charges of \$6.4 million were incurred for the three months ended October 31, 2009. During the three months ended October 31, 2009, the impairment charge was related to the impairment of three stores as well as fixed asset additions at stores that had been previously impaired and therefore could not support the additional asset value.

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

#### Impairment Charges – Tradenames

There was no impairment charge related to our tradenames during the three months ended October 30, 2010 and October 31, 2009. In accordance with ASC Topic No. 350, “Intangibles – Goodwill and Other,” (Topic No. 350), we perform our annual impairment testing of goodwill and indefinite-lived assets at the beginning of each May.

#### Other Income, Net

Other Income, Net (consisting of investment income, gains and losses on disposition of assets, breakage income and other miscellaneous items) increased \$1.0 million to \$3.6 million for the three month period ended October 30, 2010 compared with the three month period ended October 31, 2009. This increase was primarily related to insurance

recoveries received during the three months ended October 31, 2009.

#### Income Tax (Benefit) Expense

Income tax benefit was \$2.6 million for the three month period ended October 30, 2010. For the three months ended October 31, 2009 we recorded an income tax expense of \$6.0 million. The effective tax rates for the three month periods ended October 30, 2010 and October 31, 2009 were 48.6% and 44.2%, respectively. In accordance with ASC Topic No. 220, "Interim Financial Reporting" (Topic No. 220) and ASC Topic No. 740, "Accounting for Income Taxes in Interim Periods" (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. We used this methodology during the third quarter of Fiscal 2010, resulting in the annual effective income tax rate of 34.1% (before discrete items) being our best estimate for the three month period ended October 30, 2010. The difference between our effective tax rate of 48.6% for the three months ended October 30, 2010 and the annual effective income tax rate of 34.1% for the same period is primarily related to the recording of actual tax expense per our tax return compared with previously recorded tax estimates.

In accordance with Topic No. 740, in certain circumstances where a reliable estimate cannot be made, Topic No. 740 recognizes that "the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate" and allows for its use in the current interim period, consistent with the methodology we used for the three months ended October 31, 2009. The effective tax rate for the three months ended October 31, 2009 was impacted by two discrete adjustments that increased tax expense by \$0.7 million primarily related to an adjustment of deferred tax asset and liabilities and the accrual of interest related to unrecognized tax benefits established in prior years in accordance with Topic No. 740.



## Net Loss

Net loss amounted to \$2.8 million for the three months ended October 30, 2010 compared with income of \$7.5 million for the three months ended October 31, 2009. The decline in our net income position of \$10.3 million was primarily attributable to a decline in gross margin and an increase in selling and administrative expenses and interest expense as described above.

## Nine Month Period Ended October 30, 2010 Compared With Nine Month Period Ended October 31, 2009

### Net Sales

We experienced an increase in net sales for the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009. Consolidated net sales increased \$78.2 million, or 3.3%, to \$2,481.6 million for the nine months ended October 30, 2010 from \$2,403.4 million for the nine months ended October 31, 2009. This increase was primarily attributable to a combination of the following:

- an increase in net sales of \$74.0 million related to 24 new stores opened during the nine months ended October 30, 2010,
- an increase in net sales of \$28.7 million for stores previously opened that were not included in our comparative store sales, and
- an increase as a result of changes in sales allowances, layaways and other sales of \$8.4 million, partially offset by
- a decrease in net sales of \$13.7 million from stores closed since the comparable period last year, and
- a decrease in comparative store sales of \$19.2 million, or 0.8%, to \$2,375.3 million of comparative store sales.

We believe the comparative store sales decrease was due primarily to warmer weather in September and October of 2010 as compared with the same period in the prior year.

### Other Revenue

Other revenue (consisting of rental income from leased departments, sublease rental income, layaway, alteration and other service charges, and miscellaneous revenue items) increased \$0.1 million for the nine month period ended October 30, 2010 compared with \$21.8 million for the nine month period ended October 31, 2009. This increase was primarily due to increases in sublease rental income and service fees of \$0.2 million and \$0.7 million respectively, partially offset by a decrease in rental income of \$0.8 million

### Cost of Sales

Cost of sales increased \$47.1 million, or 3.1%, for the nine month period ended October 30, 2010 compared with the nine month period ended October 31, 2009. Cost of sales as a percentage of net sales improved slightly to 62.4 % during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009 of 62.5%. The improvement in cost of sales as a percentage of net sales is related to fewer markdowns during the nine months ended October 30, 2010 compared with the nine month period ended October 31, 2009.

### Selling and Administrative Expenses

Selling and administrative expenses increased \$25.7 million, or 3.2%, for the nine month period ended October 30, 2010 compared with the nine month period ended October 31, 2009. The increase in selling and administrative expenses is summarized in the table below:

	(in thousands)			
	October 30, 2010	October 31, 2009	\$ Variance	% Change
Payroll and Payroll Related	\$ 378,541	\$ 366,452	\$ 12,089	3.3%
Occupancy	280,191	273,476	6,715	2.5
Benefit Costs	12,201	5,953	6,248	105.0
Other	98,072	93,869	4,203	4.5
Advertising	45,464	42,817	2,647	6.2
Business Insurance	21,456	27,651	(6,195)	(22.4)
Selling & Administrative Expenses	\$ 835,925	\$ 810,218	\$ 25,707	3.2%

The increase in payroll and payroll related expense of \$12.1 million during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009 was primarily related to an increase in new and non-comparative store payroll of \$16.8 million, which was partially offset by an \$4.7 million reduction in payroll and payroll related at comparative stores and corporate expenses.

The increase in occupancy related costs of \$6.7 million during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009 was primarily related to the impact of new and non-comparative stores of \$15.0 million, partially offset by a reduction of \$8.3 million related to comparative stores and corporate expenses.

Benefit costs increased \$6.2 million during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009. During the nine months ended October 30, 2010, we recognized a 401(k) Plan matching contribution expense of \$2.2 million. In contrast, during the nine months ended October 31, 2009, we recorded a reversal of previously recognized expense related to our 401(k) Plan matching contribution of \$4.1 million, which resulted in an increase of \$6.3 million of 401(k) Plan match expense for the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009. Under our 401(k) Plan, we are able to utilize monies recovered through forfeitures to fund some or all of our annual matching contribution obligations. A "Forfeiture" is the portion of our matching contribution that is lost by a 401(k) Plan participant who terminates employment prior to becoming fully vested in such matching contribution. The reversal of the previously recognized expense recorded during the nine months ended October 31, 2009 was the result of forfeitures that we used to offset our 401(k) Plan matching contribution. No such forfeitures were available to offset the expense during the nine months ended October 30, 2010.

The increase in other selling and administrative expenses of \$4.2 million for the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009 was primarily due to a \$1.7 million nonrecurring charge to miscellaneous taxes, a \$2.1 million increase in credit card fees, and a \$2.4 million increase in temporary help, partially offset by a \$3.5 million expense savings related to costs incurred during the nine months ended October 31, 2009 that did not repeat during the nine months ended October 30, 2010 due to the change in our fiscal year end.

The increase in advertising expense of \$2.6 million during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009 was primarily related to an increased investment in Easter holiday advertising, improved programming and an incremental investment to support our dress initiative.

The decrease in business insurance of \$6.2 million during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009 was primarily the result of our claims falling back in line with our historical

claim experience. During the nine months ended October 31, 2009, we experienced an increase in the dollar value of workers' compensation claims and an increase in the number of general liability claims, which we believe was a result of the weaker economic environment. During the nine months ended October 30, 2010 workers compensation and general liability claims have returned to more historical levels, resulting in lower business insurance expense for the period.

#### Restructuring and Separation Costs

Restructuring and separation costs totaled \$2.2 million during the nine months ended October 30, 2010 compared with \$6.3 million during the nine months ended October 31, 2009. During the third and fourth quarters of Fiscal 2009, in an effort to better align our resources with our business objectives, we reviewed all areas of the business to identify efficiency opportunities to enhance our performance. That process has continued through the third quarter of Fiscal 2010. During the nine months ended October 30, 2010, we recorded \$2.2 million of severance expense related to the elimination of certain positions and other terminations in our corporate office as part of this ongoing effort.

## Depreciation and Amortization

Depreciation and amortization expense related to the depreciation of fixed assets and the amortization of favorable and unfavorable leases amounted to \$109.2 million during the nine month period ended October 30, 2010 compared with \$113.6 million during the nine month period ended October 31, 2009. The decrease in depreciation and amortization expense during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009 was the result of various assets that became fully depreciated during Fiscal 2009, the write-off of assets related to the closing of our warehouse in Bristol, Pennsylvania in July 2009, and the impairments taken since October 31, 2009, which resulted in fewer assets being depreciated period over period.

## Interest Expense

Interest expense was \$78.4 million compared with \$58.3 million for the nine month periods ended October 30, 2010 and October 31, 2009, respectively. The increase in interest expense was primarily driven by an increase in our interest rate cap expense. As discussed in detail in Note 9 to our Condensed Consolidated Financial Statements entitled "Derivative Instruments and Hedging Activities," at October 30, 2010, we were party to four outstanding interest rate cap agreements to manage the interest rate risk associated with future interest payments on variable rate debt. Adjustments of the interest rate cap agreements to fair value, which are recorded in the line item "Interest Expense" in our Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income, contributed \$15.5 million to the total increase in interest expense for the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009. Adjustments of the interest rate cap agreements to fair value amounted to a loss of \$7.1 million for the nine months ended October 30, 2010 compared with a gain of \$8.4 million for the nine months ended October 31, 2009. The loss recognized during the nine months ended October 30, 2010 was primarily the result of a decrease in the underlying market rates, which in turn, decreased the value of the interest rate cap agreements.

Also contributing to the increase in interest expense was increased other interest, increased commitment fees and increased amortization of deferred financing fees. The increase in other interest of \$3.5 million was primarily related to interest incurred as part of a legal settlement. The increase in commitment fees of \$1.9 million was due to a higher commitment fee charge based on the terms of the new ABL agreement. The amortization of deferred financing fees increased \$1.4 million from \$7.8 million during the nine months ended October 31, 2009 to \$9.2 million for the nine months ended October 30, 2010. This increase is the result of increased deferred financing fees as a result of the new ABL Line of Credit in January of 2010.

These increases are partially offset by decreased interest expense associated with our Term Loan and our ABL Line of Credit. Our average interest rates related to our Term Loan and our ABL Line of Credit, as well as the average balances on our ABL Line of Credit and Term Loan for the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009 are summarized in the table below:

	Nine Months Ended			
	October 30,		October 31,	
	2010		2009	
Average Interest Rate – ABL Line of Credit	3.0	%	2.9	%
Average Interest Rate – Term Loan	2.6	%	2.8	%

Average Balance – ABL Line of Credit	\$	7.1 million	\$	35.2 million
Average Balance – Term Loan	\$	856.3 million	\$	870.2 million

#### Impairment Charges - Long-Lived Assets

Impairment charges of \$0.5 million and \$15.9 million were incurred during the nine month periods ended October 30, 2010 and October 31, 2009, respectively. During the nine months ended October 30, 2010, the impairment charge was related to fixed asset additions at stores that had been previously impaired and therefore could not support the additional asset value. There was no triggering event during the nine months ended October 30, 2010 that would have required us to perform additional impairment testing.

Due to the declining macroeconomic conditions that were negatively impacting our comparative store sales during the nine months ended October 31, 2009, the Company was required to perform additional impairment testing. As a result of a decline in the operating performance of 31 stores, noted as part of this impairment testing, we recorded an impairment charge of \$15.9 million. This charge was primarily related to our favorable leases in the amount of \$10.8 million.

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

#### Impairment Charges – Tradenames

There was no impairment charge related to our tradenames during the nine months ended October 30, 2010. Impairment charges related to our tradenames during the nine months ended October 31, 2009 amounted to \$15.3 million. In accordance with ASC Topic No. 350, “Intangibles – Goodwill and Other,” (Topic No. 350), we perform our annual impairment testing of goodwill and indefinite-lived assets at the beginning of each May.

In connection with the preparation of our Condensed Consolidated Financial Statements for the year ended May 30, 2009, we concluded that it was appropriate to test our goodwill and indefinite-lived intangible assets for recoverability in light of the following factors:

- Significant declines in the U.S. and international financial markets and the resulting impact of such events on current and anticipated future macroeconomic conditions and customer behavior;
- The determination that these macroeconomic conditions were impacting our current sales trends as evidenced by the decreases in comparative store sales that we were experiencing;
- Decreased comparative store sales results for the peak holiday and winter selling seasons in the third quarter which were significant to our financial results for the year;
- Declines in market valuation multiples of peer group companies used in the estimate of our business enterprise value; and
- Our expectation that then current comparative store sales trends would continue for an extended period. As a result, we revised our plans to a more moderate store opening plan which reduced our future projections of revenue and operating results offset by initiatives that have been implemented to reduce our cost structure.

The recoverability assessment with respect to the tradenames used in our operations requires us to estimate the fair value of the tradenames as of the assessment date. Such determination is made using the “relief from royalty” valuation method. Inputs to the valuation model include:

- Future revenue and profitability projections associated with the tradenames;
- Estimated market royalty rates that could be derived from the licensing of our tradenames to third parties in order to establish the cash flows accruing to our benefit as a result of ownership of the tradenames; and
- The rate used to discount the estimated royalty cash flow projections to their present value (or estimated fair value) based on the risk and nature of our cash flows.

During the nine months ended October 31, 2009, we recorded an impairment charge related to our tradenames in the amount of \$15.3 million. Of this amount, \$9.0 million was attributable to lower revenues and profitability projections associated with our tradenames in the near term and lower estimated market royalty rate expectations in light of the then current general economic conditions compared with the analysis we performed during Fiscal 2008. Our

projected revenues within the model were based on comparative store sales and new store assumptions over a nine year period. A less aggressive new store opening plan combined with revised comparative store sales assumptions for the first fiscal year of the projection had a significant negative impact on the valuation. We believe our estimates were appropriate based upon the then current market conditions.

The remaining \$6.3 million of the \$15.3 million impairment was related to our acquisition of certain tradename rights during the nine months ended October 31, 2009. During the nine months ended October 31, 2009, we purchased \$6.3 million of tradename rights based on our belief that these tradename rights would ultimately provide us with substantial marketing benefits. Historically, we were restricted in our advertising campaigns such that we could only refer to the Company as Burlington Coat Factory and were required to note that we were not affiliated with Burlington Industries. The purchase of these tradename rights allow us to shorten the Company name as appropriate based on the current marketing campaign and eliminates the requirement to note that we are not affiliated with Burlington Industries. Based on our tradenames impairment assessment, we could not support an increase in the asset value of our tradenames related to this acquisition on our Condensed Consolidated Balance Sheets. As a result, we immediately impaired the acquired asset.



## Other Income, Net

Other Income, Net (consisting of investment income, gains and losses on disposition of assets, breakage income and other miscellaneous items) increased \$1.1 million to \$10.0 million for the nine month period ended October 30, 2010 compared with the nine month period ended October 31, 2009. This increase was primarily due to the fact that the results for the nine months ended October 31, 2009 included a \$2.9 million loss on investment, which was a charge in the prior period that did not repeat in the current period, offset by a \$1.6 million decrease in insurance recoveries during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009.

## Income Tax Benefit

Income tax benefit was \$23.5 million for the nine month period ended October 30, 2010. For the nine months ended October 31, 2009 we recorded an income tax benefit of \$45.4 million. The effective tax rates for the nine month periods ended October 30, 2010 and October 31, 2009 were 38.2% and 52.0% respectively. In accordance with ASC Topic No. 220, "Interim Financial Reporting" (Topic No. 220) and ASC Topic No. 740, "Accounting for Income Taxes in Interim Periods" (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. We used this methodology during the third quarter of Fiscal 2010, resulting in the annual effective income tax rate of 37.4% (before discrete items) being our best estimate for the nine month period ended October 30, 2010. The effective tax rate for the nine months ended October 30, 2010 was impacted by a number of discrete adjustments: three discrete adjustments that increase tax expense by \$0.8 million related to the accrual of interest related to unrecognized tax benefits established in prior years in accordance with Topic No. 740, one discrete adjustment that decreases income tax expense by \$1.0 million related to the true-up permanent item differences between the January 30, 2010 income tax provision and January 30, 2010 tax return filed, and one discrete adjustment that decreases income tax expense by \$0.2 million to record the benefit of prior years state taxes.

In accordance with Topic No. 740, in certain circumstances where a reliable estimate cannot be made, Topic No. 740 recognizes that "the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate" and allows for its use in the current interim period, consistent with the methodology we used for the nine months ended October 31, 2009. The effective tax rate for the nine months ended October 31, 2009 was impacted by three discrete adjustments that increased tax expense by \$3.6 million related to an adjustment of deferred tax asset and liabilities and the accrual of interest related to unrecognized tax benefits established in prior years in accordance with Topic No. 740.

## Net Loss

Net loss amounted to \$38.1 million for the nine months ended October 30, 2010 compared with a loss of \$41.9 million for the nine months ended October 31, 2009. The improvement in our net loss position of \$3.8 million was primarily attributable to an increase in sales and improved gross margin, as well as fewer impairment charges partially offset by increased interest expense during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009.

## Liquidity and Capital Resources

### Overview

We fund inventory expenditures during normal and peak periods through cash flows from operating activities, available cash, and our ABL Line of Credit. Liquidity may be affected by the terms we are able to obtain from

vendors and their factors. Our working capital needs follow a seasonal pattern, peaking each October and November when inventory is received for the Fall selling season. Our largest source of operating cash flows is cash collections from our customers. In general, our primary uses of cash are providing for working capital, which principally represents the purchase of inventory, the payment of operating expenses, debt servicing, and opening of new stores and remodeling of existing stores. As of October 30, 2010, we had unused availability on our ABL Line of Credit of \$559.9 million.

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

Beginning in Fiscal 2009 and, to a lesser extent, through the Transition Period and nine months ended October 30, 2010, there was significant deterioration in the global financial markets and economic environment, which we believe has negatively impacted consumer spending at many retailers, including us. In response to this, we have taken, and continue to take, steps to increase opportunities to profitably drive sales, improve margins and continue to improve the efficiency of our operations.

As discussed throughout this Form 10-Q, we implemented certain initiatives in response to the difficult economic environment which included reducing our cost structure during Fiscal 2009, the Transition Period, and the nine month period ended October 30, 2010 through various initiatives. A portion of these savings were reinvested in our operations and in enhancing our store experience. We believe that we have appropriately managed our capital expenditures, allowing us to act on opportunities to grow our business. We closely monitor our net sales, gross margin, expenses and working capital. We have performed scenario planning such that if our net sales decline, we have identified variable costs that could be reduced to partially mitigate the impact of these declines and maintain compliance with our debt covenants.

Despite the current trends in the retail environment and their negative impact on our comparative store sales, as well as the termination of our proposed financing transaction (as discussed in further detail in Note 19 to our Condensed Consolidated Financial Statements entitled "Subsequent Events"), we believe that cash generated from operations, along with our existing cash and our ABL Line of Credit, will be sufficient to fund our expected cash flow requirements and planned capital expenditures for at least the next twelve months as well as the foreseeable future. However, there can be no assurance that we would be able to continue to offset the decline in our comparative store sales with continued savings initiatives in the event that the economy continues to decline.

Our Term Loan agreement contains financial, affirmative and negative covenants and requires that we, among other things, maintain on the last day of each fiscal quarter a consolidated leverage ratio not to exceed a maximum amount. Specifically, our total debt to Adjusted EBITDA, as each term is defined in the credit agreement governing the Term Loan, for the trailing twelve months most recently ended on or prior to such date, may not exceed 5.25 to 1 at October 30, 2010, 5.00 to 1 at January 29, 2011; and 4.75 to 1 at April 30, 2011 and thereafter. Adjusted EBITDA is a non-GAAP financial measure of our liquidity. Adjusted EBITDA, as defined in the credit agreement governing our Term Loan, starts with consolidated net income (loss) for the period and adds back (i) depreciation, amortization, impairments and other non-cash charges that were deducted in arriving at consolidated net income (loss), (ii) the provision (benefit) 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. Adjusted EBITDA is used to calculate the consolidated leverage ratio. We present Adjusted EBITDA because we believe it is a useful supplemental measure in evaluating the performance of our business and provides greater transparency into our results of operations. Adjusted EBITDA provides management, including our chief operating decision maker, with helpful information with respect to our operations such as our ability to meet our future debt service, fund our capital expenditures and working capital requirements, and comply with various covenants in each indenture governing our outstanding notes and the credit agreements governing our senior secured credit facilities which are material to our financial condition and financial statements.

Adjusted EBITDA has limitations as an analytical tool, and should not be considered either in isolation or as a substitute for net income or other data prepared in accordance with GAAP or for analyzing our results or cash flows from operating activities, as reported under GAAP. Some of these limitations include:

- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
  - Adjusted EBITDA does not reflect our income tax expense or the cash requirements to pay our taxes;
- Adjusted EBITDA does not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will likely have to be replaced in the future, and Adjusted EBITDA measures do not reflect any cash requirements for such replacements; and

- Other companies in our industry may calculate Adjusted EBITDA differently such that our calculation may not be directly comparable.

Adjusted EBITDA for the three months ended October 30, 2010 decreased \$16.5 million, or 20.7%, to \$63.2 million from \$79.7 million during the three months ended October 31, 2009. The decline in Adjusted EBITDA was primarily the result of a decline in our gross margin as a result of decreased sales and increased markdowns recorded during the three months ended October 30, 2010 compared with the three months ended October 31, 2009, as previously discussed above under the caption “Results of Operations.”

Adjusted EBITDA for the nine months ended October 30, 2010 increased \$8.1 million, or 5.8%, to \$149.3 million from \$141.2 million during the nine months ended October 31, 2009. The improvement in Adjusted EBITDA was primarily the result of an increase in our overall net sales.

The following table shows our calculation of Adjusted EBITDA for the three and nine months ended October 30, 2010 compared with the three and nine months ended October 31, 2009:

(in thousands)

	Nine Months Ended		Three Months Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
<b>Reconciliation of Net (Loss) Income to Adjusted EBITDA:</b>				
Net (Loss) Income	\$ (38,061)	\$ (41,925)	\$ (2,795)	\$ 7,511
Interest Expense	78,350	58,271	24,928	20,587
Income Tax (Benefit) Expense	(23,542)	(45,382)	(2,638)	5,951
Depreciation and Amortization	109,195	113,555	36,960	36,210
Impairment Charges – Long-Lived Assets	510	15,865	252	6,437
Impairment Charges – Tradenames	-	15,250	-	-
Interest Income	(297)	(202)	(105)	(63)
Non Cash Straight-Line Rent Expense (a)	8,363	3,455	3,639	1,195
Advisory Fees (b)	3,144	3,070	964	1,066
Stock Compensation Expense (c)	1,333	3,623	496	(621)
Sox Compliance (d)	-	112	-	-
Amortization of Purchased Lease Rights (e)	640	688	217	208
Severance (f)	-	2,048	-	1,134
CEO Transaction Costs (g)	-	2,147	-	-
Franchise Taxes (h)	898	1,319	300	334
Insurance Reserve (i)	432	4,894	574	(523)
Advertising Expense Related to Barter (j)	1,310	983	428	441
Loss on Disposal of Fixed Assets (k)	263	507	6	(32)
(Gain) Loss on Investments (l)	(240)	2,885	-	(106)
Change in Fiscal Year End Costs (m)	587	-	-	-
Litigation Reserve (n)	4,923	-	-	-
Transfer Tax (o)	1,536	-	-	-
Adjusted EBITDA	\$ 149,344	\$ 141,163	\$ 63,226	\$ 79,729
<b>Reconciliation of Adjusted EBITDA to Net Cash Provided by Operating Activities:</b>				
Adjusted EBITDA	\$ 149,344	\$ 141,163	\$ 63,226	\$ 79,729
Interest Expense	(78,350)	(58,271)	(24,928)	(20,587)
Changes in Operating Assets and Liabilities	200,657	25,208	(22,301)	40,296
Other Items, Net	29,445	27,025	11,056	(17,138)
Net Cash Provided by Operating Activities	\$ 301,096	\$ 135,125	\$ 27,053	\$ 82,300

Net Cash Used in Investing Activities	\$	(135,839)	\$	(69,716)	\$	(52,968)	\$	(17,699)
Net Cash Used in Financing Activities	\$	(136,284)	\$	(42,712)	\$	(1,408)	\$	(26,016)

During the Transition Period, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit, and with approval from the administrative agents for the Term Loan and ABL Line of Credit, we changed our methodology of calculating Adjusted EBITDA such that costs incurred in connection with our change in fiscal year end (quantified in note (m) to the foregoing table) are added back to consolidated net income (loss) when calculating Adjusted EBITDA. This change has no impact on the Adjusted EBITDA amounts presented for prior periods.

Subsequent to filing our Form 10-Q for the quarter ended July 31, 2010, with approval from the administrative agents for the Term Loan and ABL Line of Credit, the Company changed the components comprising Adjusted EBITDA such that specific charges associated with the Company's litigation reserve and its transfer tax liability are added back to consolidated net loss when calculating Adjusted EBITDA. These changes resulted in approximately \$6.5 million in Adjusted EBITDA for the nine month period ended October 30, 2010. The Company believes that these add-backs provide a more accurate comparison to the comparative periods' performance.

Represents the difference between the actual base rent and rent expense calculated in accordance with GAAP (on (a) a straight line basis), in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

- (b) Represents the annual advisory fee of Bain Capital expensed during the fiscal periods, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.
- (c) Represents expenses recorded under ASC Topic No. 718 "Stock Compensation" during the fiscal periods, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.
- As a voluntary non-accelerated filer, we furnished our initial management report on Internal Controls Over
- (d) Financial Reporting in our Annual Report on Form 10-K for Fiscal 2008. These costs represent professional fees related to this compliance effort that were incurred during Fiscal 2008 and the first quarter of Fiscal 2009, as well as fees incurred as part of our ongoing internal controls compliance effort for Fiscal 2009, as approved by the administrative agents for the Term Loan and ABL Line of Credit.
- Represents amortization of purchased lease rights which are recorded in rent expense within our selling and
- (e) administrative line items, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.
- Represents a severance charge resulting from a reduction of our workforce as part of our ongoing cost reduction
- (f) initiative (refer to Note 4 to our Condensed Consolidated Financial Statements entitled "Restructuring and Separation Costs" for further discussion), in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.
- Represents recruiting costs incurred in connection with the hiring of our new President and Chief Executive
- (g) Officer on December 2, 2008, and other benefits payable to our former President and Chief Executive Officer pursuant to the separation agreement we entered into with him on February 16, 2009. Both of these adjustments were approved by the administrative agents for the Term Loan and ABL Line of Credit.
- (h) Represents franchise taxes paid based on our equity, as approved by the administrative agents for the Term Loan and ABL Line of Credit.
- (i) Represents the non-cash change in reserves based on estimated general liability, workers compensation and health insurance claims as approved by the administrative agents for the Term Loan and ABL Line of Credit.
- Represents non-cash advertising expense based on the usage of barter advertising credits obtained as part of a
- (j) non-cash exchange of inventory, as approved by the administrative agents for the Term Loan and ABL Line of Credit.
- (k) Represents the gross non-cash loss recorded on the disposal of certain assets in the ordinary course of business, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.
- Represents the (gain)/loss on our investment in the Reserve Primary Fund (Fund), related to a recovery/decline in
- (l) the fair value of the underlying securities held by the Fund, as approved by the administrative agents for the Term Loan and ABL Line of Credit.
- Represents costs incurred in conjunction with changing our fiscal year end from the Saturday closest to May 31
- (m) to the Saturday closest to January 31 commencing with the transition period ended January 30, 2010. This change was approved by the administrative agents for the Term Loan and ABL Line of Credit.
- (n) Represents charges incurred in conjunction with a non-recurring litigation reserve as approved by the administrative agents for the Term Loan and ABL Line of Credit.
- (o) Represents one-time transfer taxes incurred with respect to certain leased properties as approved by the administrative agents for the Term Loan and the ABL Line of Credit.

#### Cash Flow for the Nine Months Ended October 30, 2010 Compared With the Nine Months Ended October 31, 2009

We generated \$29.0 million of cash flow for the nine months ended October 30, 2010 compared with generating \$22.7 million of cash flow during the nine months ended October 31, 2009. Net cash provided by operating activities amounted to \$301.1 million for the nine months ended October 30, 2010. For the nine months ended October 31, 2009, net cash provided by operating activities amounted to \$135.1 million. The improvement in net cash provided by operating activities was primarily the result of changes in our working capital. The biggest driver of the improvement relates to cash flow from changes in accounts payable. Cash flow from the change in accounts payable for the nine

months ended October 30, 2010 was \$543.5 million compared with \$189.1 million during the nine months ended October 31, 2009. This was primarily related to our working capital management strategy at the end of the Transition Period pursuant to which we accelerated certain payments that typically would not have been made until the first quarter of Fiscal 2010. In turn, this lowered our accounts payable balance at the end of the Transition Period. Accounts payable as of October 30, 2010 and January 30, 2010 were \$683.4 million and \$139.8 million respectively. The increase in accounts payable from January 30, 2010 to October 30, 2010, resulted in additional cash flow for the nine month period ended October 30, 2010 compared with the nine month period ended October 31, 2009. This improvement in cash flow was partially offset by the seasonal increase in our inventory levels. Typically, our inventory levels are at their lowest in January after the holiday selling season. As October comes to an end, our inventory levels are substantially higher as we are preparing for the holiday selling season. Inventory levels at October 30, 2010 were \$892.2 million compared with \$613.3 million at January 30, 2010.

The increase in cash provided by operating activities was partially offset by increases in net cash used in investing and financing activities. Net cash used in investing activities increased from \$69.7 million for the nine months ended October 31, 2009 to \$135.8 million for the nine months ended October 30, 2010. This increase was primarily the result of a \$33.1 million increase in capital expenditures related to new stores opened, as well as a \$32.4 million increase in restricted cash and cash equivalents due to the establishment of collateral for self-insurance in lieu of a letter of credit for certain insurance contracts.



Cash used in financing activities increased \$93.6 million during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009. The primary driver of the increased use of cash in financing activities was related to repayments, net of borrowings, on our ABL Line of Credit. Repayments, net of borrowings, on our ABL Line of Credit amounted to \$121.2 million for the nine months ended October 30, 2010. For the nine months ended October 31, 2009, net repayments were \$30.0 million. Repayments on the Term Loan for the nine months ended October 30, 2010 were \$12.2 million compared with \$8.1 million during the nine months ended October 31, 2009.

Cash flow and working capital levels assist management in measuring our ability to meet our cash requirements. Working capital measures our current financial position. Working capital is defined as current assets (exclusive of restricted cash) less current liabilities. Working capital at October 30, 2010 was \$160.7 million compared with \$349.7 million at January 30, 2010. The decrease in working capital was primarily the result of increased accounts payable as of October 30, 2010 compared with January 30, 2010.

#### Operational Growth

During the nine months ended October 30, 2010, we opened 24 Burlington Coat Factory Warehouse Stores (BCF Stores) and closed seven BCF Stores, four of which were in locations within the same trading market as four of the new stores that were opened prior to Fiscal 2010, and two that were in locations within the same trading market as two of the new stores that we opened during the nine month period ended October 30, 2010. As of October 30, 2010, we operated stores under the names "Burlington Coat Factory Warehouse" (442 stores), "MJM Designer Shoes" (14 stores), "Cohoes Fashions" (two stores), and "Super Baby Depot" (one store). We estimate that we will spend between \$110 and \$120 million, net of approximately \$34 million of landlord allowances, in capital expenditures during Fiscal 2010, including approximately \$67 million, net of the previously mentioned landlord allowances for store expenditures, \$39 million for information technology, and \$11 million to support continued distribution facility enhancements and other initiatives. For the nine months ended October 30, 2010, capital expenditures, net of landlord allowances, amounted to \$87.6 million.

We monitor the availability of desirable locations for our stores from such sources as dispositions by other retail chains and bankruptcy auctions, as well as locations presented to us by real estate developers, brokers and existing landlords. Most of our stores are located in malls, strip shopping centers, regional power centers or are freestanding. We also lease existing space and are opening some built-to-suit locations. For most of our new leases, our lease model provides for at least a ten year initial term with a number of five year options thereafter. Typically, our lease strategy includes landlord allowances for leasehold improvements. We believe our lease model makes us more competitive with other retailers for desirable locations. We may seek to acquire a number of such locations either through transactions to acquire individual locations or transactions that involve the acquisition of multiple locations simultaneously.

Additionally, we may consider strategic acquisitions. If we undertake such transactions, we may seek additional financing to fund acquisitions and carrying charges (i.e., the cost of rental, maintenance, tax and other obligations associated with such properties from the time of commitment to acquire to the time that such locations can be readied for opening as our stores) related to the newly acquired stores. There can be no assurance, however, that any additional locations will become available from other retailers or that, if available, we will undertake to bid or be successful in bidding for such locations. Furthermore, to the extent that we decide to purchase additional store locations, it may be necessary to finance such acquisitions with additional long-term borrowings.

From time to time we make available for sale certain assets based on current market conditions. These assets are recorded in the line item "Assets Held for Sale" in our Condensed Consolidated Balance Sheets. Based on prevailing

market conditions, we may determine that it is no longer advantageous to continue marketing certain assets and will reclassify those assets out of the line item "Assets Held for Sale" and into the appropriate asset category. Upon this reclassification, we would assess the assets for impairment and reclassify them based on the lesser of their carrying value or fair value less cost to sell.

#### Dividends

Payment of dividends is prohibited under our credit agreements except in limited circumstances. During the nine month periods ended October 30, 2010 and October 31, 2009, we paid dividends of \$0.2 million and \$3.1 million, respectively, which were for the repurchase of a portion of our stock from former employees under the terms of their respective separation agreements.

#### Long-Term Borrowings, Lines of Credit and Capital Lease Obligations

Holdings and each of our current and future subsidiaries, except one subsidiary which is considered minor, have jointly, severally and unconditionally guaranteed BCFWC's obligations pursuant to our \$721 million ABL Line of Credit, \$900 million Term Loan and \$305 million Senior Notes due 2014. As of October 30, 2010, we were in compliance with all of our debt covenants. Significant changes in our debt structure consist of the following:

### \$721 Million ABL Line of Credit

On January 15, 2010, we completed an amendment and restatement of the credit agreement governing our ABL Line of Credit, which (among other things) extended the maturity date for consenting lenders constituting \$600 million of commitments to February 5, 2014. As part of the amendment and restatement, we eliminated the outstanding \$65 million A-1 tranche commitments, although we maintained the ability to restore up to \$65 million of the A-1 tranche with the consent of lenders holding the majority of outstanding commitments. We offered the banks in the terminated A-1 tranche the option to convert to the A tranche or opt out of the agreement altogether. This reduced our total line of credit to \$721 million through May 31, 2011, after which the line of credit will be reduced to \$600 million through the new maturity date. The \$600 million ABL Line of Credit has a springing maturity requirement whereby the ABL Line of Credit will mature 45 days prior to May 28, 2013, the maturity date of the Term Loan, if the Term Loan is not extended or refinanced prior to such date unless the pro forma credit availability condition has been satisfied after implementation of a Term Loan maturity reserve or the outstanding principal amount under the Term Loan maturing prior to February 5, 2014 is not more than \$75 million. We believe the \$600 million line of credit will provide adequate liquidity to support our operating activities. A further description of the amended and restated credit agreement governing the ABL Line of Credit and related transactions, including a description of covenants, fees and interest rates, is contained in Item 1.01 of our Current Report on Form 8-K, filed with the SEC on January 19, 2010.

The facility carries an interest rate of LIBOR plus a spread which is determined by our annual average borrowings outstanding. Commitment fees of 0.75% to 1.0%, based on our actual usage of the line of credit, will be charged on the unused portion of the facility and will be included in the line item "Interest Expense" on the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

During the nine month period ended October 30, 2010, we made repayments of principal, net of borrowings, in the amount of \$121.2 million. As of October 30, 2010, no balance remained outstanding under the ABL Line of Credit and we had unused availability of \$559.9 million.

### \$900 Million Term Loan

On February 25, 2010, we entered into a second amendment to the credit agreement governing the Term Loan. Among other things, the amendment provides that consolidated EBITDA (as defined in the credit agreement governing the Term Loan) will be increased or decreased for any period to the extent necessary to eliminate the effects during such period of any increase or decrease in legal, auditing, consulting, and accounting related expenses for such period relating directly to our change in fiscal year compared to the amount of such expenses that would have been incurred in such period had the fiscal year change not occurred. The amendment also provides that for purposes of any calculation of consolidated interest coverage ratio and consolidated leverage ratio, as of the last day of any fiscal quarter ending on or after January 30, 2010 and prior to the completion of the fiscal year ending the Saturday closest to January 31, 2011, consolidated EBITDA and consolidated interest expense will be determined for the most recent period of twelve consecutive fiscal months. Pursuant to the terms of the amendment, we paid a fee to each lender consenting to the amendment in the amount of 0.05% (or \$0.4 million in the aggregate) of the principal amount of such lender's outstanding loan under the credit agreement governing the Term Loan. A further description of the second amendment to the credit agreement governing the Term Loan is contained in Item 1.01 of our Current Report on Form 8-K, filed with the SEC on February 26, 2010.

As of October 30, 2010, we had \$852.6 million outstanding under the Term Loan, which carried an interest rate of 2.5%. Based on our available free cash flow as of January 30, 2010, we made a repayment of principal in the amount of \$11.5 million. This repayment, which was made during the nine months ended October 30, 2010, offsets the mandatory quarterly payments of \$2.3 million through the second quarter of the fiscal year ending January 28, 2012.

(Fiscal 2011) and \$0.3 million of the mandatory quarterly payment for the third quarter of Fiscal 2011.

#### 14.5% Senior Discount Notes

As part of our issuance of the 14.5% Senior Discount Notes, we are required to make a \$13.4 million High Yield Discount Obligation payment by April 13, 2011. The amount of the payment is included in the line item "Current Maturities of Long-Term Debt" on our Condensed Consolidated Balance Sheet as of October 30, 2010.

#### Off-Balance Sheet Arrangements

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

## Contingencies and Contractual Obligations

### Legal

We establish reserves relating to legal claims in connection with litigation to which we are party from time to time in the ordinary course of business. The aggregate amount of such reserves was \$6.9 million, \$11.6 million and \$5.0 million as of October 30, 2010, January 30, 2010 and October 31, 2009, respectively. We believe that potential liabilities in excess of those recorded will not have a material adverse effect on our Condensed Consolidated Financial Statements. However, there can be no assurances to this effect.

We are party to various litigation matters, in most cases involving ordinary and routine claims incidental to our business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending litigation matters. However, we believe, based on our examination of such matters, that our ultimate liability will not have a material adverse effect on our financial position, results of operations or cash flows.

A putative class action lawsuit, entitled May Vang, and all others similarly situated, v Burlington Coat Factory Warehouse Corporation, Case No. 09-CV-08061-CAS, was filed in the Superior Court of the State of California on September 17, 2009. The named plaintiff purports to assert claims on behalf of all current, former, and future employees in the United States and the State of California for the relevant statutory time period. Plaintiff filed an amended complaint on November 16, 2009. The amended complaint asserts claims for failure to pay all earned hourly wages in violation of the Fair Labor Standards Act (FLSA), failure to pay all earned hourly wages in violation of the California Labor Code, providing compensatory time off in lieu of overtime pay, forfeiture of vacation pay, failure to provide meal and rest periods, secret payment of lower wages than that required by statute or contract, failure to provide accurate, written wage statements, and unfair competition. The complaint seeks certification as a class with respect to the FLSA claims, certification of a class with respect to California law claims, appointment of class counsel and class representative, civil penalties, statutory penalties, declaratory relief, injunctive relief, actual damages, liquidated damages, restitution, pre-judgment interest, costs of suit and attorney's fees. We intend to vigorously defend this action.

There have been no significant changes to our contractual obligations and commercial commitments table as disclosed in our Transition Report on Form 10-K/T, except as follows:

### Lease Agreements

We enter into lease agreements during the ordinary course of business in order to secure favorable store locations. As of October 30, 2010, we had committed to two new lease agreements for locations at which stores are expected to be opened in Fiscal 2010. The two new stores are expected to have minimum lease payments of \$0.3 million, \$1.6 million, \$1.6 million, \$1.6 million and \$11.5 million during the remainder of the fiscal year ending January 29, 2011, and for the fiscal years ending January 28, 2012, February 2, 2013, February 1, 2014 and all subsequent years thereafter, respectively.

### Letters of Credit

We had letter of credit arrangements with various banks in the aggregate amount of \$40.5 million and \$54.2 million as of October 30, 2010 and October 31, 2009, respectively. Among these arrangements were letters of credit in the amount of \$30.4 million and \$44.7 million at October 30, 2010 and October 31, 2009, respectively, guaranteeing performance under various insurance contracts and utility agreements. We also had no outstanding letters of credit at October 30, 2010 and \$1.2 million at October 31, 2009 guaranteeing our Industrial Revenue Bonds. Finally, we had

outstanding commercial letter of credit agreements in the amount of \$10.1 million and \$8.3 million at October 30, 2010 and October 31, 2009 respectively, for purchase commitments related to imported inventory.

#### Safe Harbor Statement

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

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

#### Recent Accounting Pronouncements

Refer to Note 18 to the Condensed Consolidated Financial Statements entitled "Recent Accounting Pronouncements" for a discussion of recent accounting pronouncements and their impact on our Condensed Consolidated Financial Statements.

#### Recast Financial Highlights

In order to conform to the predominant fiscal calendar used within the retail industry, on February 25, 2010 our Board of Directors approved a change in our fiscal year from a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to May 31 to a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to January 31. As a result of that change, we have included the following recast financial highlights by quarter for the last four quarters of the twelve month period ended January 30, 2010.

Included in our Recast Financial Highlights below are certain non-GAAP measures that we believe are useful supplemental information in evaluating the performance of our business and which provide greater transparency into our results of operations. These non-GAAP measures include a combined recast twelve month Condensed Consolidated Statement of Operations for the twelve months ended January 30, 2010, a net debt metric, and an adjusted EBITDA metric, all of which are further described below.

The combined recast twelve month Condensed Consolidated Statement of Operations for the twelve months ended January 30, 2010 is a non-GAAP measure of our operating results. It represents the sum of the previous four quarters, as disclosed below. The combined recast twelve month Condensed Consolidated Statement of Operations for the twelve months ended January 30, 2010 does not represent a fiscal period for the Company, but has been presented as a non-GAAP financial measure to provide users additional information. This metric provides management, including our chief operating decision maker, with helpful information with respect to our comparative periods and our ability to comply with various covenants in each indenture governing our outstanding notes and the credit agreements governing our senior secured credit facilities which are material to our financial condition and financial statements.

Net debt is a non-GAAP financial measure of our financial position. Net debt is defined as the difference between our total outstanding debt as of the balance sheet date, less our cash and cash equivalents as of the same balance sheet date. Net debt provides management, including our chief operating decision maker, with helpful information with respect to our operations and financial position.

Net debt has limitations as an analytical tool, and should not be considered either in isolation or as a substitute for total debt or other data prepared in accordance with GAAP. The primary limitation of net debt as an analytical tool is that it does not take into consideration that we are not required to use the available cash on hand to pay down the debt.

Adjusted EBITDA is a non-GAAP financial measure of our liquidity. Adjusted EBITDA, as defined in the credit agreement governing our Term Loan, starts with consolidated net income (loss) for the period and adds back (i) depreciation, amortization, impairments and other non-cash charges that were deducted in arriving at consolidated net income (loss), (ii) the provision (benefit) 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. Adjusted EBITDA is used to calculate the consolidated leverage ratio. We present Adjusted EBITDA because we believe it is a useful supplemental measure in evaluating the performance of our business and provides greater transparency into our results of operations. Adjusted EBITDA provides management, including our chief operating decision maker, with helpful information with respect to our operations such as our ability to meet our future debt service, fund our capital expenditures and working capital requirements, and comply with various covenants in each indenture governing our outstanding notes and the credit agreements governing our senior secured credit facilities which are material to our financial condition and financial statements.



Adjusted EBITDA has limitations as an analytical tool, and should not be considered either in isolation or as a substitute for net income or other data prepared in accordance with GAAP or for analyzing our results or cash flows from operating activities, as reported under GAAP. Some of these limitations include:

- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
  - Adjusted EBITDA does not reflect our income tax expense or the cash requirements to pay our taxes;
- Adjusted EBITDA does not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will likely have to be replaced in the future, and Adjusted EBITDA measures do not reflect any cash requirements for such replacements; and
- Other companies in our industry may calculate Adjusted EBITDA differently such that our calculation may not be directly comparable.

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries  
Consolidated Statement of Operations  
(All amounts in thousands)  
(Unaudited)

	Recast For The Three Month Periods Ended				12 Months Ended
	May 2, 2009	August 1, 2009	October 31, 2009	January 30, 2010	January 30, 2010
<b>REVENUES:</b>					
Net Sales	\$ 830,043	\$ 700,978	\$ 872,374	\$ 1,119,519	\$ 3,522,914
Other Revenue	7,060	6,724	7,988	9,068	30,840
Total Revenue	837,103	707,702	880,362	1,128,587	3,553,754
<b>COSTS AND EXPENSES:</b>					
Cost of Sales	554,211	424,249	523,465	679,782	2,181,707
Selling and Administrative Expenses	262,108	266,541	281,569	303,742	1,113,960
Restructuring and Separation Costs	5,023	81	1,190	1,158	7,452
Depreciation and Amortization	39,679	37,666	36,210	42,833	156,388
Interest Expense	20,918	16,766	20,587	26,152	84,423
Impairment Charges – Long-Lived Assets	9,386	42	6,437	40,276	56,141
Impairment Charges – Tradenames	15,250	-	-	-	15,250
	2,921	(9,267)	(2,558)	(7,731)	(16,635)

Other Expense (Income), Net						
Total Costs and Expenses	909,496	736,078	866,900	1,086,212	3,598,686	
(Loss) Income Before Income Tax	(72,393)	(28,376)	13,462	42,375	(44,932)	
(Benefit) Provision for Income Taxes	(35,477)	(15,856)	5,951	15,629	(29,753)	
Net (Loss) Income	\$ (36,916)	\$ (12,520)	\$ 7,511	\$ 26,746	\$ (15,179)	

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries  
Key Balance Sheet Items  
(All amounts in thousands)  
(Unaudited)

	As Reported	Recast			
	October 30, 2010 (a)	May 2, 2009	August 1, 2009	October 31, 2009	January 30, 2010
Cash and Cash Equivalents	\$ 53,723	\$ 61,787	\$ 25,819	\$ 64,404	\$ 24,750
Merchandise Inventories	892,193	672,216	661,538	845,973	613,295
Accounts Payable	683,351	464,279	401,711	587,713	139,802
ABL Line of Credit	-	-	18,700	-	121,200
All Other Debt	1,278,694	1,301,270	1,299,219	1,292,161	1,292,153
Net Debt	1,224,971	1,239,483	1,292,100	1,227,757	1,388,603

(a) Represents key Balance Sheet items as of October 30, 2010 as reported.



Reconciliation of Net Income (Loss) to Adjusted EBITDA  
 Reconciliation of Adjusted EBITDA to Cash Flow Provided by Operating Activities  
 (All amounts in thousands)  
 (Unaudited)

	Recast for the Three Month Periods Ended				Recast for the Twelve Months Ended
	May 2, 2009	August 1, 2009	October 31, 2009	January 30, 2010	January 30, 2010
Reconciliation of Net Income (Loss) to Adjusted EBITDA:					
Net (Loss) Income	\$ (36,916)	\$ (12,520)	\$ 7,511	\$ 26,746	\$ (15,179)
Interest Expense	20,918	16,766	20,587	26,152	84,423
Income Tax (Benefit) Expense	(35,477)	(15,856)	5,951	15,629	(29,753)
Depreciation and Amortization	39,679	37,666	36,210	42,833	156,388
Impairment Charges – Long-Lived Assets	9,386	42	6,437	40,276	56,141
Impairment Charges – Tradenames	15,250	-	-	-	15,250
Interest Income	(84)	(55)	(63)	(101)	(303)
Non Cash Straight-Line					
Rent Expense (a)	1,256	1,004	1,195	1,865	5,320
Advisory Fees (b)	983	1,021	1,066	1,128	4,198
Stock Compensation Expense (c)	3,006	1,238	(621)	768	4,391
Sox Compliance (d)	112	-	-	-	112
Amortization of Purchased					
Lease Rights (e)	252	228	208	208	896
Severance (f)	833	81	1,134	1,049	3,097
CEO Transition costs (g)	2,364	(217)	-	-	2,147
Franchise Taxes (h)	285	700	334	301	1,620
Insurance Reserve (i)	(1,518)	6,935	(523)	4,143	9,037
Advertising Expense					
Related to Barter (j)	398	144	441	1,292	2,275
Loss (Gain) on Disposal of Fixed Assets (k)	200	339	(32)	5,653	6,160
Loss (Gain) on Investments (l)	2,991	-	(106)	(3,744)	(859)
	-	-	-	1,445	1,445

## Change in Fiscal Year End

## Costs (m)

Adjusted EBITDA	\$ 23,918	\$ 37,516	\$ 79,729	\$ 165,643	\$ 306,806
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## Reconciliation of Adjusted

## EBITDA to Net Cash

## Provided by (Used In)

## Operating Activities:

Adjusted EBITDA	\$ 23,918	\$ 37,516	\$ 79,729	\$ 165,643	\$ 306,806
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Interest Expense	(20,918)	(16,766)	(20,587)	(26,152)	(84,423)
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## Changes in Operating

Assets and Liabilities	27,870	(42,957)	40,296	(246,093)	(220,884)
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Other Items, Net	46,666	(2,503)	(17,138)	(20,544)	6,481
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## Net Cash Provided by

## (Used in) Operating

Activities	\$ 77,536	\$ (24,710)	\$ 82,300	\$ (127,146)	\$ 7,980
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## Net Cash (Used in)

Investing Activities	\$ (24,272)	\$ (27,745)	\$ (17,699)	\$ (19,749)	\$ (89,465)
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## Net Cash (Used in)

## Provided by Financing

Activities	\$ (33,183)	\$ 16,486	\$ (26,016)	\$ 107,242	\$ 64,529
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During the Transition Period, in accordance with the credit agreement governing the Term Loan and ABL Line of Credit, and with approval from the administrative agents for the Term Loan and ABL Line of Credit, we changed our methodology of calculating Adjusted EBITDA such that costs incurred in connection with our change in fiscal year end (quantified in note (m) to the foregoing table) are added back to consolidated net income (loss) when calculating Adjusted EBITDA. This change has no impact on the Adjusted EBITDA amounts presented for prior periods.

(a) Represents the difference between the actual base rent and rent expense calculated in accordance with GAAP (on a straight line basis), in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

- (b) Represents the annual advisory fee of Bain Capital expensed during the fiscal periods, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.
- (c) Represents expenses recorded under ASC Topic No. 718 "Stock Compensation" during the fiscal periods, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.
- (d) As a voluntary non-accelerated filer, we furnished our initial management report on Internal Controls Over Financial Reporting in our Annual Report on Form 10-K for Fiscal 2008. These costs represent professional fees related to this compliance effort that were incurred during Fiscal 2008 and the first quarter of Fiscal 2009, as well as fees incurred as part of our ongoing internal controls compliance effort for Fiscal 2009, as approved by the administrative agents for the Term Loan and ABL Line of Credit.
- (e) Represents amortization of purchased lease rights which are recorded in rent expense within our selling and administrative line items, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.
- (f) Represents a severance charge resulting from a reduction of our workforce as part of our ongoing cost reduction initiative (refer to Note 4 to our Condensed Consolidated Financial Statements entitled "Restructuring and Separation Costs" for further discussion), in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.
- (g) Represents recruiting costs incurred in connection with the hiring of our new President and Chief Executive Officer on December 2, 2008, and other benefits payable to our former President and Chief Executive Officer pursuant to the separation agreement we entered into with him on February 16, 2009. Both of these adjustments were approved by the administrative agents for the Term Loan and ABL Line of Credit.
- (h) Represents franchise taxes paid based on our equity, as approved by the administrative agents for the Term Loan.
- (i) Represents the non-cash change in reserves based on estimated general liability, workers compensation and health insurance claims as approved by the administrative agents for the Term Loan and ABL Line of Credit.
- (j) Represents non-cash advertising expense based on the usage of barter advertising credits obtained as part of a non-cash exchange of inventory, as approved by the administrative agents for the Term Loan and ABL Line of Credit.
- (k) Represents the gross non-cash loss (gain) recorded on the disposal of certain assets in the ordinary course of business, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.
- (l) Represents the loss (gain) on our investment in the Reserve Primary Fund (Fund), related to a decline in the fair value of the underlying securities held by the Fund, as approved by the administrative agents for the Term Loan and ABL Line of Credit.
- (m) Represents costs incurred in conjunction with changing our fiscal year end from the Saturday closest to May 31 to the Saturday closest to January 31 commencing with the transition period ended January 30, 2010. This change was approved by the administrative agents for the Term Loan and ABL Line of Credit.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks as part of our ongoing business operations. Primary exposures include changes in interest rates, as borrowings under our ABL Line of Credit and Term Loan will bear interest at floating rates based on LIBOR or the base rate, in each case plus an applicable borrowing margin and investing activities.

We will manage our interest rate risk by balancing the amount of fixed-rate and floating-rate debt and through the use of interest rate cap agreements. For fixed-rate debt, interest rate changes do not affect earnings or cash flows. Conversely, for floating-rate debt, interest rate changes generally impact our earnings and cash flows, assuming other factors are held constant.

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At October 30, 2010, we had \$426.1 million principal amount of fixed-rate debt, inclusive of capital leases, and \$852.6 million of floating-rate debt. Based on \$852.6 million outstanding as floating rate debt, an immediate increase of one percentage point, excluding the interest rate caps, would cause an increase to cash interest expense of approximately \$8.5 million per year, resulting in \$8.5 million less in our pre-tax earnings. This sensitivity analysis assumes our mix of financial instruments and all other variables will remain constant in future periods. These assumptions are made in order to facilitate the analysis and are not necessarily indicative of our future intentions.

If a one percentage point increase in interest rates were to occur over the next four quarters excluding the interest rate cap, such an increase would result in the following additional interest expenses (assuming current borrowing level remains constant):

	(in thousands)				
Floating Rate Debt	Principal Outstanding at October 30, 2010	Additional Interest Expense Q4 2010	Additional Interest Expense Q1 2011	Additional Interest Expense Q2 2011	Additional Interest Expense Q3 2011
Term Loan	\$ 852,550	\$ 2,131	\$ 2,131	\$ 2,126	\$ 2,121



We have two interest rate cap agreements for a maximum principal amount of \$900.0 million which limit our interest rate exposure to 7% on our first \$900.0 million dollars of borrowings under our variable rate debt obligations. If interest rates were to increase above the 7% cap rate, then our maximum interest rate exposure would be \$40.3 million assuming constant current borrowing levels of \$900.0 million. Currently, we have unlimited interest rate risk related to our variable rate debt in excess of \$900 million. As of October 30, 2010, the borrowing rate related to our Term Loan was 2.5%.

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

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

#### Item 4. Controls and Procedures.

Our management team, under the supervision and with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), as of the last day of the fiscal period covered by this report, October 30, 2010. The term disclosure controls and procedures means our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of October 30, 2010.

During the three months ended October 30, 2010, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings.

A putative class action lawsuit, entitled May Vang, and all others similarly situated, v. Burlington Coat Factory Warehouse Corporation, Case No. 09-CV-08061-CAS, was filed in the Superior Court of the State of California on September 17, 2009. The named plaintiff purports to assert claims on behalf of all current, former, and future employees in the United States and the State of California for the relevant statutory time period. Plaintiff filed an amended complaint on November 16, 2009. The amended complaint asserts claims for failure to pay all earned

hourly wages in violation of the Fair Labor Standards Act (FLSA), failure to pay all earned hourly wages in violation of the California Labor Code, providing compensatory time off in lieu of overtime pay, forfeiture of vacation pay, failure to provide meal and rest periods, secret payment of lower wages than that required by statute or contract, failure to provide accurate, written wage statements, and unfair competition. The complaint seeks certification as a class with respect to the FLSA claims, certification of a class with respect to California law claims, appointment of class counsel and class representative, civil penalties, statutory penalties, declaratory relief, injunctive relief, actual damages, liquidated damages, restitution, pre-judgment interest, costs of suit and attorney's fees. We intend to vigorously defend this action.

In addition to the litigation discussed above we are party to various other litigation matters, in most cases involving ordinary and routine claims incidental to our business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending litigation matters. However, we believe, based on our examination of such matters, that our ultimate liability will not have a material adverse effect on our financial position, results of operations or cash flows.

#### Item 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A of our Transition Report on Form 10-K/T.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Removed and Reserved.

Item 5. Other Information.

None.

Item 6. Exhibits.

- |      |   |
|------|---|
| 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a - 14(a) or Rule 15d - 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a - 14(a) or Rule 15d - 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2 | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

/s/ Thomas A. Kingsbury

Thomas A. Kingsbury  
President & Chief Executive  
Officer

/s/ Todd Weyhrich  
Todd Weyhrich  
Executive Vice President &  
Chief Financial Officer  
(Principal Financial Officer)

Date: December 14, 2010

