Burlington Coat Factory Investments Holdings, Inc.
Form 10-Q
December 17, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 2, 2013

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 333-137916-110

BURLINGTON COAT FACTORY

INVESTMENTS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

As of December 17, 2013, the registrant has 1,000 shares of common stock outstanding, all of which are owned by Burlington Coat Factory Holdings, LLC, the registrant s parent holding company, and are not publicly traded.

*

The Registrant has filed all reports required to be filed by Section 13 of 15(d) of the Securities Exchange Act of 1934, but is not required to file such reports under such sections.

Table of Contents

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

INDEX

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(All amounts in thousands)

	November 2, 2013	February 2, 2013	October 27, 2012
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 28,360	$ 43,336	$ 30,169
Restricted Cash and Cash Equivalents	34,800	34,800	34,800
Accounts Receivable, Net of Allowances for Doubtful Accounts	54,619	41,734	43,638
Merchandise Inventories	902,426	680,190	844,991
Deferred Tax Assets	14,209	6,133	16,283
Prepaid and Other Current Assets	77,023	66,052	46,173
Prepaid Income Taxes	9,534	7,218	31,961
Assets Held for Sale		191	483
Total Current Assets	1,120,971	879,654	1,048,498
Property and Equipment Net of Accumulated Depreciation	895,412	878,305	893,690
Tradenames	238,000	238,000	238,000
Favorable Leases Net of Accumulated Amortization	299,429	322,081	338,443
Goodwill	47,064	47,064	47,064
Other Assets	125,837	112,978	114,307
Total Assets	$ 2,726,713	$ 2,478,082	$ 2,680,002
LIABILITIES AND STOCKHOLDER S DEFICIT			
Current Liabilities:			
Accounts Payable	$ 708,399	$ 500,406	$ 678,092
Other Current Liabilities	272,400	238,865	252,916
Current Maturities of Long Term Debt	9,683	784	5,515
Total Current Liabilities	990,482	740,055	936,523
Long Term Debt	1,362,079	1,335,532	1,422,571
Other Liabilities	243,461	229,425	217,313
Deferred Tax Liabilities	249,585	253,339	254,082
Commitments and Contingencies (Notes 3, 4, 10 and 11)			
Stockholder s Deficit:			

Common Stock (Par Value $0.01; 1,000 Shares Issued and Outstanding)			
Capital in Excess of Par Value	473,134	479,572	477,298
Accumulated Deficit	(592,028)	(559,841)	(627,785)
Total Stockholder s Deficit	(118,894)	(80,269)	(150,487)
Total Liabilities and Stockholder s Deficit	$ 2,726,713	$ 2,478,082	$ 2,680,002

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(All amounts in thousands)

	Nine Months Ended		Three Months Ended	
	November 2, 2013	**October 27, 2012**	**November 2, 2013**	**October 27, 2012**
REVENUES:				
Net Sales	$ 3,093,226	$ 2,814,497	$ 1,064,502	$ 967,894
Other Revenue	24,098	23,051	8,353	7,958
Total Revenue	3,117,324	2,837,548	1,072,855	975,852
COSTS AND EXPENSES:				
Cost of Sales	1,917,610	1,757,823	649,637	594,389
Selling and Administrative Expenses	1,017,610	945,207	363,149	334,975
Costs Related to Debt Amendments and Parent s Initial Public Offering	21,507	3,225	10,050	131
Stock Option Modification Expense	9,031		1,768	
Restructuring and Separation Costs (Note 4)	2,179	2,441		635
Depreciation and Amortization	126,310	120,748	41,071	40,844
Impairment Charges Long-Lived Assets	382	1,100	243	1,021
Other Income, Net	(6,308)	(6,330)	(1,703)	(1,913)
Loss on Extinguishment of Debt	617	3,413		
Interest Expense (Inclusive of Gain (Loss) on Interest Rate Cap Agreements)	75,610	84,529	24,471	27,421
Total Costs and Expenses	3,164,548	2,912,156	1,088,686	997,503
Loss Before Income Tax Benefit	(47,224)	(74,608)	(15,831)	(21,651)
Income Tax Benefit	(15,037)	(31,964)	(3,869)	(14,204)
Net Loss	$ (32,187)	$ (42,644)	$ (11,962)	$ (7,447)
Total Comprehensive Loss	$ (32,187)	$ (42,644)	$ (11,962)	$ (7,447)

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(All amounts in thousands)

	Nine Months Ended	
	November 2, 2013	October 27, 2012
OPERATING ACTIVITIES		
Net Loss	$ (32,187)	$ (42,644)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	126,310	120,748
Impairment Charges Long-Lived Assets	382	1,100
Amortization of Debt Issuance Costs	5,573	4,138
Accretion of Senior Notes	1,399	1,241
Interest Rate Cap Agreement Adjustment to Market	67	19
Provision for Losses on Accounts Receivable	131	105
Deferred Income Tax Benefit	(11,830)	(16,021)
Loss on Retirement of Fixed Assets	280	396
Loss on Extinguishment of Debt Write-off of Deferred Financing Fees	466	3,413
Excess Tax Benefit from Stock Based Compensation		(302)
Non-Cash Stock Based Compensation Expense	8,202	1,968
Non-Cash Rent Expense	(6,859)	(6,532)
Changes in Assets and Liabilities:		
Accounts Receivable	(7,374)	(11,883)
Merchandise Inventories	(222,236)	(162,731)
Prepaid and Other Current Assets	(13,287)	(16,754)
Accounts Payable	207,993	401,807
Other Current Liabilities and Income Tax Payable	23,012	23,040
Deferred Rent Incentives	19,171	19,320
Other Long Term Assets and Long Term Liabilities	(272)	(7,232)
Net Cash Provided by Operating Activities	$ 98,941	$ 313,196
INVESTING ACTIVITIES		
Cash Paid for Property and Equipment	(122,248)	(129,254)
Proceeds from Sale of Property and Equipment and Assets Held for Sale	181	407
Lease Acquisition Costs		(430)
Net Cash Used in Investing Activities	$ (122,067)	$ (129,277)
FINANCING ACTIVITIES		
Proceeds from Long Term Debt ABL Line of Credit	706,800	404,500
Principal Payments on Long Term Debt ABL Line of Credit	(668,800)	(572,800)
Proceeds from Long Term Debt Term Loan		116,913

Principal Payments on Long Term Debt Term Loan	(4,355)	(135,749)
Repayment of Capital Lease Obligations	(684)	(521)
Payment of Dividends	(254,453)	(1,711)
Proceeds from Equity Investment	239,813	
Stock Option Exercise and Related Tax Benefits		761
Debt Issuance Costs	(10,171)	(807)
Net Cash Provided by (Used in) Financing Activities	$ 8,150	$ (189,414)
Decrease in Cash and Cash Equivalents	(14,976)	(5,495)
Cash and Cash Equivalents at Beginning of Period	43,336	35,664
Cash and Cash Equivalents at End of Period	$ 28,360	$ 30,169
Supplemental Disclosure of Cash Flow Information		
Interest Paid	$ 81,300	$ 91,274
Net Income Tax Payments	$ 2,029	$ 4,029
Non-Cash Investing Activities:		
Accrued Purchases of Property and Equipment	$ 21,848	$ 22,150
Acquisition of Capital Lease	$ 887	

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

November 2, 2013

(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 its subsidiaries (the Company or Holdings). All inter-company accounts and transactions have been eliminated in consolidation. The Condensed Consolidated Financial Statements are unaudited, but in the opinion of management reflect all adjustments (which are of a normal and recurring nature) necessary for the fair presentation of the results of operations for the interim periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the audited Consolidated Financial Statements and notes included in the Company s Annual Report on Form 10-K for the fiscal year ended February 2, 2013 (Fiscal 2012 10-K). The balance sheet at February 2, 2013 presented herein has been derived from the audited Consolidated Financial Statements contained in the Fiscal 2012 10-K. Because the Company s business is seasonal in nature, the operating results for the nine and three month periods ended November 2, 2013 are not necessarily indicative of results for the fiscal year ending February 1, 2014 (Fiscal 2013).

Accounting policies followed by the Company are described in Note 1 to the audited Consolidated Financial Statements contained in the Fiscal 2012 10-K.

On February 28, 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-04, Joint and Several Obligations (ASU 2013-04). In accordance with ASU 2013-04, an entity is required to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date. Required disclosures include a description of the joint and several arrangements and the total outstanding amount of the obligation for all joint parties. ASU 2013-04 is effective for all annual and interim periods in fiscal years beginning after December 15, 2013. However, early adoption is permitted. The Company has elected not to early adopt in the current fiscal year and does not expect ASU 2013-04, once adopted, to have a material impact on the Company s financial position or results of operations.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). ASU 2013-11 states that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, if available at the reporting date under the applicable tax law to settle any additional income taxes that would result from the disallowance of a tax position. If the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability. The amendments in ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. However, early adoption is permitted. The Company has elected not to early adopt in the current fiscal year and does not expect ASU 2013-11, once adopted, to have a material impact on the Company s financial position or results of operations.

There were no other new accounting standards that had a material impact on the Company s Condensed Consolidated Financial Statements during the nine month period ended November 2, 2013 and there were no new accounting standards or pronouncements that were issued but not yet effective as of November 2, 2013 that the Company expects to have a material impact on its financial position or results of operations upon becoming effective.

6

Table of Contents

Parent s Initial Public Offering

On October 7, 2013, Burlington Stores, Inc., the Company s indirect parent (Parent) completed its initial public offering (the Offering). Prior to the Offering, each outstanding share of Parent s Class A common stock was automatically cancelled and then each outstanding share of Parent s Class L common stock was automatically converted into one share of Parent s Class A common stock. Parent then effected an 11-for-1 split of Parent s Class A common stock and then reclassified Parent s Class A common stock into common stock. Collectively, these transactions should be referred to as the Reclassification.

2. Stockholder s Deficit

Activity for the nine month periods ended November 2, 2013 and October 27, 2012 in the Company s stockholder s deficit are summarized below:

	(in thousands)			
	Common Stock	**Capital in Excess of Par Value**	**Accumulated Deficit**	**Total**
Balance at February 2, 2013	$	$ 479,572	$ (559,841)	$ (80,269)
Net Loss			(32,187)	(32,187)
Stock Based Compensation		8,202		8,202
Dividends(a)		(254,453)		(254,453)
Equity Investment		239,813		239,813
Balance at November 2, 2013	$	$ 473,134	$ (592,028)	$ (118,894)

	(in thousands)			
	Common Stock	**Capital in Excess of Par Value**	**Accumulated Deficit**	**Total**
Balance at January 28, 2012	$	$ 474,569	$ (585,514)	$ (110,945)
Net Loss			(42,644)	(42,644)
Stock Options Exercised and Related Tax Benefits (b)		761		761
Stock Based Compensation		1,968		1,968
Dividend Forfeitures			373	373
Balance at October 27, 2012	$	$ 477,298	$ (627,785)	$ (150,487)

(a) Represents dividends paid to the Issuers in order to pay fees in connection with the issuance of the 2018 Notes (each capitalized term is defined in Note 3 to the Company s Condensed Consolidated Financial Statements entitled Long Term Debt).

(b) Stock options exercised were contributed by Parent.

Table of Contents

3. Long Term Debt

Long term debt consists of:

	(in thousands)		
	November 2 2013	**February 2, 2013**	**October 27, 2012**
$1,000,000 Senior Secured Term Loan Facility, LIBOR (with a floor of 1.3%) plus 4.3%, matures on February 23, 2017.	$ 860,327	$ 863,084	$ 932,907
$450,000 Senior Notes, 10%, due at maturity on February 15, 2019, semi-annual interest payments on August 15 and February 15, from February 15, 2014 to February 15, 2019.	450,000	450,000	450,000
$600,000 ABL Senior Secured Revolving Facility, LIBOR plus spread based on average outstanding balance, expires September 2, 2016.	38,000		21,700
Capital Lease Obligations	23,435	23,232	23,479
Total debt	1,371,762	1,336,316	1,428,086
Less: current maturities	(9,683)	(784)	(5,515)
Long-term debt, net of current maturities	$ 1,362,079	$ 1,335,532	$ 1,422,571

$1 Billion Senior Secured Term Loan Facility (Term Loan Facility)

On February 15, 2013, BCFWC entered into Amendment No. 2 (Second Amendment) to the credit agreement governing its $1,000.0 million Senior Secured Term Loan Facility (Term Loan Credit Agreement). The Second Amendment created a restricted payments basket of $25.0 million and permits the Company to use the available amount to make restricted payments (which basket includes retained excess cash flow, in an amount not to exceed 50% of BCFWC s consolidated net income (as defined in the indenture governing the 10% Senior Notes due 2019 (the 2019 Notes)) since the second quarter of Fiscal 2011), in each case so long as certain conditions are satisfied. In connection with the Second Amendment, the Company incurred a $1.6 million amendment fee that was capitalized and included in the line item Other Assets on the Company s Condensed Consolidated Balance Sheet. Additionally, the Company incurred $8.9 million of additional fees, inclusive of an $8.6 million fee payable to Bain Capital, for various consulting and advisory services. These fees were included in the line item Costs Related to Debt Amendments and Parent s Initial Public Offering on the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss.

On May 17, 2013, BCFWC entered into Amendment No. 3 (Third Amendment) to the Term Loan Credit Agreement, in order to, among other things, reduce the interest rates applicable to the Senior Secured Term Loan Facility by 100 basis points (provided that such interest rates shall be further reduced by 25 basis points if BCFWC s consolidated secured leverage ratio is less than or equal to 2.25:1) and to reduce the LIBOR floor by 25 basis points. The Third Amendment was accomplished by replacing the outstanding $871.0 million principal amount of term B-1 loans (the Term B-1 Loans) with a like aggregate principal amount of term B-2 loans (the Term B-2 Loans).

The Term B-2 Loans have the same maturity date that was applicable to the Term B-1 Loans. The Term Loan Credit Agreement provisions relating to the representations and warranties, covenants and events of default applicable to the Company and the guarantors were not modified by the Third Amendment.

As a result of the Third Amendment, mandatory quarterly payments of $2.2 million are payable as of the last day of each quarter. Payments commenced on August 3, 2013. Mandatory quarterly payments for the next 12 months have been recorded in the Company s Condensed Consolidated Balance Sheet in the line item Current Maturities of Long Term Debt. In accordance with ASC Topic No. 470-50, Debt Modifications and Extinguishments (Topic 470), the Company recognized a loss on the extinguishment of debt of $0.6 million, which was recorded in the line item Loss on Extinguishment of Debt in the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss during the second quarter of Fiscal 2013. In connection with the amendment, the Company paid an $8.7 million prepayment premium. In accordance with Topic 470, $8.6 million of this prepayment premium was capitalized and included in the line item Other Assets, in the Company s Condensed Consolidated Balance Sheet. In addition, third party fees of $2.6 million were recorded in the line item Costs Related to Debt Amendments and Parent s Initial Public Offering in the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss during the second quarter of Fiscal 2013.

The Term Loan Credit Agreement contains financial, affirmative and negative covenants and requires that BCFWC, exclusive of subsidiaries (referred to herein as BCFW), among other things, maintain on the last day of each fiscal quarter a consolidated leverage ratio not to exceed a maximum amount and maintain a consolidated interest coverage ratio of at least a certain amount. The consolidated leverage ratio compares the Company s total debt to Covenant EBITDA (as defined in the Term Loan Credit Agreement) for the trailing twelve months, and such ratios may not exceed 6.25 to 1 through November 2, 2013; 5.50 to 1 through November 1, 2014; 5.00 to 1 through October 31, 2015; and 4.75 to 1 at January 30, 2016 and thereafter. The consolidated interest coverage ratio compares the Company s consolidated interest expense to Covenant EBITDA for the trailing twelve months, and such ratios must exceed 1.85 to 1 through November 2, 2013; 2.00 to 1 through October 31, 2015; and 2.10 to 1 at January 30, 2016 and thereafter. The consolidated leverage ratio and interest coverage ratio as of November 2, 2013 were 3.6 and 4.0, respectively.

Covenant EBITDA is a non-GAAP financial measure of the Company s liquidity. Covenant EBITDA 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, net, (iv) advisory fees, and (v) unusual, non-recurring or extraordinary expenses, losses or charges as reasonably approved by the administrative agent for such period. Covenant EBITDA is used to calculate the consolidated leverage ratio and the interest coverage ratio. Covenant EBITDA provides management, including the Company s chief operating decision maker, with helpful information with respect to its operations such as its ability to meet its future debt service, fund its capital expenditures and working capital requirements, and comply with various covenants in each indenture governing its outstanding notes and the credit agreements governing its senior secured credit facilities which are material to its financial condition and financial statements.

The interest rates for the Senior Secured Term Loan Facility are based on: (i) for LIBO rate loans for any interest period, at a rate per annum equal to the greater of (x) the LIBO rate, as determined by the Term Loan Facility Administrative Agent, for such interest period multiplied by the Statutory Reserve Rate (as defined in the Term Loan Credit Agreement) and (y) 1.00% (the Term Loan Adjusted LIBO Rate), plus an applicable margin; and (ii) for prime rate loans, a rate per annum equal to the highest of (a) the variable annual rate of interest then announced by JPMorgan Chase Bank, N.A. at its head office as its prime rate, (b) the federal funds rate in effect on such date plus 0.50% per annum, and (c) the Term Loan Adjusted LIBO Rate for the applicable class of term loans for one-month plus 1.00%, plus, in each case, an applicable margin. The interest rate on the Senior Secured Term Loan Facility was 4.3% as of November 2, 2013.

In conjunction with the Second Amendment, on February 20, 2013, Burlington Holdings, LLC (Indirect Parent), the indirect parent company of Holdings, and Burlington Holdings Finance, Inc., the wholly-owned subsidiary of Indirect Parent (collectively the Issuers), completed the offering of $350 million aggregate principal amount of Senior Notes due 2018 (2018 Notes) at an issue price of 98.00%. The 2018 Notes are senior unsecured obligations of the Issuers, and the Issuers are not obligors or guarantors under BCFWC s existing senior secured credit facilities or indenture. As none of the Issuers subsidiaries are obligors or guarantors under the 2018 Notes, the debt is recorded on the Issuers financial statements and is not included in the Company s financial statements.

Interest is payable on the 2018 Notes on each February 15 and August 15. Payments commenced on August 15, 2013, and were paid in cash. BCFWC paid a dividend to the Issuers of $15.3 million representing the first interest payment on the 2018 Notes. For each interest period thereafter, the Issuers will be required to pay interest on the 2018 Notes entirely in cash, unless certain conditions are satisfied, in which case the Issuers will be entitled to pay, to the extent described in the indenture governing the 2018 Notes, interest on the 2018 Notes by increasing the principal amount of the 2018 Notes or by issuing new notes (such increase being referred to herein as PIK interest). Cash interest on the 2018 Notes accrues at the rate of 9.00% per annum. PIK interest on the 2018 Notes accrues at the rate of 9.75% per annum. The Company intends to pay Indirect Parent a semiannual dividend in order for Indirect Parent to make semiannual cash interest payments on the 2018 Notes.

In February 2013, the Issuers used the net proceeds from the offering of the 2018 Notes to pay a special cash dividend of $336.0 million, in the aggregate, to Parent, which in turn distributed the proceeds to its stockholders. BCFWC paid a dividend to the Issuers of $5.0 million in order to pay certain fees in connection with the issuance of the 2018 Notes, inclusive of a $3.5 million fee to Bain Capital for various consulting and advisory services. In October, 2013, the Issuers sent an irrevocable notice to the holders of the 2018 Notes to redeem a portion of the 2018 Notes. BCFWC paid a dividend to the Issuers of $4.5 representing interest payable on the 2018 Notes partially redeemed through the settlement date.

ABL Line of Credit

At November 2, 2013, the Company had $521.2 million available under the ABL Line of Credit and $38.0 million of outstanding borrowings. The maximum borrowings under the facility during the nine and three month periods ended November 2, 2013 amounted to $148.6 million for both periods. Average borrowings during the nine and three month periods ended November 2, 2013 amounted to $42.9 million and $81.8 million, at an average interest rate of 2.2% and 2.1%, respectively. At November 2, 2013, the Company s borrowing rate related to the ABL Line of Credit was 4.0%. There was no outstanding balance under the ABL Line of Credit at February 2, 2013.

At October 27, 2012, the Company had $542.3 million available under the ABL Line of Credit and $21.7 million of outstanding borrowings. The maximum borrowings under the facility during the nine and three month periods ended October 27, 2012 amounted to $84.0 million and $213.7 million, respectively. Average borrowings during the nine and three month periods ended October 27, 2012 amounted to $45.0 million and $41.1 million, respectively, at average interest rates of 2.1% for both periods. At October 27, 2012 the Company s borrowing rate related to the ABL Line of Credit was 4.0%.

The Senior Secured Term Loan Facility, ABL Line of Credit and the 2019 Notes are fully, jointly, severally, unconditionally, and irrevocably guaranteed by all of the Company s subsidiaries. The ABL Line of Credit is collateralized by a first lien on the Company s inventory and receivables and a second lien on the Company s real estate and property and equipment. The Senior Secured Term Loan Facility is collateralized by a first lien on the Company s real estate, favorable leases, and machinery and equipment and a second lien on the Company s inventory and receivables.

As of November 2, 2013, the Company was in compliance with all of its debt covenants. The credit agreements governing the ABL Line of Credit and the Senior Secured Term Loan Facility, as well as the indenture governing the 2019 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.

During the nine months ended November 2, 2013, the Company incurred new deferred financing fees of $1.6 million and $8.6 million as a result of the Second Amendment and the Third Amendment, respectively, and wrote off $0.3 million deferred financing costs and accumulated amortization related to the Third Amendment.

The Company had $29.2 million, $24.9 million and $26.2 million in deferred financing fees, net of accumulated amortization, as of November 2, 2013, February 2, 2013 and October 27, 2012, respectively, related to its debt instruments recorded in the line item Other Assets on the Company s Condensed Consolidated Balance Sheets. Amortization of deferred financing fees amounted to $5.6 million and $2.1 million for the nine and three month periods ended November 2, 2013, respectively, and $4.1 million and $1.4 million for the nine and three months ended October 27, 2012, respectively, and is included in the line item Interest Expense in the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss.

4. Restructuring and Separation

The Company accounts for restructuring and separation costs in accordance with ASC Topic No. 420, *Exit or Disposal Cost Obligations* (Topic No. 420). In an effort to improve workflow efficiencies and realign certain responsibilities, the Company effected a reorganization of certain positions within its field and corporate locations. During the nine months ended November 2, 2013, severance charges of $2.2 million were recorded in the line item Restructuring and Separation Costs in the Company s Condensed Consolidated Statement of Operations and Comprehensive Loss. There were no severance charges during the three months ended November 2, 2013. In comparison, severance charges for the nine and three months ended October 27, 2012 were $2.4 million and $0.6 million, respectively.

The table below summarizes the charges and payments related to the Company s restructuring and separation costs, which are included in the line items Other Current Liabilities in the Company s Condensed Consolidated Balance Sheet as of November 2, 2013 and October 27, 2012:

			(in thousands)		
	February 2, 2013	**Charges**	**Cash Payments**	**Other**	**November 2, 2013**
Severance Restructuring	$	$ 924	$ (889)	$	$ 35

Severance	Separation Cost	597	1,255	(1,338)		514
Total		$ 597	$ 2,179	$ (2,227)	$	$ 549

		(in thousands)				
		January 28, 2012	**Charges**	**Cash Payments**	**Other**	**October 27, 2012**
Severance	Restructuring	$	$ 1,015	$ (1,015)	$	$
Severance	Separation Cost	979	1,426	(1,670)		735
Total		$ 979	$ 2,441	$ (2,685)	$	$ 735

Table of Contents

5. Fair Value Measurements

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

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

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 November 2, 2013 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 November 2, 2013, the Company recorded credit valuation adjustments of less than $0.1 million to the overall valuation of the Company s interest rate cap agreements. The credit valuation adjustment is not considered significant to the valuation of each of the individual interest rate cap agreements and as a result, the Company has determined that its interest rate cap agreement valuations in their entirety are classified as Level 2 within the fair value hierarchy.

The fair 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		
	November 2, 2013	**February 2, 2013**	**October 27, 2012**
Assets:			
Level 1			
Cash equivalents (including restricted cash)	$ 35,011	$ 34,972	$ 34,959
Level 2			
Interest rate cap agreements (a)	$ 2	$ 69	$ 95
Level 3			
Note Receivable (b)	$ 385	$ 385	$ 758

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

(b) Included in Prepaid and Other Current Assets on the Company s Condensed Consolidated Balance Sheets. The change in fair value of the Company s Level 3 note receivable from October 27, 2012 to November 2, 2013 was primarily related to the Company receiving a partial payment in the amount of $0.5 million.

Table of Contents

Financial Liabilities

The fair value of the Company s debt as of November 2, 2013, February 2, 2013 and October 27, 2012 is noted in the table below:

	(in thousands)					
	November 2, 2013		**February 2, 2013**		**October 27, 2012**	
	Carrying Amount (b)	**Fair Value (b)**	**Carrying Amount (b)**	**Fair Value (b)**	**Carrying Amount (b)**	**Fair Value (b)**
$1,000,000 Senior Secured Term Loan Facility, LIBOR (with a floor of 1.3%) plus 4.3%, matures on February 23, 2017.	$ 860,327	$ 866,048	$ 863,084	$ 874,232	$ 932,907	$ 943,791
$450,000 Senior Notes, 10% due at maturity on February 15, 2019, semi-annual interest payments on August 15 and February 15, from February 15, 2014 to February 15, 2019.	450,000	503,168	450,000	489,938	450,000	497,250
$600,000 ABL Senior Secured Revolving Facility, LIBOR plus spread based on average outstanding balance, expires September 2, 2016 (a)	38,000	38,000			21,700	21,700
Total debt	$ 1,348,327	$ 1,407,216	$ 1,313,084	$ 1,364,170	$ 1,404,607	$ 1,462,741

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

As of November 2, 2013, the fair value of the Company s debt, exclusive of capital leases, was $1,407.2 million compared with the carrying value of $1,348.3 million. The fair values presented herein are based on pertinent information available to management as of the respective period end dates. The estimated fair values of the Company s debt are classified as Level 2 in the fair value hierarchy. 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 November 2, 2013, and current estimates of fair value may differ from amounts presented herein.

6. Derivative Instruments and Hedging Activities

As of November 2, 2013, February 2, 2013 and October 27, 2012, the Company was party to two outstanding interest rate cap agreements to manage the interest rate risk associated with future interest payments on variable-rate debt.

The Company accounts for derivatives and hedging activities in accordance with ASC Topic No. 815 *Derivatives and Hedging* (Topic No. 815). 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. Topic No. 815 requires recognition of all derivative instruments as either assets or liabilities at fair value in the statement of financial position. Interest rate cap agreements are recorded at a fair value and adjusted to market on a quarterly basis. 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 and in the line item Interest Rate Cap Agreement Adjustment to Market on the Company s Condensed Consolidated Statements of Cash Flows. The Company s two interest rate cap agreements each have a notional principal amount of $450 million, a cap rate of 7% and terminate on May 31, 2015.

Table of Contents

(in thousands)

Fair Values of Derivative Instruments

Asset Derivatives

Derivatives Not Designated as Hedging Instruments Under Topic No. 815	November 2, 2013 Balance Sheet Location	November 2, 2013 Fair Value	February 2, 2013 Balance Sheet Location	February 2, 2013 Fair Value	October 27, 2012 Balance Sheet Location	October 27, 2012 Fair Value
Interest Rate Cap Agreements	Other Assets	$2	Other Assets	$69	Other Assets	$95

Liability Derivatives

Derivatives Not Designated as Hedging Instruments Under Topic No. 815	November 2, 2013 Balance Sheet Location	November 2, 2013 Fair Value	February 2, 2013 Balance Sheet Location	February 2, 2013 Fair Value	October 27, 2012 Balance Sheet Location	October 27, 2012 Fair Value
Interest Rate Cap Agreements	Other Liabilities	$	Other Liabilities	$	Other Liabilities	$

(Gain) or Loss on Derivative Instruments

Derivatives Not Designated as Hedging Instruments Under Topic No. 815	Location of Loss (Gain) Recognized in Comprehensive Loss Related to Derivatives	Amount of Loss (Gain) Recognized in Comprehensive Loss related to Derivatives			
		Nine months Ended		Three Months Ended	
		November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Interest Rate Cap Agreements	Interest Expense	$ 67	$ 19	$ 13	$ 85

7. Income Taxes

	November 2, 2013	February 2, 2013	October 27, 2012
Current Deferred Tax Asset	$ 14,209	$ 6,133	$ 16,283
Non-Current Deferred Tax Liability	249,585	253,339	254,082
Net Deferred Tax Liability	$ 235,376	$ 247,206	$ 237,799

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, intangible assets, and depreciation expense where the Company has a future obligation for tax purposes.

In accordance with ASC Topic No. 270, *Interim Reporting* (Topic No. 270) and ASC Topic No. 740, *Income Taxes* (Topic No. 740), at the end of each interim period the Company is required to determine the best estimate of its annual effective tax rate and then apply that rate in providing for income taxes on a current year-to-date (interim period) basis. As of November 2, 2013 and October 27, 2012, the Company s best estimate of its annual effective income tax rate was 38.1% for both periods, (before discrete items).

As of November 2, 2013, February 2, 2013 and October 27, 2012, valuation allowances amounted to $5.8 million, $5.8 million and $6.1 million, respectively, primarily related 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 2012.

In addition, management also determined that a full valuation allowance of $2.1 million, $2.0 million and $1.2 million were required against the tax benefit associated with Puerto Rico deferred tax assets as of November 2, 2013, February 2, 2013 and October 27, 2012, respectively.

Table of Contents

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

On May 1, 2013, the Board of Directors of Parent approved Parent s assumption and adoption of the 2006 Management Incentive Plan (the 2006 Plan) that was previously sponsored by Burlington Coat Factory Holdings, LLC. Parent s 2013 Omnibus Incentive Plan (the 2013 Plan and, together with the 2006 Plan, the Plans) was adopted effective prior to and in connection with the Offering. The 2006 Plan and the 2013 Plan each provide for the granting of stock options, restricted stock and other forms of awards to key employees and directors of the Company or its affiliates. Prior to the Offering, grants made pursuant to the 2006 Plan were comprised of units of Parent s common stock. Each unit consisted of nine shares of Parent s Class A common stock and one share of Parent s Class L common stock. Awards previously granted under the 2006 Plan have been retroactively adjusted to reflect the Reclassification.

As of November 2, 2013, there were 10,125,258 shares of Parent s common stock authorized for issuance under the 2006 Plan and 6,000,000 shares of Parent s common stock authorized for issuance under the 2013 Plan.

Non-cash stock compensation expense for the nine and three months ended November 2, 2013 amounted to $8.2 million and $2.5 million, respectively as compared with $2.0 million and $0.6 million for the nine and three months ended October 27, 2012, respectively. The table below summarizes the types of stock compensation:

	(in thousands)			
	Nine Months Ended		**Three months Ended**	
Type of Non-Cash Stock Compensation	**November 2, 2013**	**October 27, 2012**	**November 2, 2013**	**October 27, 2012**
Stock Option Modification (a)	$ 4,986	$	$ 1,534	$
Stock Option Grants (b)	3,155	1,507	963	590
Restricted Stock Issuances(b)	61	461	20	(25)
Total (c)	$ 8,202	$ 1,968	$ 2,517	$ 565

(a) Represents non-cash compensation related to the modification of outstanding stock options granted under the 2006 Plan during the nine and three months ended November 2, 2013 which is included in the line item Stock Option Modification Expense in the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss.

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

(c) For the nine and three months ended November 2, 2013, the tax benefit related to the Company s non-cash stock compensation was $3.2 million and $1.0 million, respectively. For the nine and three months ended October 27, 2012, the tax benefit related to the Company s non-cash stock compensation was $0.7 million and $0.2 million, respectively.

Stock Options

The Company accounts for awards issued under the Plans in accordance with ASC Topic No. 718, *Stock Compensation.* Options granted during the nine month period ended November 2, 2013 were all service-based awards and were granted under the 2006 Plan at exercise prices of $4.55 per share. Options granted during the nine months ended October 27, 2012 were all service-based awards and were granted under the 2006 Plan at exercise prices of $5.91 and $10.91 per share (subsequently modified in connection with the issuance of the 2018 Notes, as described below).

During the nine months ended November 2, 2013, the Company made a special one-time grant under the 2006 Plan to certain members of its management team which resulted in the grant of options to purchase an aggregate of 1,595,000 shares of Parent s common stock. These one-time grants vest 20% on each of the first five anniversaries of the Trigger Date. The Trigger Date is defined as the date after the vesting of all other options held by the grantee which were granted to the grantee prior to May 2013 and remain outstanding and unvested as of the date of the one-time grant. All other service-based awards granted during the nine month periods ended November 2, 2013 and October 27, 2012 vest 40% on the second anniversary of the award with the remaining amount vesting ratably over the subsequent three years. The final exercise date for any option granted is the tenth anniversary of the grant date.

In order to mitigate the impact of the $336.0 million dividend paid in connection with the issuance of the 2018 Notes in February 2013 , the Company s Board of Directors in May 2013 approved a modification to all then outstanding options through a combination of exercise price reductions and cash payments to option holders. The reduction of the exercise prices of each outstanding option was as follows:

from $2.78 per share to $0.79 $1.65 per share;

from $4.55 per share to $0.79 per share;

Table of Contents

from $5.91 per share to $0.79 - $0.94 per share;

from $10.91 per share to $3.17 - $5.02 per share; and

from $10.96 per share to $3.17 - $5.07 per share.

The modifications, through a combination of either reduced exercise prices or cash payments, did not affect the existing vesting schedules. The modification expense, which contemplates the fair value of awards both immediately before and after the modification, will result in a total of $16.5 million of incremental compensation expense, and will be recorded over the remaining vesting periods. The $16.5 million of incremental compensation expense is comprised of $11.0 million, which is non-cash, and $5.5 million, which will be paid in cash. During the nine and three months ended November 2, 2013, based on vesting of the options as of November 2, 2013, the Company recorded compensation expense of $9.0 million and $1.8 million, respectively, in the line item Stock Option Modification Expense in the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss, of which $4.0 million and $0.3 million, respectively, is payable in cash.

With the exception of the special one-time grants made during the nine months ended November 2, 2013, all options awarded pursuant to the 2006 Plan become exercisable upon a change of control as defined in the Stockholders Agreement. Unless determined otherwise by the plan administrator and except as otherwise set forth in the option holders stock agreement, upon cessation of employment, (1) options under the 2006 Plan that have not vested will terminate immediately; (2) shares of Parent s common stock previously issued upon the exercise of vested options under the 2006 Plan will be callable at the Company s option; and (3) unexercised vested options under the 2006 Plan will be exercisable for a period of 60 days.

As of November 2, 2013, the Company had 4,655,651 options outstanding to purchase shares of Parent s common stock, all of which are service-based awards issued under the 2006 Plan, and there was approximately $15.1 million of unearned non-cash stock-based option compensation that the Company expects to recognize as expense over a weighted average period of 3.6 years. The service-based awards are expensed on a straight-line basis over the requisite service period. As of November 2, 2013, 18.8 percent of outstanding options to purchase shares of Parent s common stock under the 2006 Plan had vested. As of November 2, 2013, no awards were outstanding under the 2013 Plan.

Stock option transactions during the eight month period ended October 2, 2013 are summarized as follows:

	Number of Units	Weighted Average Exercise Price Per Unit
Options Outstanding February 2, 2013	424,231	$ 6.96
Options Granted	175,500	4.55
Options Forfeited	(56,402)	6.82
Options Exercised (a)	(117,588)	1.96
Cancellation of Class A Units	(425,741)	2.95
Options Outstanding October 2, 2013		$

(a) Options exercised during the nine months ended November 2, 2013 had a total intrinsic value of $9.2 million. As a result of the Reclassification on October 2, 2013, units of Parent s common stock were reclassified to shares of Parent s common stock. Stock option transactions during the one month period ended November 2, 2013 are summarized as follows:

15

Table of Contents

	Number of Shares	Weighted Average Exercise Price Per Share
Options Outstanding October 2, 2013	4,683,151	$ 2.95
Options Granted		
Options Forfeited	(27,500)	2.20
Options Exercised		
Options Outstanding November 2, 2013	4,655,651	$ 2.95

Non-vested stock option share transactions during the eight months ended October 2, 2013 are summarized below:

	Number of Units	Weighted Average Grant Date Fair Value Per Unit
Non-Vested Options Outstanding February 2, 2013	255,457	$ 3.06
Granted	175,500	5.64
Vested	(61,051)	3.05
Forfeited	(22,263)	3.41
Cancellation of Class A Units	(347,643)	4.45
Non-Vested Options Outstanding October 2, 2013		

As a result of the Reclassification on October 2, 2013, units of Parent s common stock were reclassified to shares of Parent s common stock. Non-vested stock option share transactions during the one month ended November 2, 2013 are summarized below:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Non-Vested Options Outstanding, October 2, 2013	3,824,073	$ 4.45
Granted		
Vested	(15,378)	2.69
Forfeited	(27,500)	2.33
Non-Vested Options Outstanding, November 2, 2013	3,781,195	$ 4.47

Table of Contents

The following table summarizes information about the exercise price and weighted average remaining contractual life of options to purchase shares that were outstanding under the 2006 Plan as well as options that were exercisable under the 2006 Plan as of November 2, 2013:

	Options Outstanding		**Options Exercisable**	
Exercise Prices	**Number Outstanding At November 2, 2013**	**Weighted Average Remaining Contractual Life (Years)**	**Number Exercisable At November 2, 2013**	**Weighted Average Remaining Contractual Life (Years)**
$0.79 - $0.94	1,794,793	6.7	492,646	5.6
$1.65	36,674	7.0		
$3.17	550,187	6.4	196,020	4.7
$4.55 - $5.91	2,273,997	9.1	185,790	5.1
	4,655,651		874,456	

17

Table of Contents

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

Exercise Prices	Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
Vested and Expected to Vest as of November 2, 2013			
$0.79 - $0.94	1,467,369	6.7	$ 0.80
$1.65	11,739	3.9	$ 1.65
$3.17	460,519	6.2	$ 3.17
$4.55 - $5.91	1,833,130	9.1	$ 4.63
	3,772,757		

The fair value of each option granted is estimated on the date of grant using the Monte Carlo Simulation option pricing model with the following weighted average assumptions used for grants under the 2006 Plan during the nine months ended November 2, 2013 and October 27, 2012:

	Nine Months Ended November 2, 2013	Nine Months Ended October 27, 2012
Risk-Free Interest Rate	1.7%	1.0 1.3%
Expected Volatility	36.8%	35.0%
Expected Life (years)	7.4	6.6
Contractual Life (years)	10.0	10.0
Expected Dividend Yield	0.0%	0.0%
Weighted Average Grant Date Fair Value of Options Issued at an exercise price of:		
$4.55	$ 5.64	$ 2.56
$5.91	$ n/a	$ 4.31
$10.91	$ n/a	$ 2.78

9. Other Liabilities

Other Current Liabilities

Other current liabilities primarily consist of sales tax payable, customer liabilities, accrued payroll costs, self-insurance reserves, accrued operating expenses, payroll taxes payable, current portion of straight-line rent liability and other miscellaneous items. Customer liabilities comprised of gift cards and layaway deposits totaled $33.4 million, $30.0 million and $30.5 million as of November 2, 2013, February 2, 2013 and October 27, 2012, respectively.

The Company has risk participation agreements with insurance carriers with respect to workers compensation, general liability insurance and health insurance. Pursuant to these arrangements, the Company is responsible for paying individual claims up to designated dollar limits. The amounts included in costs related to these claims are estimated and can vary based on changes in assumptions or claims experience included in the associated insurance programs. An increase in worker s compensation or health insurance claims by employees or general liability claims may result in a corresponding increase in costs related to these claims. Self-insurance reserves were $54.5 million, $52.4 million and $47.7 million, as of November 2, 2013, February 2, 2013 and October 27, 2012, respectively. At November 2, 2013, February 2, 2013 and October 27, 2012, the portion of self-insurance reserve expected to be paid in the next twelve months of $22.2 million, $21.2 million and $18.8 million, respectively, were recorded in the line item Other Current Liabilities in the Company s Condensed Consolidated Balance Sheets. The remaining balances at November 2, 2013, February 2, 2013 and October 27, 2012 of $32.3 million, $31.2 million and $28.9 million, respectively, were recorded in the line item Other Liabilities in the Company s Condensed Consolidated Balance Sheets.

Table of Contents

Other Liabilities

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

Deferred lease incentives are funds received or receivable from landlords used primarily to offset the costs incurred for remodeling of stores. These deferred lease incentives are amortized over the expected lease term including rent holiday periods and option periods where the exercise of the option can be reasonably assured. Amortization of deferred lease incentives is included in the line item Selling and Administrative Expenses on the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss. At November 2, 2013, February 2, 2013 and October 27, 2012, deferred lease incentives were $147.2 million, $138.1 million, and $127.0 million, respectively.

10. Commitments and Contingencies

Legal

The Company establishes reserves relating to legal claims, in connection with litigation to which the Company is party from time to time in the ordinary course of business. The aggregate amounts of such reserves were $1.2 million, $0.9 million and $1.0 million as of November 2, 2013, February 2, 2013 and October 27, 2012, respectively. The Company believes that potential liabilities in excess of those recorded will not have a material effect on the Company s Condensed Consolidated Financial Statements. However, there can be no assurances to this effect.

There have been no significant changes in the Company s commitments and contingencies from those disclosed in the IPO prospectus, 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 November 2, 2013, there were no new lease agreements for locations at which stores are expected to be opened during the remainder of Fiscal 2013. The Company s minimum lease payments for all operating leases are expected to be $60.4 million, $247.4 million, $229.8 million, $214.4 million, $193.8 million and $699.1 million for the remainder of the fiscal year ended February 1, 2014, and the fiscal years ended January 31, 2015, January 30, 2016, January 28, 2017, February 3, 2018 and February 2, 2019 and all subsequent years thereafter, respectively.

Letters of Credit

The Company had letters of credit arrangements with various banks in the aggregate amount of $40.8 million and $36.0 million as of November 2, 2013 and October 27, 2012, respectively. Among these arrangements as of November 2, 2013 and October 27, 2012, the Company had letters of credit in the amount of $29.2 million and $26.2 million, respectively, guaranteeing performance under various insurance contracts and utility agreements. In addition, the Company had outstanding letters of credit agreements in the amounts of $11.6 million and $9.8 million at November 2, 2013 and October 27, 2012, respectively, related to certain merchandising agreements. Based on the terms of the credit agreement related to the ABL Line of Credit, the Company had the ability to enter into letters of credit up to $521.2 million and $542.3 million as of November 2, 2013 and October 27, 2012, respectively.

The Company had irrevocable letters of credit in the amount of $35.3 million as of February 2, 2013. Based on the terms of the credit agreement relating to the ABL Line of Credit, the Company had the ability to enter into letters of credit up to $422.7 million as of February 2, 2013. Letters of credit outstanding at February 2, 2013 amounted to $26.7 million, guaranteeing performance under various lease agreements, insurance contracts and utility agreements. The Company also had letters of credit in the amount of $8.6 million at February 2, 2013 related to certain merchandising agreements.

11. Related Parties

In connection with the purchase of the Company by Bain Capital in April of 2006, the Company entered into an advisory agreement with Bain Capital (the Advisory Agreement) pursuant to which Bain Capital provided management, consulting, financial and other advisory services. The Advisory Agreement had a 10-year initial term, and thereafter was subject to automatic one-year extensions unless the Company or Bain Capital provides written notice of termination, except that the agreement terminated automatically upon an initial public offering or a change of control of the Company. If the Advisory Agreement terminated early, Bain Capital would be entitled to receive all unpaid fees and unreimbursed out-of-pocket fees and expenses, as well as the present value of the periodic fee that would otherwise have been payable through the end of the 10-year term. The Advisory Agreement was terminated on October 2, 2013 in connection with the Offering. As a result of the termination, Bain Capital was paid a fee of $10.1 million which is included in the line item Costs Related to Debt Amendments and Parent s Initial Public Offering in the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss. Prior to the termination of the Advisory Agreement,

Table of Contents

Bain Capital was paid a periodic fee of $1.0 million per fiscal quarter plus reimbursement for reasonable out-of-pocket fees, and a fee equal to 1% of the transaction value of certain financing, acquisition, disposition or change of control or similar transactions by or involving the Company. Fees paid to Bain Capital amounted to $2.9 million and $0.7 million for the nine and three month periods ended November 2, 2013, respectively, exclusive of the termination fee. Fees paid to Bain Capital amounted to $3.1 million and $1.0 million for the nine and three month periods ended October 27, 2012, respectively. These fees are included in the line item Selling and Administrative Expenses in the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss. As of November 2, 2013, there were no prepaid advisory fees related to the Advisory Agreement. As of October 27, 2012, the Company had $0.7 million of prepaid advisory fees related to the Advisory Agreement recorded within the line item Prepaid and Other Current Assets in the Company s Condensed Consolidated Balance Sheets.

Bain Capital, either directly or through affiliates, has ownership interests in a broad range of companies (Portfolio Companies) with whom the Company may from time to time enter into commercial transactions in the ordinary course of business, primarily for the purchase of goods and services. The Company believes that none of the Company s transactions or arrangements with Portfolio Companies are significant enough to be considered material to Bain Capital or to its business.

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

12. Condensed Guarantor Data

Holdings and subsidiaries of BCFWC have fully, jointly, severally, and unconditionally guaranteed BCF s obligations under the ABL Line of Credit, Term Loan Facility and the 2019 Notes. The following condensed consolidating financial statements present the financial position, results of operations and cash flows of Holdings, BCFW and the guarantor subsidiaries.

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

Table of Contents

Burlington Coat Factory Investments Holdings, Inc.

Condensed Consolidating Balance Sheets

(All amounts in thousands)

	As of November 2, 2013				
	Holdings	**BCFW**	**Guarantors**	**Eliminations**	**Consolidated**
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$	$ 24,114	$ 4,246	$	$ 28,360
Restricted Cash and Cash Equivalents		34,800			34,800
Accounts Receivable		37,284	17,335		54,619
Merchandise Inventories			902,426		902,426
Deferred Tax Asset		11,874	2,335		14,209
Prepaid and Other Current Assets		40,780	36,243		77,023
Prepaid Income Tax		6,969	2,565		9,534
Intercompany Receivable			692,614	(692,614)	
Total Current Assets		155,821	1,657,764	(692,614)	1,120,971
Property and Equipment Net of Accumulated Depreciation		65,816	829,596		895,412
Tradenames		238,000			238,000
Favorable Leases Net of Accumulation Amortization			299,429		299,429
Goodwill		47,064			47,064
Investment in Subsidiaries		29,231	96,606		125,837
Other Assets		2,363,192		(2,363,192)	
Total Assets	$	$ 2,899,124	$ 2,883,395	$ (3,055,806)	$ 2,726,713
LIABILITIES AND STOCKHOLDER S EQUITY					
Current Liabilities:					
Accounts Payable	$	$ 708,399	$	$	$ 708,399
Other Current Liabilities		123,476	148,924		272,400
Intercompany Payable		692,614		(692,614)	
Current Maturities of Long Term Debt		8,710	973		9,683
Total Current Liabilities		1,533,199	149,897	(692,614)	990,482
Long Term Debt		1,339,617	22,462		1,362,079
Other Liabilities		51,886	191,575		243,461
Deferred Tax Liability		93,316	156,269		249,585
Investment in Subsidiaries	118,894			(118,894)	
Stockholder s (Deficit) Equity:					
Common Stock					

Capital in Excess of Par Value	473,134	473,134	1,063,182	(1,536,316)	473,134
(Accumulated Deficit) Retained Earnings	(592,028)	(592,028)	1,300,010	(707,982)	(592,028)
Total Stockholder s (Deficit) Equity	(118,894)	(118,894)	2,363,192	(2,244,298)	(118,894)
Total Liabilities and Stockholder s (Deficit) Equity	$	$ 2,899,124	$ 2,883,395	$ (3,055,806)	$ 2,726,713

21

Table of Contents

Burlington Coat Factory Investments Holdings, Inc.

Consolidated Balance Sheets

(All amounts in thousands)

	As of February 2, 2013				
	Holdings	**BCFW**	**Guarantors**	**Eliminations**	**Consolidated**
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$	$ 39,658	$ 3,678	$	$ 43,336
Restricted Cash and Cash Equivalents		34,800			34,800
Accounts Receivable		24,216	17,518		41,734
Merchandise Inventories			680,190		680,190
Deferred Tax Assets		1,223	4,910		6,133
Prepaid and Other Current Assets		35,293	30,759		66,052
Prepaid Income Taxes		5,268	1,950		7,218
Intercompany Receivable			747,405	(747,405)	
Assets Held for Disposal			191		191
Total Current Assets		140,458	1,486,601	(747,405)	879,654
Property and Equipment Net of Accumulated Depreciation		72,283	806,022		878,305
Tradenames		238,000			238,000
Favorable Leases Net of Accumulated Amortization			322,081		322,081
Goodwill		47,064			47,064
Other Assets		24,968	88,010		112,978
Investment in Subsidiaries		2,219,139		(2,219,139)	
Total Assets	$	$ 2,741,912	$ 2,702,714	$ (2,966,544)	$ 2,478,082
LIABILITIES AND STOCKHOLDER S EQUITY					
Current Liabilities:					
Accounts Payable	$	$ 500,406	$	$	$ 500,406
Other Current Liabilities		119,277	119,588		238,865
Intercompany Payable		747,405		(747,405)	
Current Maturities of Long Term Debt			784		784
Total Current Liabilities		1,367,088	120,372	(747,405)	740,055
Long Term Debt		1,313,084	22,448		1,335,532
Other Liabilities		50,955	178,470		229,425
Deferred Tax Liability		91,054	162,285		253,339
Investment in Subsidiaries	80,269			(80,269)	
Commitments and Contingencies					

Stockholder s (Deficit) Equity:					
Common Stock					
Capital in Excess of Par Value	479,572	479,572	1,063,182	(1,542,754)	479,572
Accumulated (Deficit) / Retained Earnings	(559,841)	(559,841)	1,155,957	(596,116)	(559,841)
Total Stockholder s (Deficit) Equity	(80,269)	(80,269)	2,219,139	(2,138,870)	(80,269)
Total Liabilities and Stockholder s Equity (Deficit)	$	$ 2,741,912	$ 2,702,714	$ (2,966,544)	$ 2,478,082

22

Table of Contents

Burlington Coat Factory Investments Holdings, Inc.

Condensed Consolidating Balance Sheets

(All amounts in thousands)

	As of October 27, 2012				
	Holdings	**BCFW**	**Guarantors**	**Eliminations**	**Consolidated**
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$	$ 26,998	$ 3,171	$	$ 30,169
Restricted Cash and Cash Equivalents		34,800			34,800
Accounts Receivable		33,550	10,088		43,638
Merchandise Inventories			844,991		844,991
Deferred Tax Asset		8,497	7,786		16,283
Prepaid and Other Current Assets		14,760	31,413		46,173
Prepaid Income Tax		28,909	3,052		31,961
Intercompany Receivable			445,568	(445,568)	
Assets Held for Sale			483		483
Total Current Assets		147,514	1,346,552	(445,568)	1,048,498
Property and Equipment - Net of Accumulated Depreciation		77,361	816,329		893,690
Tradenames		238,000			238,000
Favorable Leases - Net of Accumulation Amortization			338,443		338,443
Goodwill		47,064			47,064
Investment in Subsidiaries		2,095,171		(2,095,171)	
Other Assets		26,422	87,885		114,307
Total Assets	$	2,631,532	2,589,209	(2,540,739)	2,680,002
LIABILITIES AND STOCKHOLDER S EQUITY					
Current Liabilities:					
Accounts Payable	$	678,092			678,092
Other Current Liabilities		122,032	130,884		252,916
Intercompany Payable		445,568		(445,568)	
Current Maturities of Long Term Debt		4,753	762		5,515
Total Current Liabilities		1,250,445	131,646	(445,568)	936,523
Long Term Debt		1,399,854	22,717		1,422,571
Other Liabilities		48,624	168,689		217,313
Deferred Tax Liability		83,096	170,986		254,082

Investment in Subsidiaries	150,487			(150,487)	
Stockholder s (Deficit) Equity:					
Common Stock					
Capital in Excess of Par Value	477,298	477,298	1,063,182	(1,540,480)	477,298
(Accumulated Deficit) Retained Earnings	(627,785)	(627,785)	1,031,989	(404,204)	(627,785)
Total Stockholder s (Deficit) Equity	(150,487)	(150,487)	2,095,171	(1,944,684)	(150,487)
Total Liabilities and Stockholder s (Deficit) Equity	$	2,631,532	2,589,209	(2,540,739)	2,680,002

23

Table of Contents

Burlington Coat Factory Investments Holdings, Inc.

Condensed Consolidating Statement of Operations and Comprehensive Loss (Income)

(All amounts in thousands)

	For the Nine Months Ended November 2, 2013				
	Holdings	**BCFW**	**Guarantors**	**Eliminations**	**Consolidated**
REVENUES:					
Net Sales	$	$	$ 3,093,226	$	$ 3,093,226
Other Revenue		100	23,998		24,098
Total Revenue		100	3,117,224		3,117,324
COSTS AND EXPENSES:					
Cost of Sales			1,917,610		1,917,610
Selling and Administrative Expenses		161,985	855,625		1,017,610
Costs Related to Debt Amendment and Parent s Initial Public Offering		21,507			21,507
Stock Option Modification Expense		9,031			9,031
Restructuring and Separation Costs		2,179			2,179
Depreciation and Amortization		18,282	108,028		126,310
Impairment Charges Long-Lived Assets		67	315		382
Other Income, Net		(2,771)	(3,537)		(6,308)
Loss on Extinguishment of Debt		617			617
Interest Expense		74,090	1,520		75,610
Loss (Earnings) from Equity Investment	32,187	(144,053)		111,866	
Total Costs and Expenses	32,187	140,934	2,879,561	111,866	3,164,548
(Loss) Income Before (Benefit) Provision for Income Taxes	(32,187)	(140,834)	237,663	(111,866)	(47,224)
(Benefit) Provision for Income Taxes		(108,647)	93,610		(15,037)
Net (Loss) Income	$ (32,187)	$ (32,187)	$ 144,053	$ (111,866)	$ (32,187)
Total Comprehensive (Loss) Income	$ (32,187)	$ (32,187)	$ 144,053	$ (111,866)	$ (32,187)

24

Table of Contents

Burlington Coat Factory Investments Holdings, Inc.

Condensed Consolidating Statement of Operations and Comprehensive Loss (Income)

(All amounts in thousands)

	For the Three Months Ended November 2, 2013				
	Holdings	**BCFW**	**Guarantors**	**Eliminations**	**Consolidated**
REVENUES:					
Net Sales	$	$	$ 1,064,502	$	$ 1,064,502
Other Revenue		62	8,291		8,353
Total Revenue		62	1,072,793		1,072,855
COSTS AND EXPENSES:					
Cost of Sales			649,637		649,637
Selling and Administrative Expenses		55,726	307,423		363,149
Costs Related to Debt Amendment and Parent s Initial Public Offering		10,050			10,050
Stock Option Modification Expense		1,768			1,768
Restructuring and Separation Costs					
Depreciation and Amortization		5,710	35,361		41,071
Impairment Charges Long-Lived Assets			243		243
Other Income, Net		(552)	(1,151)		(1,703)
Loss on Extinguishment of Debt					
Interest Expense		23,970	501		24,471
Loss (Earnings) from Equity Investment	11,961	(48,982)		37,021	
Total Costs and Expenses	11,961	47,690	992,014	37,021	1,088,686
(Loss) Income Before (Benefit) Provision for Income Taxes	(11,961)	(47,628)	80,779	(37,021)	(15,831)
(Benefit) Provision for Income Taxes		(35,667)	31,798		(3,869)
Net (Loss) Income	$ (11,961)	$ (11,961)	$ 48,981	$ (37,021)	$ (11,962)
Total Comprehensive (Loss) Income	$ (11,961)	$ (11,961)	$ 48,981	$ (37,021)	$ (11,962)