BURLINGTON COAT FACTORY WAREHOUSE CORP
Form 10-K
April 20, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 28, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

333-137916-110

(Commission File Number)

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)**

(609) 387-7800

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

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 Act). Yes ¨ No x

The aggregate market value of the registrant s voting and non-voting common equity held by non-affiliates of the registrant is zero. The registrant is a privately held corporation.

As of April 20, 2012, 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.

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

Documents Incorporated By Reference

None

Table of Contents

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

INDEX TO REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED JANUARY 28, 2012

		PAGE
PART I.		
Item 1.	Business	1
Item 1A.	Risk Factors	4
Item 1B.	Unresolved Staff Comments	11
Item 2.	Properties	11
Item 3.	Legal Proceedings	12
Item 4.	Mine Safety Disclosures	12
PART II.		
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	12
Item 6.	Selected Financial Data	13
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	13
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	50
Item 8.	Financial Statements and Supplementary Data	52
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	103
Item 9A.	Controls and Procedures	103
Item 9B.	Other Information	103
PART III.		
Item 10.	Directors, Executive Officers and Corporate Governance	104
Item 11.	Executive Compensation	106
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	123
Item 13.	Certain Relationships and Related Transactions, and Director Independence	126
Item 14.	Principal Accounting Fees and Services	129
PART IV.		
Item 15.	Exhibits, Financial Statement Schedules	129
SIGNATURES		134
EXHIBIT INDEX		135

Table of Contents

PART I

Item 1. Business
Overview

Burlington Coat Factory Investments Holdings, Inc. (the Company or Holdings) owns Burlington Coat Factory Warehouse Corporation (BCFWC), which is a nationally recognized retailer of high-quality, branded apparel at everyday low prices. We opened our first store in Burlington, New Jersey in 1972, selling primarily coats and outerwear. Since then, and as of January 28, 2012, we have expanded our store base to 477 stores in 44 states and Puerto Rico and diversified our product categories by offering an extensive selection of in-season better and moderate brands, fashion-focused merchandise, including: ladies sportswear, menswear, coats, family footwear, baby furniture and accessories, as well as home decor and gifts. We continue to emphasize our rich heritage of coats and outerwear and we believe that we are viewed as the destination for coat shoppers. We acquire a broad selection of desirable, first-quality, branded merchandise primarily from nationally-recognized manufacturers and other suppliers. For the fiscal year ended January 28, 2012, we generated total revenue of $3,887.5 million, net sales of $3,854.1 million, a net loss of $6.3 million, and Adjusted EBITDA (as defined later in this Form 10-K) of $350.0 million.

As used in this Annual Report, the terms Company, we, us, or our refer to Holdings and all its subsidiaries. Holdings has no operations and its only asset is all of the stock of BCFWC. BCFWC was initially organized in 1972 as a New Jersey corporation. In 1983, BCFWC was reincorporated in Delaware and currently exists as a Delaware corporation. Holdings was organized in 2006 (and currently exists) as a Delaware corporation. BCFWC became a wholly-owned subsidiary of Holdings in connection with our acquisition on April 13, 2006 by affiliates of Bain Capital in a take private transaction (Merger Transaction). Holdings is a wholly-owned subsidiary of Burlington Coat Factory Holdings, Inc. (Parent).

Change in Fiscal Year End

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. This change commenced with the transition period beginning on May 31, 2009 and ending on January 30, 2010 (Transition Period). This Form 10-K is an annual report for the fiscal year ended January 28, 2012 (Fiscal 2011). The Company s last three complete fiscal years prior to Fiscal 2011 ended on January 29, 2011 (Fiscal 2010), May 30, 2009 (Fiscal 2009), and May 31, 2008 (Fiscal 2008), and each of those years contained 52 weeks.

Debt Refinancing and Dividend

In the first quarter of Fiscal 2011, we completed the refinancing of our $900 million Senior Secured Term Loan (Previous Term Loan Facility), 11.1% Senior Notes (Previous Senior Notes), and 14.5% Senior Discount Notes (Previous Senior Discount Notes). As a result of these transactions, the Previous Senior Notes and Previous Senior Discount Notes, with carrying values at February 24, 2011 of $302.0 million and $99.3 million, respectively, were repurchased. These debt instruments were replaced when BCFWC completed the sale of $450 million aggregate principal amount of 10% Senior Notes due 2019 (Notes) at an issue price of 100%. The Previous Term Loan Facility with a carrying value of $777.6 million at February 24, 2011 was replaced with a $1,000.0 million senior secured term loan facility (New Term Loan Facility) under which we borrowed net proceeds of $990.0 million. Borrowings on our $600 million Available Business Line Senior Secured Revolving Facility (ABL Line of Credit) related to these refinancing transactions were $101.6 million. On September 2, 2011, we completed an amendment and restatement of the credit agreement governing the ABL Line of Credit, which, among other things, extended the maturity date to September 2, 2016.

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

In connection with the issuance of the Notes, on February 24, 2011, BCFW entered into a registration rights agreement relating to the Notes, pursuant to which BCFW agreed to use its reasonable best efforts to file, and did initially file on July 15, 2011, a registration statement with the

SEC (as amended, the Exchange Offer Registration Statement), enabling holders to exchange the Notes for registered notes with terms substantially identical in all material respects to the Notes, except the exchange notes would be freely tradable. On October 19, 2011, the Exchange Offer Registration Statement was declared effective by the SEC, and we completed the exchange offer on December 2, 2011.

Table of Contents

The Stores

As of January 28, 2012, we operated 477 stores under the names: Burlington Coat Factory Warehouse (461 stores), MJM Designer Shoes (13 stores), Cohoes Fashions (two stores), and Super Baby Depot (one store). Our store base is geographically diversified with stores located in 44 states and Puerto Rico. We believe that our customers are attracted to our stores principally by the availability of a large assortment of first-quality current brand-name merchandise at everyday low prices.

Burlington Coat Factory Warehouse stores (BCF stores) offer customers a complete line of value-priced apparel, including: ladies sportswear, menswear, coats, and family footwear, as well as baby furniture, accessories, home decor and gifts. We continue to emphasize our rich heritage of coats and outerwear and we believe that we are viewed as the destination for coat shoppers. BCF s broad selection provides a wide range of apparel, accessories and furnishing for all ages. We purchase both pre-season and in-season merchandise, allowing us to respond timely to changing market conditions and consumer fashion preferences. Furthermore, we believe BCF stores substantial selection of staple, destination products such as coats and products in our Baby Depot departments, as well as men s and boys suits, attracts customers from beyond our local trade areas. These products drive incremental store-traffic and differentiate us from our competitors. Over 99% of our net sales are derived from our BCF stores.

We opened our first MJM Designer Shoe store in 2002. MJM Designer Shoe stores offer an extensive collection of men s, women s and children s moderate-to higher-priced designer and fashion shoes, sandals, boots and sneakers. MJM Designer Shoe stores also carry accessories such as handbags, wallets, belts, socks, hosiery and novelty gifts. MJM Designer Shoes stores provide a superior shoe shopping experience for the value conscious consumer by offering a broad selection of quality goods at discounted prices in stores with a convenient self-service layout.

In some of our stores, we grant unaffiliated third parties the right to use designated store space solely for the purpose of selling such third parties goods, including items such as fragrances and jewelry (Leased Departments). During Fiscal 2011, our rental income from all such arrangements aggregated less than 1% of our total revenues. We do not own or have any rights to any trademarks, licenses or other intellectual property used in connection with the brands sold by such unaffiliated third parties.

We believe the size of our typical BCF store represents a competitive advantage. Most of our stores are approximately 80,000 square feet, occupying significantly more selling square footage than most off-price or specialty store competitors. Major landlords frequently seek us as a tenant because the appeal of our apparel merchandise profile attracts a desired customer base and because we can take on larger facilities than most of our competitors. In addition, we have built long-standing relationships with major shopping center developers. We continue to explore expansion opportunities both within our current market areas and in other regions.

We believe that our ability to find satisfactory locations for our stores is essential for the continued growth of our business. The opening of stores generally is contingent upon a number of factors including, but not limited to, the availability of desirable locations with suitable structures and the negotiation of acceptable lease terms. There can be no assurance, however, that we will be able to find suitable locations for new stores or that even if such locations are found and acceptable lease terms are obtained, we will be able to open the number of new stores presently planned.

Real Estate Strategy

As of January 28, 2012, we owned the land and/or buildings for 40 of our 477 stores. Generally, however, our policy has been to lease our stores with co-tenancy where we believe our stores will be most productive. Our large average store size (generally twice that of our off-price competitors) and ability to attract foot traffic enable us to secure lower rents. Most of our stores are located in malls, strip shopping centers, regional power centers or are freestanding.

Our lease model generally provides for a ten year initial term with a number of five year options thereafter. Typically, our lease strategy includes landlord allowances for leasehold improvements and tenant fixtures. We believe our lease model keeps us competitive with other retailers for desirable locations.

We have a proven track record of new store expansion. Our store base has grown from 13 stores in 1980 to 477 stores as of January 28, 2012. Assuming that appropriate locations are identified, we believe that we will be able to execute our growth strategy without significantly impacting our current stores. The table below shows our store openings and closings since the beginning of our fiscal year ended June 3, 2006.

Table of Contents

Fiscal Years	2006	2007	2008	2009	35 weeks ended January 30, 2010	2010	2011
Stores (Beginning of Period)	362	368	379	397	433	442	460
Stores Opened	12	19	20	37	9	25	20
Stores Closed	(6)	(8)	(2)	(1)	0	(7)	(3)
Stores (End of Period)	368	379*	397	433	442	460	477

* Inclusive of three stores that closed because of hurricane damage, which reopened in 2007.

Distribution

We have two primary distribution centers that ship approximately 86% of merchandise units to our stores. The remaining 14% of merchandise units are drop shipped directly to our stores. The two distribution centers, located in Edgewater Park, New Jersey and San Bernardino, California, occupy an aggregate of 1,088,000 square feet and each includes processing and storage capacity. In addition to our two primary distribution facilities, we also operate distribution facilities in Burlington, New Jersey and Redlands, California. The Burlington, New Jersey facility is a 402,000 square foot facility being used for E-Commerce fulfillment, the processing and storage of goods received on hangers, and remote storage for our Edgewater Park, New Jersey distribution center. The product stored at this facility is processed and shipped through our Edgewater Park, New Jersey facility.

The Redlands, California facility, which we opened in August 2011, is a 295,000 square foot facility being used primarily as remote storage for our San Bernardino, California distribution center. The product stored at this facility is processed and shipped out of our San Bernardino, California distribution center.

Location	Calendar Year Operational	Size (sq. feet)	Leased or Owned
Edgewater Park, New Jersey	2004	648,000	Owned
San Bernardino, California	2006	440,000	Leased
Burlington, New Jersey	1987*	402,000	Owned
Redlands, California	2011	295,000	Leased

* Distribution activities in this warehouse ceased during the Transition Period. Our current use of this warehouse commenced in Fiscal 2011.

Customer Demographic

Our core customer is the 25 49 year-old woman. The core customer is educated, resides in mid- to large-sized metropolitan areas and has an annual household income of $35,000 to $65,000. This customer shops for herself, her family and her home. We appeal to value seeking and fashion conscious customers who are price-driven but enjoy the style and fit of high-quality, branded merchandise. These core customers are drawn to us not only by our value proposition, but also by our broad selection of styles, our brands and our highly appealing product selection for families.

Customer Service

We are committed to providing our customers with an enjoyable shopping experience and strive to make continuous efforts to improve customer service. In training our employees, our goal is to emphasize knowledgeable, friendly customer service and a sense of professional pride. We offer our customers special services to enhance the convenience of their shopping experience, such as professional tailors, a baby gift registry and layaways.

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

Table of Contents

Marketing and Advertising

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

Employees

As of January 28, 2012, we employed 28,729 people, including part-time and seasonal employees. Our staffing requirements fluctuate during the year as a result of the seasonality of our business. We hire additional employees and increase the hours of part-time employees during seasonal peak selling periods. As of January 28, 2012, employees at two of our stores were subject to collective bargaining agreements.

Competition

The retail business is highly competitive. Competitors include off-price retailers, department stores, mass merchants and specialty apparel stores. At various times throughout the year, traditional full-price department store chains and specialty shops offer brand-name merchandise at substantial markdowns, which can result in prices approximating those offered by us at our BCF stores.

Merchandise Vendors

We purchase merchandise from many suppliers, each of which accounted for less than 3% of our net purchases during Fiscal 2011. We have no long-term purchase commitments or arrangements with any of our suppliers, and believe that we are not dependent on any one supplier. We continue to have good working relationships with our suppliers.

Seasonality

Our business, like that of most retailers, is subject to seasonal influences, with the major portion of sales and income typically realized during the back-to-school and holiday seasons (September through January). Weather, however, continues to be an important contributing factor to the sale of our clothing. Generally, our sales are higher if the weather is cold during the Fall and warm during the early Spring.

Tradenames

We have tradename assets such as Burlington Coat Factory, Baby Depot, Luxury Linens and MJM Designs. We consider these tradenames and the accompanying name recognition to be valuable to our business. We believe that our rights to these properties are adequately protected. Our rights in these tradenames endure for as long as they are used.

AVAILABLE INFORMATION

Our website address is www.burlingtoncoatfactory.com. We will provide to any person, upon request, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Such requests should be made in writing to the attention of our Corporate Counsel at the following address: Burlington Coat Factory Warehouse Corporation, 1830 Route 130 North, Burlington, New Jersey 08016.

Item 1A. Risk Factors

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, the industry in which we operate and other matters, as well as management s beliefs and assumptions and other statements regarding matters that are not historical facts. These statements include, in particular, statements about our plans, strategies and prospects. For example, when we use words such as projects, expects, anticipates, intends, plans, believes, seeks, estimates, should, would, could, will, opp 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. 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, general economic conditions in the United States (U.S.) and in states where we conduct our business, 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, domestic events affecting the delivery of merchandise to our stores, existence of adverse litigation and risks, and each of the factors discussed in this Item 1A, Risk Factors as well as risks discussed elsewhere in this report.

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.

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

Risks Related to Our Business

Our growth strategy includes the addition of a significant number of new stores each year. We may not be able to implement this strategy successfully, on a timely basis, or at all.

Our growth will largely depend on our ability to successfully open and operate new stores. We intend to continue to open new stores in future years, while remodeling a portion of our existing store base annually. The success of this strategy is dependent upon, among other things, the current retail environment, the identification of suitable markets and sites for store locations, the negotiation of acceptable lease terms, the hiring, training and retention of competent sales personnel, and the effective management of inventory to meet the needs of new and existing stores on a timely basis. Our proposed expansion also will place increased demands on our operational, managerial and administrative resources. These increased demands could cause us to operate our business less effectively, which in turn could cause deterioration in the financial performance of our existing stores. In addition, to the extent that our new store openings are in existing markets, we may experience reduced net sales volumes in existing stores in those markets. We expect to fund our expansion through cash flow from operations and, if necessary, by borrowings under our ABL Line of Credit; however, if we experience a decline in performance, we may slow or discontinue store openings. We may not be able to execute any of these strategies successfully, on a timely basis, or at all. If we fail to implement these strategies successfully, our financial condition and results of operations would be adversely affected.

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

We currently lease approximately 92% of our store locations. Most of our current leases expire at various dates after five or ten-year terms, the majority of which are subject to our option to renew such leases for several additional five-year periods. Our ability to renew any expiring lease or, if such lease cannot be renewed, our ability to lease a suitable alternative location, and our ability to enter into leases for new stores on favorable terms will depend on many factors which are not within our control, such as conditions in the local real estate market, competition for desirable properties and our relationships with current and prospective landlords. If we are unable to renew existing leases or lease suitable alternative locations, or enter into leases for new stores on favorable terms, our growth and our profitability may be negatively impacted.

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

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

Fluctuations in comparative store sales and results of operations could cause our business performance to decline substantially.

Our results of operations for our individual stores have fluctuated in the past and can be expected to continue to fluctuate in the future. Since the beginning of the fiscal year ended May 29, 2005, our quarterly comparative store sales rates have ranged from 8.9% to negative 8.0%.

Our comparative store sales and results of operations are affected by a variety of factors, including:

- fashion trends;
- calendar shifts of holiday or seasonal periods;
- the effectiveness of our inventory management;
- changes in our merchandise mix;
- weather patterns, including, among other things, changes in year-over-year temperatures;
- availability of suitable real estate locations at desirable prices and our ability to locate them;
- our ability to effectively manage pricing and markdowns;
- changes in general economic conditions and consumer spending patterns;
- our ability to anticipate, understand and meet consumer trends and preferences;
- actions of competitors; and
- the attractiveness of our inventory and stores to customers.

If our future comparative store sales fail to meet expectations, then our cash flow and profitability could decline substantially.

Because inventory is both fashion and season sensitive, extreme and/or unseasonable weather conditions could have a disproportionately large effect on our business, financial condition and results of operations because we would be forced to mark down inventory.

Extreme weather conditions in the areas in which our stores are located could have a material adverse effect on our business, financial condition and results of operations. For example, heavy snowfall or other extreme weather conditions over a prolonged period might make it difficult for our customers to travel to our stores. In addition, natural disasters such as hurricanes, tornados and earthquakes, or a combination of these or other factors, could severely damage or destroy one or more of our stores or facilities located in the affected areas, thereby disrupting our business operations. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the fall or winter season or cool weather during the spring or summer season could render a portion of our inventory incompatible with those unseasonable conditions. These prolonged unseasonable weather conditions could adversely affect our business, financial condition and results of operations. Historically, a majority of our net sales have occurred during the five-month period from September through January. Unseasonably warm weather during these months could adversely affect our business.

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

The products that we offer are manufactured by third party vendors. Many of our key vendors limit the number of retail channels they use to sell their merchandise resulting in intense competition among retailers to obtain and sell these goods. In addition, nearly all of the brands of our top vendors are sold by competing retailers and some of our top vendors also have their own dedicated retail stores. Moreover, we typically buy products from our vendors on a purchase order basis. We have no long term purchase contracts with any of our vendors and, therefore, have no contractual assurances of continued supply, pricing or access to products, and any vendor could change the terms upon which they sell to us or discontinue selling to us at any time. If our relationships with our vendors are disrupted, we may not be able to acquire the merchandise we require in sufficient quantities or on terms acceptable to us. Any inability to acquire suitable merchandise would have a negative effect on our business and operating results because we would be missing products from our merchandise mix unless and until alternative supply arrangements were made, resulting in deferred or lost sales.

Our results may be adversely affected by fluctuations in energy prices

Increases in energy costs may result in an increase in our transportation costs for distribution, utility costs for our stores and costs to purchase our products from suppliers, as well as reducing the amount of disposable income available to customers and curtailing the use of automobiles and thereby reducing traffic to our stores. A sustained rise in energy costs could adversely affect consumer spending and demand for our products and increase our operating costs, both of which could have an adverse effect on our performance.

General economic conditions and competition affect our business.

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, commodities pricing, income tax rates and policies, consumer confidence and consumer perception of economic conditions. In addition, consumer purchasing patterns may be influenced by consumers disposable income, credit availability and debt levels. A 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. Consumer confidence is also affected by the domestic and international political situation. Our financial condition and operations could be impacted by changes in government regulations such as taxes, healthcare reform, and other areas. The outbreak or escalation of war, or the occurrence of terrorist acts or other hostilities in or affecting the U.S., could lead to a decrease in spending by consumers. In addition, natural disasters, industrial accidents and acts of war in various parts of the world could have the effect of disrupting supplies and raising prices globally which, in turn, may have adverse effects on the world and U.S. economies and lead to a downturn in consumer confidence and spending.

Retailing is highly competitive, and retailers are constantly adjusting their promotional activity and pricing strategies in response to changing conditions. In order to increase traffic and drive consumer spending in the economic environment of the past several years, competitors, including department stores, mass merchants and specialty apparel stores, have been offering brand-name merchandise at substantial markdowns. Moreover, one national mid-market department store chain has recently announced a new business strategy which entails offering branded goods on a larger scale and a departure from in-house brands, coupled with offering products at everyday, regular prices set at up to 40% below traditional department store prices and limited promotional activity. This will result in more competition for branded goods as well as more price competition. If we are unable to continue to meet changes in the competitive environment and to positively differentiate ourselves from our competitors, our results of operations could be adversely affected.

Parties with whom we do business may be subject to insolvency risks which could negatively impact our liquidity.

Many economic and other factors are outside of our control, including but not limited to commercial credit availability. Also affected are our vendors who, in many cases depend upon commercial credit to finance their operations. If they are unable to secure commercial financing, our vendors could seek to change the terms on which they sell to us, which could negatively affect our liquidity. In addition, the inability of vendors to access liquidity, or the insolvency of vendors, could lead to their failure to deliver merchandise to us.

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

Factors which affect overseas production could affect our suppliers and vendors and, in turn, our ability to obtain inventory and the price levels at which they may be obtained. Although such factors apply equally to our competitors, factors that cause an increase in merchandise costs or a decrease in supply could lead to generally lower sales and gross margins in the retail industry.

Such factors include:

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

- political or military conflict involving the apparel producing countries, which could cause a delay in the transportation of our products to us and an increase in transportation costs;

- heightened terrorism security concerns, which could subject imported goods to additional, more frequent or more thorough inspections, leading to delays in deliveries or impoundment of goods for extended periods;

- disease epidemics and health related concerns, such as the outbreaks of SARS, bird flu, swine flu and other diseases, which could result in closed factories, reduced workforces, scarcity of raw materials and scrutiny or embargoing of goods produced in infected areas;

- natural disasters and industrial accidents, which could have the effect of curtailing production and disrupting supplies;

- increases in labor and production costs in goods-producing countries, which would result in an increase in our inventory costs;

- the migration and development of manufacturers, which can affect where our products are or will be produced;

- fluctuation in our suppliers local currency against the dollar, which may increase our cost of goods sold; and

- changes in import duties, taxes, charges, quotas, loss of most favored nation trading status with the United States for a particular foreign country and trade restrictions (including the United States imposing antidumping or countervailing duty orders, safeguards, remedies or compensation and retaliation due to illegal foreign trade practices).

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

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

During Fiscal 2011, central distribution services were extended to approximately 86% of our merchandise units through our distribution facilities. Our two primary distribution centers are currently located in Edgewater Park, New Jersey and San Bernardino, California. Most of the merchandise we purchase is shipped directly to our distribution centers, where it is prepared for shipment to the appropriate stores. If either of our current primary distribution centers were to shut down or lose significant capacity for any reason, our operations would likely be disrupted. Although in such circumstances our stores are capable of receiving inventory directly from suppliers via drop shipment, we would incur significantly higher costs and a reduced ability to control inventory levels during the time it takes for us to reopen or replace either of our primary distribution centers.

Software used for our management information systems may become obsolete or conflict with the requirements of newer hardware and may cause disruptions in our business.

We rely on our existing management information systems, including some software programs that were developed in-house by our employees, in operating and monitoring all major aspects of our business, including sales, distribution, purchasing, inventory control, merchandising planning and replenishment, as well as various financial systems. If we fail to update such software to meet the demands of changing business requirements or if we decide to modify or change our hardware and/or operating systems and the software programs that were developed in-house are not compatible with the new hardware or operating systems, disruption to our business may result.

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

As part of our normal course of business we collect, process and retain sensitive and confidential information in accordance with industry standards. Despite the security measures we have in place, our facilities and systems, and those of our third party service providers may be vulnerable to security breaches, acts of vandalism and theft, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any security breach involving misappropriation, loss or other unauthorized disclosure of confidential information, whether by us or our vendors, could severely damage our reputation, expose us to litigation and liability risks, disrupt our operations and harm our business.

Table of Contents

Disruptions in our information systems could adversely affect our operating results.

The efficient operation of our business is dependent on our information systems. If an act of God or other event caused our information systems to not function properly, major business disruptions could occur. In particular, we rely on our information systems to effectively manage sales, distribution, merchandise planning and allocation functions. Our disaster recovery site is located within 15 miles of our Burlington, New Jersey headquarters. If a disaster impacts either location, while it most likely would not fully incapacitate us, our operations could be significantly affected. The failure of our information systems to perform as designed could disrupt our business and harm sales and profitability.

Changes in product safety laws may adversely impact our operations.

We are subject to regulations by a variety of state and federal regulatory authorities, including the Consumer Product Safety Commission. The Consumer Product Safety Improvement Act of 2008 (CPSIA) imposes new limitations on the permissible amounts of lead and phthalates allowed in children s products. These regulations relate principally to product labeling, licensing requirements, flammability testing, and product safety particularly with respect to products used by children. In the event that we are unable to timely comply with regulatory changes, including those pursuant to the CPSIA, significant fines or penalties could result, and could adversely affect our operations.

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

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

- manage advertising and marketing costs effectively in order to maintain acceptable operating margins and return on our marketing investment; and

- convert customer awareness into actual store visits and product purchases.

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

Use of social media may adversely impact our reputation or subject us to fines or other penalties.

There has been a substantial increase in the use of social media platforms and similar devices, including blogs, social media websites, and other forms of Internet-based communications, which allow individuals access to a broad audience of consumers and other interested persons. As laws and regulations rapidly evolve to govern the use of these platforms and devices, the failure by us, our employees or third parties acting at our direction to abide by applicable laws and regulations in the use of theses platforms and devices could adversely impact our reputation or subject us to fines or other penalties.

Consumers value readily available information concerning retailers and their goods and services and often act on such information without further investigation and without regard to its accuracy. Information concerning us may be posted on such platforms and devices at any time and may be adverse to our reputation or business. The harm may be immediate without affording us an opportunity for redress or correction.

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

We depend on the contributions of key personnel for our future success. Although we have entered into employment agreements with certain executives, we may not be able to retain all of our executive and key employees. These executives and other key employees may be hired by our competitors, some of which have considerably more financial resources than we do. The loss of key personnel, or the inability to hire and retain qualified employees, could adversely affect our business, financial condition and results of operations.

The interests of our controlling stockholders may conflict with the interests of our noteholders or us.

As of March 31, 2012, funds associated with Bain Capital owned approximately 96.9% of the common stock of Burlington Coat Factory Holdings, Inc. (Parent), with the remainder held by existing and former members of management. Additionally, management held options to purchase 8.3% of the outstanding shares of Parent s common stock as of January 28, 2012. Our controlling stockholders may have an incentive to increase the value of their investment or cause us to distribute funds at the expense of our financial condition and impact our ability to make payments on our outstanding notes. In addition, funds associated with Bain Capital have the power to elect a majority of our board of directors and appoint new officers and management and, therefore, effectively control many major decisions regarding our operations.

Table of Contents

For further information regarding the ownership interest of, and related party transactions involving, Bain Capital and its associated funds, please see Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, and Item 13, Certain Relationships and Related Transactions, and Director Independence.

Changes in legal and accounting rules and regulations may adversely affect our results of operations.

We are subject to numerous legal and accounting requirements. New accounting rules or regulations and varying interpretations of existing accounting rules or regulations have occurred and may occur in the future, including those related to the convergence of GAAP and IFRS. For example, accounting regulatory authorities have indicated that they may begin to require lessees to capitalize operating leases in their financial statements in future periods. If adopted, such a change would require us to record a significant amount of lease related assets and liabilities on our balance sheet and make other changes related to the recording and classification of lease related expenses on our statement of operations and cash flows. Future changes to accounting rules or regulations and failure to comply with laws and regulations could adversely affect our operations and financial results, involve significant expense and divert management s attention and resources from other matters, which in turn could impact our business.

Risk Factors Related to Our Substantial Indebtedness

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

As of January 28, 2012, our total indebtedness was $1,613.1 million, including $450.0 million of 10.0% senior notes due 2019, $949.1 million under our New Term Loan Facility, and $190.0 million under the ABL Line of Credit. Estimated cash required to make minimum debt service payments (including principal and interest) for these debt obligations amounts to $111.5 million for the fiscal year ending February 2, 2013, exclusive of minimum interest payments related to the ABL Line of Credit. The ABL Line of Credit agreement has no annual minimum principal payment requirements.

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

If we fail to make scheduled payments on our debt or otherwise fail to comply with our covenants, we would be in default and, as a result:

- our debt holders could declare all outstanding principal and interest to be due and payable,
- our secured debt lenders could terminate their commitments and commence foreclosure proceedings against our assets, and
- we could be forced into bankruptcy or liquidation.

The indenture governing our senior notes and the credit agreements governing our senior secured credit facilities impose significant operating and financial restrictions on us and our subsidiaries, which may prevent us from capitalizing on business opportunities.

The indenture governing our senior notes and the credit agreements governing our senior secured credit facilities contain covenants that place significant operating and financial restrictions on us. These covenants limit our ability to, among other things:

incur additional indebtedness or enter into sale and leaseback obligations;

pay certain dividends or make certain distributions on capital stock or repurchase capital stock;

- make certain capital expenditures;
- make certain investments or other restricted payments;
- have our subsidiaries pay dividends or make other payments to us;
- engage in certain transactions with stockholders or affiliates;
- sell certain assets or merge with or into other companies;
- guarantee indebtedness; and
- create liens.

As a result of these covenants, we are limited in how we conduct our business and we may be unable to raise additional debt or equity financing to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness we may incur could include more restrictive covenants. If we fail to maintain compliance with these covenants in the future, we may not be able to obtain waivers from the lenders and/or amend the covenants.

Our failure to comply with the restrictive covenants described above, as well as others that may be contained in the indenture governing our senior notes and the credit agreements governing our senior secured credit facilities, could result in an event of default, which, if not cured or waived, could result in us being required to repay these borrowings before their due date. If we are unable to refinance these borrowings or are forced to refinance these borrowings on less favorable terms, our results of operations and financial condition could be adversely affected.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of January 28, 2012, we operated 477 stores in 44 states throughout the U.S. and Puerto Rico. We own the land and/or building for 40 of our stores and lease the other 437 stores. Store leases generally provide for fixed monthly rental payments, plus the payment, in most cases, of real estate taxes and other charges with escalation clauses. In many locations, our store leases contain formulas providing for the payment of additional rent based on sales.

We own three buildings in Burlington, New Jersey and approximately 47 acres of land on which we have constructed our 402,000 square foot corporate headquarters and distribution facility. In addition, we own approximately 50 acres of undeveloped land in Florence, New Jersey. We also own approximately 43 acres of land in Edgewater Park, New Jersey on which we have constructed a distribution center and office facility of approximately 648,000 square feet. We lease a 440,000 square foot distribution facility in San Bernardino, California and a 295,000 square foot distribution facility in Redlands, California. We also lease approximately 35,000 square feet of office space in New York City.

The following table identifies the years in which store leases, existing at January 28, 2012, expire, (exclusive of distribution and corporate leased location), showing both expiring leases for which we have no renewal options available and expiring leases for which we have renewal options available. For purposes of this table, only the expiration dates of the current lease term (exclusive of any available options) are identified. Historically, we have been able to renew a large number of our expiring leases each year.

Fiscal Years Ending	Number of Leases Expiring with No Additional Renewal Options	Number of Leases Expiring with Additional Renewal Options
2012-2013	8	47
2014-2015	15	124
2016-2017	10	91
2018-2019	4	64
2020-2021	5	35
Thereafter to 2038	11	25
Total	53	386

Item 3. Legal Proceedings

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 effect on our financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

No established trading market currently exists for our common stock. As of March 31, 2012, Parent is the only holder of record of our common stock and 96.9% of Parent s common stock is held by various Bain Capital funds. Payment of dividends is prohibited under our credit agreements, except for certain limited circumstances. Dividends equal to $297.9 million were paid in accordance with our credit agreements during Fiscal 2011 in conjunction with the refinancing of our debt, as further described in Note 10 to our Consolidated Financial Statements, entitled Long-Term Debt. Dividends of $0.3 million, $0.2 million and $3.0 million were paid in accordance with our credit agreements during Fiscal 2010, the Transition Period and Fiscal 2009, respectively, to Parent in order to repurchase capital stock of the Parent.

Table of Contents

Item 6. Selected Financial Data

The following table presents selected historical Consolidated Statements of Operations and Comprehensive (Loss) Income, Balance Sheets and other data for the periods presented and should only be read in conjunction with our audited Consolidated Financial Statements (and the related notes thereto) and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, each of which are included elsewhere in this Form 10-K. The historical financial data for Fiscal 2011, Fiscal 2010, the Transition Period, and the fiscal years ended May 30, 2009, May 31, 2008 and June 2, 2007 (Fiscal 2007) have been derived from our historical audited Consolidated Financial Statements.

	$0,000.0	$0,000.0	$0,000.0	$0,000.0	$0,000.0	$0,000.0
			(in millions)			
	Twelve Months Ended 6/2/07	Twelve Months Ended 5/31/08	Twelve Months Ended 5/30/09	Transition Period from 5/31/09 to 1/30/10	Twelve Months Ended 1/29/2011	Twelve Months Ended 1/28/2012
Revenues	$ 3,441.6	$ 3,424.0	$ 3,571.4	$ 2,479.3	$ 3,701.1	$ 3,887.5
Net (Loss) Income	(47.2)(1)	(49.0)(1)	(191.6)(1)	18.7(1)	31.0(1)	(6.3)(2)
Total Comprehensive (Loss) Income	(47.2)	(49.0)	(191.6)	18.7	31.0	(6.3)

	$0,000.0	$0,000.0	$0,000.0	$0,000.0	$0,000.0	$0,000.0
	As of 6/2/07	As of 5/31/08	As of 5/30/09	As of 1/30/10	As of 1/29/11	As of 1/28/12
Balance Sheet Data						
Total Assets	$ 3,036.5	$ 2,964.5	$ 2,533.4	$ 2,394.0	$ 2,458.0	$ 2,501.1
Working Capital	280.6	284.4	312.3	349.7	386.2	337.9
Long-Term Debt	1,456.3	1,480.2	1,438.8	1,399.2	1,358.0	1,605.5
Stockholder s Equity (Deficit)	380.5	323.5	135.1	154.5	187.5	(110.9)

Notes:

(1) Net (Loss) Income during Fiscal 2007, Fiscal 2008, Fiscal 2009, the Transition Period and Fiscal 2010 reflect impairment charges of $24.4 million, $25.3 million, $332.0 million, $46.8 million and $2.1 million, respectively. The impairment charges in Fiscal 2007, Fiscal 2008, the Transition Period and Fiscal 2010 relate entirely to our long-lived assets while the impairment charge in Fiscal 2009 relates to both our tradenames and our long-lived assets (refer to Note 6 entitled Intangible Assets and Note 8 entitled Impairment of Long-Lived Assets to our Consolidated Financial Statements for further discussion regarding our impairment charges).

(2) Net Loss during Fiscal 2011 reflects charges related to the loss on extinguishment of debt of $37.8 million and impairment charges of $1.7 million. The loss on extinguishment of debt is related to the refinancing of our Previous Term Loan Facility, Previous Senior Notes, and Previous Senior Discount Notes (refer to Note 10 entitled Long-Term Debt to our Consolidated Financial Statements for further discussion). The impairment charges relate entirely to our long-lived assets (refer to Note 8 entitled Impairment of Long-Lived Assets to our Consolidated Financial Statements for further discussion regarding our impairment charges).

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

For purposes of the following Management s Discussion and Analysis of Financial Condition and Results of Operations, unless indicated otherwise or the context requires, we, us, our, and Company refers to the operations of

Table of Contents

Burlington Coat Factory Warehouse Corporation and its consolidated subsidiaries, and the financial statements of Burlington Coat Factory Investments Holdings, Inc. and its subsidiaries. With the exception of the 35 week period ended January 30, 2010, we maintain our records on the basis of a 52 or 53 week fiscal year ending on the Saturday closest to January 31. The following discussion and analysis should be read in conjunction with the Selected Financial Data and our Consolidated Financial Statements, including the notes thereto, appearing elsewhere herein.

In addition to historical information, this discussion and analysis contains forward-looking statements based on current expectations that involve risks, uncertainties and assumptions, such as our plans, objectives, expectations, and intentions set forth under the caption entitled Cautionary Statement Regarding Forward-Looking Statements, which can be found in Item 1A, Risk Factors. Our actual results and the timing of events may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the Item 1A, Risk Factors and elsewhere in this report.

General

We are a nationally recognized retailer of high-quality, branded apparel at everyday low prices. We opened our first store in Burlington, New Jersey in 1972, selling primarily coats and outerwear. Since then, we have expanded our store base to 477 stores in 44 states and Puerto Rico, and diversified our product categories by offering an extensive selection of in-season, fashion-focused merchandise, including: ladies sportswear, menswear, coats, family footwear, baby furniture and accessories, as well as home decor and gifts. We acquire a broad selection of desirable, first-quality, current-brand, labeled merchandise directly from nationally-recognized manufacturers and other suppliers.

As of January 28, 2012, we operated 477 stores under the names Burlington Coat Factory Warehouse (461 stores), MJM Designer Shoes (13 stores), Cohoes Fashions (two stores), and Super Baby Depot (one store) in 44 states and Puerto Rico. For Fiscal 2011, we generated total revenues of approximately $3,887.5 million.

Executive Summary

Overview of Fiscal 2011 Operating Results

We experienced an increase in net sales for Fiscal 2011 compared with Fiscal 2010. Consolidated net sales increased $184.5 million, or 5.0%, to $3,854.1 million for Fiscal 2011 from $3,669.6 million for Fiscal 2010. This increase was primarily attributable to an increase in net sales from new stores and previously opened stores in non comparative sales periods (non comparative stores) of $167.3 million. Comparative store sales increased 0.7% during the year. We believe that the comparative store sales increase was primarily due to our improved merchandise content and customer experience initiatives. The progress made from these initiatives continues to be positive even though many of our regions experienced unseasonably warm temperatures during the holiday selling period (refer to section below entitled Performance for the Fiscal Year Ended January 28, 2012 Compared With the Fiscal Year Ended January 29, 2011 for further explanation).

Gross margin as a percentage of net sales increased slightly from 38.6% during Fiscal 2010 to 38.7% during Fiscal 2011. The improvement in gross margin as a percentage of net sales was due to improvements in shrinkage rates, and fewer markdowns, partially offset by increased initial markups.

Selling and administrative expenses as a percentage of net sales during Fiscal 2011 remained in line with Fiscal 2010 at 31.5% for both periods. Total selling and administrative expenses increased $58.7 million from $1,156.6 million during Fiscal 2010 to $1,215.3 million, during Fiscal 2011, which includes the opening of 17 net new stores during Fiscal 2011. The increase in selling and administrative expenses during Fiscal 2011 was primarily due to increases in payroll and payroll related and occupancy expenses due to new stores opened during the year and stores that were opened in the prior year, but did not operate for a full 12 months.

We recorded a net loss of $6.3 million for Fiscal 2011 compared with net income of $31.0 million for Fiscal 2010. The loss recorded during Fiscal 2011 was primarily driven by our debt refinancing in February 2011 which resulted in a $37.8 million loss on extinguishment of debt as well as increased interest expense.

Store Openings, Closings, and Relocations

During Fiscal 2011, we opened 20 new BCF stores and closed one BCF store, one MJM store and one Super Baby Depot. The MJM store and the Super Baby Depot were in the same shopping center as an existing BCF store, which was expanded and remodeled to absorb both businesses. As of January 28, 2012, we operated 477 stores under the names Burlington Coat Factory Warehouse (461 stores), Cohoes Fashions (two stores), MJM Designer Shoes (13 stores) and Super Baby Depot (one store).

We continue to pursue our growth plans and invest in capital projects that meet our required financial thresholds. During the fiscal year ending February 2, 2013 (Fiscal 2012), we plan to open between 17 and 25 new stores (exclusive of three relocations).

Table of Contents

Ongoing Initiatives for Fiscal 2012

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. **Continuing to offer a Leading Selection of Branded Apparel at Every Day Low Prices (EDLP):** We offer broad product assortments to provide our customers with a wider selection and variety of branded products and categories than that of our off-price competitors. Our selection of youth apparel, including special occasion clothing, as well as our baby clothing, furniture and care items are key offering differentiators from department stores selections. In contrast to merchandise at most 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. **Continuing to Execute 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. Our receipt-to-reduction ratio matches forecasted levels of receipts to forecasted inventory outflows (inclusive of sales, markdowns, and inventory shrinkage) on a monthly basis. Our buying model continues to be focused on purchasing less pre-season, with the majority in-season and opportunistically. Less pre-season purchasing allows us to buy more in-season product to capitalize on strong performing categories and businesses as well as to take full advantage of the current levels of highly desirable opportunistic product in the marketplace. We are also able to better appeal to our core female customer by improving product freshness and broadening brand assortments.

III. **Continuing to Improve 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 will continue to streamline processes to create opportunities for fast and effective customer interactions wherever possible. 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.

We plan to continue execution of this initiative throughout Fiscal 2012 by:

a) Continuing with our in-store customer satisfaction 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 flooring, painting, fitting room improvements and various other improvements. We expect to continue an aggressive refresh program going forward;

c) Continuing to train, develop and recognize our store employees so that they can continue to provide an outstanding customer experience. Our goal is to provide an outstanding customer experience to every customer in every store, every time they enter the store. We expect to accomplish this through enhanced training and education programs, the continuing evolution of our Manager on Duty program and our enhanced associate and store recognition programs. Through these, and other directives, we expect to keep our store managers and store associates focused on core behaviors that will enhance the customer experience and ultimately drive sales; and

d) Continuing to improve our execution within the stores in order to get goods to the floor more quickly in a manner that makes it easier for the customer to find what they are looking for and to improve the efficiency at checkout. We plan to accomplish this through:

enhancing our store receiving procedures so we can get goods from the loading dock to the floor in a more timely manner;

enhancing our sizing initiatives to make it easier for customers to find the size of the goods they are looking for and

15

enhancing and expanding our queuing project in which customers check out through one line where the next available register checks out the next customer in the line, ultimately improving the speed at which customers can get through the checkout process as well as driving incremental sales related to impulse buys while customers are in the que.

IV. **Continuing to Focus on Improving our Customer Loyalty:** We continue to focus on enhancing our relationship with our current customer base with the goal of increasing the frequency with which they shop our stores as well as the amount of merchandise they buy during those visits. We intend to accomplish this through:

a) Continuing our improvement in the store experience, as previously described;

b) Continuing to enhance the targeting of our message to our customers. We are developing more tactical ways to better communicate with our customers, both nationally and locally. By tightening the targeting of our message to our customer base and localizing it to the specific markets with which are stores are located, we believe we can capitalize on our advertising dollars and further drive sales.

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

We plan to continue execution of this initiative by:

a) Continuing the implementation of new software applications which will provide for enhanced functionality during Fiscal 2012 and beyond including:

- refined allocation of goods;
- markdown optimization; and
- more efficient planning and forecasting tools.

The foundation of these systems and the new planning tools were completed during Fiscal 2011. The enhanced functionality related to allocation of goods and markdown optimization are planned to be fully implemented during Fiscal 2012 and Fiscal 2013;

b) Continuing to manage our inventory receipt to reduction ratio. By matching receipt dollars to sales and markdown dollars we believe we will continue to maintain liquidity and will be able to take advantage of in season buying opportunities and to capitalize on those businesses that are trending well;

c) Continuing to ensure adequate open to buy and buying more opportunistically in season. By staying liquid, we believe we will put ourselves in a position to be able to take advantage of opportunistic in-season buys that will maximize our sales;

d) 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 believe we will be afforded more pricing flexibility to provide additional value to our customers without reducing our overall merchandise margins; and

e) Reducing our shrink as a percentage of net sales. During Fiscal 2011 we 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 to continue to see improved results from this initiative during Fiscal 2012.

VI. Continuing to Improve Upon Operating Efficiencies:

a) **Improve store efficiencies.** During Fiscal 2011, we implemented an automated workforce scheduling system in our stores. We believe this new system will provide numerous efficiencies without sacrificing our ability to serve our customers, including, but not limited to, better forecasting of volume and workload, improved allocation of manpower to meet customer demand, and support of our store experience and service initiatives.

b) **Supply chain efficiencies.** We continue to work on several key initiatives to improve supply chain efficiencies and service levels. We will continue to make prudent investments within our distribution network to handle increased volume with greater flexibility. In turn, this should allow us to better support our off price model and enable our merchants to take advantage of more closeout opportunities.

Additionally, we will continue working towards minimizing costs and improving efficiencies with any expected savings being reinvested into the business. We plan to accomplish this primarily by increasing labor efficiency, strategically reducing our vendor direct to store shipments and reducing our outbound distribution expense through a variety of initiatives.

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 customer s spending, there are uncertainties and challenges that we face as an off-price retailer of apparel and accessories for men, women and children and home furnishings that could have a material impact on our revenues or income.

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, commodities pricing, income tax rates and policies, consumer confidence and consumer perception of economic conditions. In addition, consumer purchasing patterns may be influenced by consumers disposable income, credit availability and debt levels. A weakness in the U.S. economy, an uncertain economic outlook or a credit crisis could adversely affect consumer spending habits resulting in lower net sales and profits than expected on a quarterly or annual basis. Consumer confidence is also affected by the domestic and international political situation. Our financial condition and operations could be impacted by changes in government regulations such as taxes, healthcare reform, and other areas. The outbreak or escalation of war, or the occurrence of terrorist acts or other hostilities in or affecting the U.S., could lead to a decrease in spending by consumers.

Competition and Margin Pressure. We believe that in order to remain competitive with off-price retailers and discount stores, we must continue to offer brand-name merchandise at a discount from traditional department stores as well as an assortment of merchandise that is appealing to our customers.

The U.S. retail apparel and home furnishings markets are highly fragmented and competitive. We compete for business with department stores, off-price retailers, specialty stores, discount stores, wholesale clubs, and outlet stores. We anticipate that competition will increase in the future. Therefore, we will continue to look for ways to differentiate our stores from those of our competitors.

The U.S retail industry continues to face increased pressure on margins as commodity prices increase and the overall challenging retail conditions have led consumers to be more value conscious. Despite a plentiful supply of goods in the market, which historically created downward pricing pressure for wholesale purchases, we expect to continue to see rising costs. Our open to buy paradigm, in which we purchase both pre-season and in-season merchandise, allows us the flexibility to purchase less pre-season with the balance purchased in-season and opportunistically. It also provides us the flexibility to shift purchases between suppliers and categories. This enables us to obtain better terms with our suppliers, which we expect to help offset the expected rising costs of goods.

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

Seasonality of Sales and Weather Conditions. Our sales, like most other retailers, are subject to seasonal influences, with the majority of our sales and net income derived during the months of September through January, which includes the back-to-school and holiday seasons.

Additionally, our sales continue to be significantly affected by weather. Generally, our sales are higher if the weather is cold during the Fall and warm during the early Spring. Sales of cold weather clothing are increased by early cold weather during the Fall, while sales of warm weather clothing are improved by early warm weather conditions in the Spring. Although we have diversified our product offerings, we believe traffic to our stores is still heavily driven by weather patterns.

Table of Contents

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.

We 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. The table below depicts our comparative store sales during Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009.

	Comparative Store Sales
Fiscal 2011	0.7%
Fiscal 2010	(0.2)%
Transition Period	(4.8)%
Fiscal 2009	(2.5)%

Various factors affect comparative store sales, including, but not limited to, current economic conditions, weather 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. While any and all of these factors can impact comparative store sales, we believe that the increase in comparative store sales during Fiscal 2011 was primarily driven by our improved merchandise content and customer experience initiatives. The progress made from these initiatives was positive even though many of our regions experienced unseasonably warm temperatures during the holiday selling period. The decrease in comparative store sales during Fiscal 2010 was primarily driven by weather conditions. The decrease in comparative store sales during the Transition Period and Fiscal 2009 was primarily attributable to weakened consumer demand as a result of the overall challenging retail conditions.

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 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, outbound freight from distribution centers and certain merchandise acquisition costs, primarily commissions and import fees. Gross margin as a percentage of net sales increased slightly from 38.6% during Fiscal 2010 to 38.7% during Fiscal 2011.

Inventory Levels. Inventory at January 28, 2012 increased $38.1 million to $682.3 million at January 28, 2012 from $644.2 million at January 29, 2011. This increase was the result of 17 net new stores opened during Fiscal 2011. Average store inventory (inclusive of stores and warehouse inventory) at January 28, 2012 increased approximately 2.1% to $1.4 million per store compared with average store inventory at January 29, 2011 primarily related to inventory purchased and held as a result of opportunistic buys. Average inventory per comparative store (exclusive of new and non comparative stores and warehouse inventories) decreased 7.4%. This decrease in average inventory per comparative store was the result of our ongoing merchandise and supply chain initiatives.

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 continue to manage our merchandise flow based on a receipt-to-reduction ratio. By matching forecasted levels of receipts to forecasted inventory outflows (inclusive of sales, markdowns, and inventory shrinkage) on a monthly basis, we believe we will create a more normalized receipt cadence to support sales which will ultimately lead to an improved inventory turnover ratio.

18

Table of Contents

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 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. The inventory turnover calculation is based on a rolling 13 month average of inventory and the last 12 months sales. Our annualized inventory turnover rate (inclusive of stores and warehouse inventory) was 2.8 turns per year at January 28, 2012 and January 29, 2011. Our annualized comparative store inventory turnover rate (exclusive of warehouse inventory) increased to 3.1 turns per year during Fiscal 2011 compared with 2.9 turns per year during Fiscal 2010.

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 generated an increase in cash flow of $5.5 million during Fiscal 2011, increasing our cash and cash equivalents to $35.7 million as of January 28, 2012. This increase was primarily due to cash provided by operations as a result of the continued improvement of our core operations as well as our working capital management strategy. The cash provided by operations was partially offset by cash used in investing and financing activities. Cash used in investing activities was primarily related to capital expenditures as we continue to grow our store base and invest in capital projects in our distribution centers and corporate offices. Cash used in financing activities was primarily related to the payment of dividends during the year of $297.9 million, partially offset by the impact of our debt refinancing during the first quarter of Fiscal 2011.

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 January 28, 2012 was $337.9 million compared with $386.2 million at January 29, 2011. The decrease in working capital from January 29, 2011 is primarily attributable to increased accounts payable balances at January 28, 2012, related to our working capital management strategy whereby we accelerated less payments in Fiscal 2011 than we did in Fiscal 2010, partially offset by increased inventory, as a result of an increase in inventory which was purchased and held as a result of opportunistic buys as well as new store 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. We define store payroll as regular and overtime payroll for all store personnel as well as regional and territory store management, loss prevention and human resources, and does not include payroll charges for corporate and warehouse employees. Store payroll as a percentage of net sales was 10.1% and 10.3% during Fiscal 2011 and Fiscal 2010, respectively.

Results of Operations Fiscal 2011 and Fiscal 2010

The following tables set forth certain items in our Consolidated Statements of Operations and Comprehensive (Loss) Income as a percentage of net sales for Fiscal 2011 and Fiscal 2010. Financial information for Fiscal 2011 and Fiscal 2010 was derived from audited financial statements.

	Fiscal Year Ended	
	January 28, 2012	**January 29, 2011**
REVENUES:		
Net Sales	100.0%	100.0%
Other Revenue	0.9	0.9
Total Revenue	100.9	100.9
COSTS AND EXPENSES:		
Cost of Sales (Exclusive of Depreciation and Amortization as Shown Below)	61.3	61.4
Selling and Administrative Expenses	31.5	31.5
Restructuring and Separation Costs	0.2	0.1
Depreciation and Amortization	4.0	4.0
Impairment Charges Long-Lived Assets	0.1	0.1
Other Income, Net	(0.3)	(0.3)
Loss on Extinguishment of Debt	1.0	
	3.4	2.7

Interest Expense (Inclusive of Gain/Loss on Interest Rate Cap Agreements)		
Total Costs and Expenses	101.2	99.5
(Loss) Income Before Income Tax Expense (Benefit)	(0.3)	1.4
Income Tax (Benefit) Expense	(0.1)	0.6
Net (Loss) Income	(0.2)%	0.8%

Table of Contents

Performance for Fiscal Year (52 weeks) Ended January 28, 2012 Compared with Fiscal Year (52 weeks) Ended January 29, 2011

Net Sales

We experienced an increase in net sales for Fiscal 2011 compared with Fiscal 2010. Consolidated net sales increased $184.5 million, or 5.0%, to $3,854.1 million for Fiscal 2011 from $3,669.6 million for Fiscal 2010. This increase was primarily attributable to

- an increase in net sales of $101.8 million related to 20 new stores opened during Fiscal 2011,
- an increase in net sales of $65.5 million related to our non comparative stores,
- a comparative store sales increase of $26.3 million, or 0.7%, to $3,623.7 million and
- an increase in other sales, inclusive of barter sales of $13.1 million; partially offset by
- a decrease in net sales of $22.2 million from three stores closed since January 30, 2011.

We believe that the comparative store sales increase was primarily due to our improved merchandise content and customer experience initiatives. We believe the progress made from these initiatives was partially offset by the unseasonably warm temperatures experienced in many of our regions during the fall and holiday selling period.

Other Revenue

Other revenue (consisting of rental income from leased departments, subleased rental income, layaway, alterations, other service charges, and miscellaneous revenue items) increased $1.9 million to $33.4 million for Fiscal 2011 compared with $31.5 million for Fiscal 2010. This increase was primarily related to an increase in rental income from leased departments of $1.7 million.

Cost of Sales

Cost of sales increased $111.1 million, or 4.9%, for Fiscal 2011 compared with Fiscal 2010. Cost of sales as a percentage of net sales improved slightly to 61.3% during Fiscal 2011 compared with 61.4% during Fiscal 2010. The dollar increase of $111.1 million in cost of sales between Fiscal 2011 and Fiscal 2010 was primarily related to the increase in our net sales during the same periods.

During Fiscal 2011 as compared with Fiscal 2010, we experienced a slight increase in gross margin as a percent of net sales to 38.7% from 38.6%. The improvement in our gross margin as a percent of net sales was primarily the result of improvements in shrinkage rates and fewer markdowns, partially offset by increased initial markups.

Selling and Administrative Expenses

Selling and administrative expenses increased $58.7 million, or 5.1%, to $1,215.3 million for Fiscal 2011 from $1,156.6 million for Fiscal 2010. The increase in selling and administrative expenses is summarized in the table below:

(in thousands)

Fiscal Years Ended

	January 28, 2012	January 29, 2011	$ Variance	% Change
Payroll and Payroll Related	$ 554,823	$ 524,120	$ 30,703	5.9%
Occupancy	387,028	373,166	13,862	3.7
Advertising	77,595	70,422	7,173	10.2
Benefit Costs	19,844	15,326	4,518	29.5
Other	145,507	141,430	4,077	2.9
Business Insurance	30,504	32,149	(1,645)	(5.1)
Selling & Administrative Expenses	$ 1,215,301	$ 1,156,613	$ 58,688	5.1%

Table of Contents

The increase in selling and administrative expense during Fiscal 2011 compared with Fiscal 2010 was primarily related to increases in payroll and payroll related costs and occupancy costs. The increase in payroll and payroll related costs of approximately $30.7 million was primarily related to the addition of 17 net new stores as well as stores that opened during Fiscal 2010 that did not operate for a full 52 weeks. Amounts related to these stores resulted in an increase in payroll and payroll related expenses of $20.8 million. Also contributing to the increase in payroll and payroll related costs were:

- a $3.3 million increase in relocation expense as a result of our expanded recruiting efforts to attract high quality candidates,
- a $2.9 million increase in regular payroll primarily driven by increased headcount,
- a $2.4 million increase in stock compensation expense related to an adjustment to our forfeiture rate and
- a $2.2 million increase in payroll taxes primarily related to increased rates in the states that we do business.

The increase in occupancy related costs of $13.9 million in Fiscal 2011 as compared with Fiscal 2010 was primarily related to new stores and stores that opened during Fiscal 2010 that did not operate for a full 52 weeks. These stores accounted for $19.0 million of the total increase. This increase was partially offset by a $5.4 million decrease in utilities primarily attributed to savings created as a result of our lighting retrofit and energy management initiatives.

The increase in advertising expense of $7.2 million during Fiscal 2011 compared with Fiscal 2010 was primarily related to increased national and spot television advertising during the year as well as planned incremental marketing investment during the year. The increase in advertising expense was also attributable to the number of grand opening advertisements primarily related to the opening of 20 new BCF stores.

The increase in benefit costs of $4.5 million during Fiscal 2011 compared with Fiscal 2010 was primarily the result of increased health insurance claims of $3.6 million primarily as a result of increased participation due to improved benefits as well as increased 401(k) Plan Match expense of $1.1 million related to increased participation in the plan.

The increase in other selling and administrative expenses of $4.1 during Fiscal 2011 compared with Fiscal 2010 was primarily due to a $3.8 million increase in temporary help related to incremental investments in supply chain to improve support of our opportunistic buying model, a $3.0 million increase in our litigation expense as a result of additional legal reserves and settlements during Fiscal 2011 and a $3.3 million increase in travel and training expenses. These increases were partially offset by a $6.3 million decrease in our legal expense primarily related to fees incurred as part of our aborted debt refinancing in the Fall of Fiscal 2010. Refer to previous discussions describing our successful debt refinancing in February 2011 under section Debt Refinancing and Dividend and later in Note 10 to our Consolidated Financial Statements entitled Long-Term Debt.

The decrease in business insurance costs of $1.6 million in Fiscal 2011 compared with Fiscal 2010 was the result of decreased claims experience during Fiscal 2011 as well as claim settlements at more favorable amounts during Fiscal 2011. During Fiscal 2010, we experienced an increase in the cost of workers compensation claims and an increase in the number of general liability claims, each of which we believe was a result of the economic environment. This trend slowed during Fiscal 2011 and we have returned to a more historical level of claims experience.

Restructuring and Separation Costs

As part of our ongoing effort to ensure that our resources are in line with our business objectives, we regularly review all areas of the business to identify efficiency opportunities to enhance our performance. During Fiscal 2011, we effected a reorganization of certain positions within our stores and corporate locations in an effort to improve workflow efficiencies and realign certain responsibilities. As a result of these reorganizational efforts, we incurred a charge of $7.4 million during Fiscal 2011 compared with a $2.2 million charge in Fiscal 2010.

Depreciation and Amortization

Depreciation and amortization expense related to the depreciation of fixed assets and the amortization of favorable and unfavorable leases amounted to $153.1 million for Fiscal 2011 compared with $146.8 million for Fiscal 2010. The increase in depreciation and amortization expense was primarily driven by depreciation expense related to 17 net new stores opened during Fiscal 2011.

Table of Contents

Impairment Charges Long-Lived Assets

Impairment charges related to long-lived assets were $1.7 million and $2.1 million during Fiscal 2011 and Fiscal 2010, respectively. During Fiscal 2011, we recorded impairment charges related to seven stores as a result of the decline in the operating performance of those stores. We impaired nine stores during Fiscal 2010 (refer to Note 8 to our Consolidated Financial Statements entitled Impairment of Long-Lived Assets for further discussion).

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

Other Income, net

Other income, net (consisting of investment income, gains and losses on disposition of assets, breakage income and other miscellaneous items) decreased $1.4 million to $9.9 million during Fiscal 2011 compared with Fiscal 2010. The decrease in other income during Fiscal 2011 compared with Fiscal 2010 was primarily related to the following:

- A decrease in miscellaneous income of $1.5 million,

- a decrease of $1.5 million related to insurance recoveries in Fiscal 2010, partially offset by;

- an increase in breakage income of $1.4 million (refer to Note 1 to our Consolidated Financial Statements entitled Summary of Significant Accounting Policies for further discussion).

Loss on Extinguishment of Debt

As discussed in more detail in Note 10 to our Consolidated Financial Statements entitled Long Term Debt, on February 24, 2011 we completed the refinancing of our Previous Term Loan, Previous Senior Notes, and Previous Senior Discount Notes. As a result of these transactions, the Previous Senior Notes and Previous Senior Discount Notes, with carrying values at February 24, 2011 of $302.0 million and $99.3 million, respectively, were replaced with a $450.0 million aggregated principal amount of 10% Senior Notes due 2019 at an issue price of 100%. Additionally, the Previous Term Loan with a carrying value of $777.6 million at February 24, 2011 was replaced with a $1,000.0 million New Term Loan Facility. Borrowings on the ABL Line of Credit related to the refinancing transactions were $101.6 million. In connection with the offering of the Notes and the refinancing of the Term Loan facility, the Company declared a dividend of approximately $300.0 million, in the aggregate, on a pro rata basis to the equity holders of Parent.

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

Interest Expense

Interest expense was $129.1 million during Fiscal 2011 compared with $99.3 million during Fiscal 2010. The $29.8 million increase in interest expense was primarily driven by increases resulting from our refinancing transactions, offset by other items described below. In Fiscal 2011 we had higher average balances on our New Term Loan and our ABL Line of Credit and higher interest rates related to our New Term Loan and ABL Line of Credit, as a result of our refinancing transactions, resulting in a $41.2 million increase in interest expense. These increases were partially offset by:

a $3.7 million decrease related to our Notes as a result of our refinancing transactions completed in February 2011,

a $3.4 million decrease in non-recurring interest charges related to a litigation reserve adjustment during Fiscal 2010 that did not repeat;

22

Table of Contents

a $2.3 million decrease related to an adjustment of our interest rate cap agreements to fair value; and

a $1.3 million decrease in our commitment fees due to higher average balances on our ABL Line of Credit borrowings.

Our average interest rates and average balances related to our Term Loans and our ABL Line of Credit, for Fiscal 2011 compared with Fiscal 2010 are summarized in the table below:

	Fiscal Year Ended	
	January 28, 2012	January 29, 2011
Average Interest Rate ABL Line of Credit(b)	3.3%	2.7%
Average Interest Rate Term Loan (a)	6.2%	2.6%
Average Balance ABL Line of Credit	$ 79.2 million	$ 10.5 million
Average Balance Term Loan (a)	$ 974.4 million	$ 854.8 million

(a) As of January 29, 2011, the Term Loan interest rate and average balance were related to the Previous Term Loan Facility. As of January 28, 2012, the Term Loan interest rate and average balance were related to the New Term Loan Facility.

(b) As of January 29, 2011, the ABL Line of Credit interest rate was related to the ABL Line of Credit before the refinancing transaction on September 2, 2011. As of January 28, 2012, the ABL Line of Credit interest rate was related to the ABL Line of Credit after the September 2, 2011 refinancing transaction.

Income Tax (Benefit) Expense

The income tax benefit was $4.1 million for Fiscal 2011 compared with an income tax expense of $22.1 million for Fiscal 2010. The effective tax rate was 39.8% related to the pre-tax loss of $10.4 million for Fiscal 2011, and the effective tax rate was 41.7% related to pre-tax income of $53.1 million for Fiscal 2010. The decrease in the effective tax rate for Fiscal 2011 was primarily due to an increased benefit from the recognition of tax credits and the reversal of uncertain tax positions, offset by changes in the valuation allowance, foreign taxes related to Puerto Rico and the impact of changes in tax laws. The Fiscal 2010 tax rate reflects pre-tax income impacted by state income taxes. Refer to Note 15 to our Consolidated Financial Statements entitled Income Taxes for further discussion.

Net (Loss) Income

Net loss amounted to $6.3 million for Fiscal 2011 compared with net income of $31.0 during Fiscal 2010. The decrease in our operating results of $37.3 million was primarily driven by our debt refinancing in February 2011 which resulted in a $37.8 million loss on extinguishment of debt as well as increased interest expense, partially offset by increased sales.

Results of Operations Fiscal 2010 and the Transition Period

The following tables set forth certain items in our Consolidated Statements of Operations and Comprehensive (Loss) Income in both actual dollars and as a percentage of net sales for Fiscal 2010, the comparable 52 week period ended January 30, 2010, the Transition Period and the comparable 35 week period ended January 31, 2009 used in connection with the subsequent discussion. Financial information for Fiscal 2010 and the Transition Period were derived from audited financial statements. Financial information for the 52 week period ended January 30, 2010 and the 35 week period ended January 31, 2009, were derived from unaudited financial statements.

Table of Contents

	(in thousands)			
	52 Weeks Ended		35 Weeks Ended	
	January 29, 2011	January 30, 2010 (Unaudited)	January 30, 2010	January 31, 2009 (Unaudited)
REVENUES:				
Net Sales	$ 3,669,602	$ 3,522,914	$ 2,457,567	$ 2,476,635
Other Revenue	31,487	30,840	21,730	20,277
Total Revenue	3,701,089	3,553,754	2,479,297	2,496,912
COSTS AND EXPENSES:				
Cost of Sales (Exclusive of Depreciation and Amortization as Shown Below)	2,252,346	2,181,707	1,492,349	1,510,409
Selling and Administrative Expenses	1,156,613	1,113,960	759,774	761,062
Restructuring and Separation Costs	2,200	7,452	2,429	1,929
Depreciation and Amortization	146,759	156,388	103,605	106,823
Impairment Charges Long-Lived Assets	2,080	56,141	46,776	28,134
Impairment Charges Tradenames		15,250		279,300
Other Income, Net	(11,346)	(16,635)	(15,335)	(4,698)
Interest Expense (Inclusive of Gain/Loss on Interest Rate Cap Agreements)	99,309	84,423	59,476	74,263
Total Costs and Expenses	3,647,961	3,598,686	2,449,074	2,757,222
Income (Loss) Before Income Tax Expense (Benefit)	53,128	(44,932)	30,223	(260,310)
Income Tax Expense (Benefit)	22,130	(29,753)	11,570	(104,667)
Net Income (Loss)	30,998	(15,179)	18,653	(155,643)
Total Comprehensive (Loss) Income	$ 30,998	$ (15,179)	$ 18,653	$ (155,643)

	52 Weeks Ended		35 Weeks Ended	
	January 29, 2011	January 30, 2010 (Unaudited)	January 30, 2010	January 31, 2009 (Unaudited)
Statement of Operations Data:				
Net Sales	100.0%	100.0%	100.0%	100.0%
Other Revenue	0.9	0.9	0.9	0.8
Total Revenue	100.9	100.9	100.9	100.8
Cost of Sales (Exclusive of Depreciation and Amortization, As Shown Below)	61.4	61.9	60.7	61.0
Selling & Administrative Expenses	31.5	31.6	30.9	30.7
Restructuring and Separation Costs	0.1	0.2	0.1	0.1
Depreciation and Amortization	4.0	4.4	4.2	4.3
Impairment Charges Long Lived Assets	0.1	1.6	1.9	1.1
Impairment Charges Trademark		0.4		11.3
Other Income, Net	(0.3)	(0.5)	(0.6)	(0.2)
Interest Expense (Inclusive of Gain/Loss on Interest Rate Cap Agreements)	2.7	2.4	2.4	3.0

Total Expense	99.5	102.0	99.6	111.3
Income (Loss) Before Income Tax Expense (Benefit)	1.4	(1.1)	1.3	(10.5)
Income Tax Expense (Benefit)	0.6	(0.8)	0.5	(4.2)
Net Income (Loss)	0.8%	(0.3)%	0.8%	(6.3)%

Table of Contents

Performance for the Fiscal Year (52 weeks) Ended January 29, 2011 Compared with the 52 weeks Ended January 30, 2010

Net Sales

We experienced an increase in net sales for Fiscal 2010 compared with the 52 weeks ended January 30, 2010. Consolidated net sales increased $146.7 million, or 4.2%, to $3,669.6 million for Fiscal 2010 from $3,522.9 million for the 52 weeks ended January 30, 2010. This increase was primarily attributable to:

- an increase in net sales of $145.3 million related to 25 new stores opened during Fiscal 2010,
- an increase in net sales of $29.0 million related to our non comparative stores, and
- an increase in other sales of $3.0 million, partially offset by
- a decrease in net sales of $24.3 million from seven stores closed since January 31, 2010 and
- a comparative store sales decrease of $6.3 million, or 0.2%, to $3,460.1 million.

We believe the comparative store sales decrease was primarily due 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, subleased rental income, layaway, alterations, other service charges, and miscellaneous revenue items) increased $0.7 million to $31.5 million for Fiscal 2010 compared with $30.8 million for the 52 weeks ended January 30, 2010. This increase was primarily related to an increase in layaway fees of $1.4 million, partially offset by a $0.8 million decrease in rental income.

Cost of Sales

Cost of sales increased $70.6 million, or 3.2%, for Fiscal 2010 compared with the 52 weeks ended January 30, 2010. Cost of sales as a percentage of net sales improved to 61.4% during Fiscal 2010 compared with 61.9% during the 52 weeks ended January 30, 2010. The dollar increase of $70.6 million in cost of sales between Fiscal 2010 and the 52 weeks ended January 30, 2010 was primarily related to the increase in our net sales during the same periods.

During Fiscal 2010 as compared with the 52 weeks ended January 30, 2010, we experienced an increase in gross margin as a percent of net sales to 38.6% from 38.1%. The improvement in our gross margin as a percent of net sales was primarily the result of fewer markdowns, decreased freight expense incurred during Fiscal 2010 as compared with the 52 weeks ended January 30, 2010, and a slight improvement in shrink expense.

Selling and Administrative Expenses

Selling and administrative expenses increased $42.6 million, or 3.8% to $1,156.6 million for Fiscal 2010 from $1,114.0 million for the 52 weeks ended January 30, 2010. The increase in selling and administrative expenses is summarized in the table below:

(in thousands)

	52 Weeks Ended			
	January 29, 2011	January 30, 2010	$ Variance	% Change
Payroll and Payroll Related	$ 524,120	$ 497,234	$ 26,886	5.4%
Occupancy	373,166	362,103	11,063	3.1
Benefit Costs	15,326	9,927	5,399	54.4
Advertising	70,422	67,283	3,139	4.7
Other	141,430	139,012	2,418	1.7
Business Insurance	32,149	38,401	(6,252)	(16.3)
Selling & Administrative Expenses	$ 1,156,613	$ 1,113,960	$ 42,653	3.8%

The increase in selling and administrative expense during Fiscal 2010 compared with the 52 weeks ended January 30, 2010 was primarily caused by increases in payroll and payroll related costs and occupancy costs. The increase in payroll and payroll related costs of approximately $26.9 million was primarily related to the addition of 18 net new stores as well as stores that opened during the 52 weeks ended January 30, 2010 that did not operate for a full 52 weeks. Amounts related to these stores resulted in an increase in payroll and payroll related expenses of $23.3 million. Also contributing to the increase in payroll and payroll related costs was an increase in bonus expense of $6.1 million and an increase in state unemployment tax expense of $4.1

million. As we exceeded our bonus target for the June 2009 through May 2010 bonus period, our bonus expense increased and was recognized during the final quarter of the bonus year, which coincided with the first and second quarters of Fiscal 2010. Additionally, we had an increase in recruiting bonuses as we continued to enhance the talent of our organization during Fiscal 2010. The increase in state unemployment tax was due to rate increases in many of the states where we conduct business.

These increases were partially offset by a decrease in Fiscal 2010 of $4.2 million in payroll and payroll tax expense related to stores that were opened for the full 52 week periods ended January 29, 2011 and January 30, 2010 and a decrease in vacation expense of $2.2 million. The decrease in payroll and payroll tax expense related to stores that were opened for the full 52 week periods ended January 29, 2011 and January 30, 2010 was due to our ongoing initiative to reduce store payroll costs.

The increase in occupancy related costs of $11.1 million in Fiscal 2010 as compared with the 52 weeks ended January 30, 2010 was primarily related to new store openings during Fiscal 2010. New BCF stores opened during Fiscal 2010 accounted for $16.3 million of the total increase. These increases were partially offset by a decrease in utilities expense of $3.3 million as a result of our ongoing initiative to reduce costs as well as a $1.2 million decrease in real estate taxes.

The increase in benefit costs of $5.4 million during Fiscal 2010 compared with the 52 weeks ended January 30, 2010 was primarily the result of increased 401(k) Plan Match expense of $6.2 million and increased employee moving expenses of $2.4 million, partially offset by decreased health insurance claims of $3.3 million. The increase in 401(k) Plan expense during Fiscal 2010 compared with the 52 weeks ended January 30, 2010 was due to our ability to utilize less money recovered through forfeitures during Fiscal 2010 to fund some, or all, of our matching contribution obligation as compared with the 52 weeks ended January 30, 2010. A forfeiture is the portion of our contribution that is lost by a 401(k) Plan participant who terminates employment prior to becoming fully vested in such contribution. Based on the forfeitures available to us, we were not required to record any 401(k) Plan expense during the 52 weeks ended January 30, 2010.

The increase in advertising expense of $3.1 million during Fiscal 2010 compared with the 52 weeks ended January 30, 2010 was primarily related to shifts in the media used for marketing communications and an increase in the number of grand opening advertisements. During the 52 weeks ended January 30, 2010 we opened 15 new BCF stores. During Fiscal 2010, we incurred an additional $3.1 million in marketing and advertising expense primarily related to the opening of 25 new BCF stores.

The increase in other selling and administrative expenses of $2.4 million during Fiscal 2010 compared with the 52 weeks ended January 30, 2010 was primarily due to an increase in credit card fees of $3.9 million, a $3.4 million increase in temporary help, a $3.0 million increase related to fees incurred as part of our initial unsuccessful debt refinancing in the Fall of 2010, and a $1.5 million charge to miscellaneous taxes, partially offset by a $6.1 million decrease in our legal expense related to legal costs incurred in the prior year that did not repeat in the current year and $3.5 million in expense savings related to costs incurred with respect to our change in year end during the 52 weeks ended January 30, 2010 that did not repeat during Fiscal 2010.

The decrease in business insurance of $6.3 million in Fiscal 2010 compared with the 52 weeks ended January 30, 2010 was the result of increased claims experienced during the prior period. During the 52 weeks ended January 30, 2010, we experienced an increase in the cost of workers compensation claims and an increase in the number of general liability claims, each of which we believe was a result of the economic environment. This trend slowed during Fiscal 2010 and has returned to a more historical level of claims experience.

Restructuring and Separation Costs

In an effort to better align our resources with our business objectives, in Fiscal 2009, we reviewed all areas of the business to identify efficiency opportunities to enhance our performance. In light of the then challenging economic and retail sales environments, we 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. Our restructuring and separation efforts commenced in the third quarter of Fiscal 2009 and continued through the Transition Period and Fiscal 2010. We incurred $2.2 million and $7.5 million in restructuring and separation costs during Fiscal 2010 and the 52 week period ended January 30, 2010, respectively.

Depreciation and Amortization

Depreciation and amortization expense related to the depreciation of fixed assets and the amortization of favorable and unfavorable leases amounted to $146.8 million for Fiscal 2010 compared with $156.4 million for the 52 weeks ended January 30, 2010. The decrease in depreciation and amortization expense was primarily related to various assets that became fully depreciated during the 12 months ended January 30, 2010, which resulted in less depreciation expense during Fiscal 2010.

Table of Contents

Impairment Charges Long-Lived Assets

Impairment charges related to long-lived assets were $2.1 million and $56.1 million during Fiscal 2010 and the 52 week period ended January 30, 2010, respectively. The decrease in impairment charges was primarily related to the stabilization of our operating stores performance year over year. During Fiscal 2010, we recorded impairments related to nine stores as a result of the decline in the operating performance of those stores (refer to Note 8 to our Consolidated Financial Statements entitled Impairment of Long-Lived Assets for further discussion).

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 Fiscal 2010. Impairment charges related to our tradenames during the 52 weeks ended January 30, 2010 amounted to $15.3 million. In accordance with ASC Topic No. 350, *Intangibles Goodwill and Other,* (Topic 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 third quarter of Fiscal 2009 (relating to the three months ended February 28, 2009) as well as our Fiscal 2009 financial statements (relating to 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 then anticipated future macroeconomic conditions and customer behavior;
- The determination that these macroeconomic conditions were impacting our sales trends as evidenced by the decreases in comparative store sales that we were experiencing;
- Decreased comparative store sales results of the peak holiday and winter selling seasons in the third quarter of Fiscal 2009 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 comparative store sales trends during Fiscal 2009 would continue for an extended period. As a result, we developed a more moderate store opening plan which reduced our future projections of revenue and operating results offset by initiatives (which have since 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 52 weeks ended January 30, 2010, 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 52 weeks ended January 30, 2010. During that period, we purchased $6.3 million of tradename rights based on our

Table of Contents

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 ourselves as Burlington Coat Factory and were required to note that we were not affiliated with Burlington Industries. The purchase of these tradename rights allows us to shorten our 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 Consolidated Balance Sheets. As a result, we immediately impaired the acquired asset.

In accordance with Topic 350, there were no triggering events that required us to test goodwill for impairment during Fiscal 2010. We believe our estimates were appropriate based upon current market conditions. However, future impairment charges could be required if we do not achieve our current cash flow, revenue and profitability projections or our weighted average cost of capital increases or market valuation multiple associated with peer group companies decline.

Other Income, net

Other income, net (consisting of investment income, gains and losses on disposition of assets, breakage income and other miscellaneous items) decreased $5.3 million to $11.3 million during Fiscal 2010 compared with the 52 week period ended January 30, 2010.

The decrease in other income during Fiscal 2010 compared with the 52 weeks ended January 30, 2010 was primarily related to the following:

- A decrease in miscellaneous income of $4.9 million primarily related to a gain on a legal settlement in our favor during the 52 weeks ended January 30, 2010,
- a decrease in breakage income of $3.3 million (refer to Note 1 to our Consolidated Financial Statements entitled Summary of Significant Accounting Policies for further discussion),
- a decrease of $1.5 million related to insurance recoveries, and
- a decrease in our gain on investment of $0.6 million related to higher recoveries of previously written off investments during the 52 weeks ended January 30, 2010 compared with Fiscal 2010, partially offset by;
- a $4.4 million increase related to a loss on the disposal of various fixed assets primarily related to our conversion to a new warehouse management system in Edgewater Park, New Jersey during the 52 weeks ended January 30, 2010, and
- a $0.6 million increase in income received from vending machines and recycling.

Interest Expense

Interest expense was $99.3 million and $84.4 million during Fiscal 2010 and the 52 week periods ended January 30, 2010, respectively. The increase in interest expense was primarily driven by increased expense related to our interest rate cap agreements, other interest expense and our commitment fees. Adjustments of the interest rate cap agreements to fair value resulted in a loss of $5.5 million during Fiscal 2010 compared with a gain of $5.4 million for the 52 week period ended January 30, 2010, respectively. These charges resulted in a year over year increase in non-cash interest expense of $10.9 million, which was recorded through the line item Interest Expense in our Consolidated Statements of Operations and Comprehensive Income (Loss). Our interest rate cap agreements are discussed in more detail in Item 7A, Quantitative and Qualitative Disclosures About Market Risk and Note 9 to our Consolidated Financial Statements entitled Derivatives and Hedging Activities.

Other interest expense increased $2.8 million during Fiscal 2010 as compared with the 52 week period ended January 30, 2010 which was primarily driven by interest incurred as part of a legal settlement. The increase in commitment fees of $2.5 million was primarily related to a higher commitment fee charged on our ABL Line of Credit combined with a lower average outstanding balance on the ABL Line of Credit during Fiscal 2010 as compared with the 52 weeks ended January 30, 2010.

Table of Contents

These increases were partially offset by lower average interest rates on our Term Loan and ABL Line of Credit and a lower average balance on our Term Loan and our ABL Line of Credit as follows:

		52 weeks Ended	
		January 29, 2011	January 30, 2010
Average Interest Rate	ABL Line of Credit	2.7%	3.0%
Average Interest Rate	Term Loan	2.6%	2.7%
Average Balance	ABL Line of Credit	$ 10.5 Million	$ 27.2 Million
Average Balance	Term Loan	$ 854.8 Million	$ 868.9 Million

Income Tax Expense

Income tax expense was $22.1 million for the 52 week period ended January 29, 2011 compared with an income tax benefit of $29.8 million for the 52 weeks ended January 30, 2010. The effective tax rates were 41.7% and 66.2%, respectively, for Fiscal 2010 and the 52 week period ended January 30, 2010. The decrease in the effective tax rate was primarily due to the fact that the 52 weeks ended January 30, 2010 had a pre-tax loss with a reduction in the valuation allowance for state net operating losses and reduced state blended tax rates, which had the effect of creating an income tax benefit for this period ended January 30, 2010. Due to the pre-tax loss, the tax benefits created by the reduction in the valuation allowance for state net operating losses and reduced state blended tax rates have the effect of increasing the effective tax rate (refer to Note 15 to our Consolidated Financial Statements entitled Income Taxes for further information).

Net Income

Net income amounted to $31.0 million for Fiscal 2010 compared with a net loss of $15.2 during the 52 weeks ended January 30, 2010. The increase in our operating results of $46.2 million was primarily attributable to fewer impairments.

Performance During Fiscal 2010 (52 Weeks Ended January 29, 2011) Compared with the Transition Period (35 Weeks Ended January 30, 2010)

Net Sales

We experienced an increase in net sales for Fiscal 2010 compared with the Transition Period. Consolidated net sales increased $1,212.0 million, or 49.3%, to $3,669.6 million for Fiscal 2010 from $2,457.6 million for the Transition Period. Comparative store sales during Fiscal 2010 decreased 0.2% compared with a decrease of 4.8% during the Transition Period. The overall increase in net sales during Fiscal 2010 as compared with the Transition Period is primarily driven by the additional 17 weeks of sales during Fiscal 2010. During that period, we generated $1,134.8 million of net sales.

Other Revenue

Other revenue (consisting of rental income from Leased Departments, subleased rental income, layaway, alterations, other service charges, and miscellaneous revenue items) increased $9.8 million to $31.5 million for Fiscal 2010 compared with $21.7 million for the Transition Period. This increase was primarily due to the additional 17 weeks included in Fiscal 2010 compared with the Transition Period. Other revenue generated during the additional 17 weeks of Fiscal 2010 amounted to $9.5 million. As a percentage of net sales, other revenue remained in line with the prior year at 0.9%.

Cost of Sales

Cost of sales increased $760.0 million, or 50.9% during Fiscal 2010 compared with the Transition Period. Cost of sales as a percentage of net sales increased to 61.4% during Fiscal 2010 compared with 60.7% during the Transition Period. The dollar increase of $760.0 million in cost of sales during Fiscal 2010 compared with the Transition Period was primarily related to the additional 17 weeks included in Fiscal 2010 compared with the Transition Period which resulted in $701.1 million of additional cost of sales during Fiscal 2010. During Fiscal 2010 as compared with the Transition Period, gross margin as a percent of net sales declined to 38.6% from 39.3%, respectively, reflecting the seasonality of the Transition Period.

Table of Contents

Selling and Administrative Expenses

Selling and administrative expenses increased $396.8 million, or 52.2%, to $1,156.6 million for Fiscal 2010 from $759.8 million for the Transition Period. The increase in selling and administrative expenses is summarized in the table below:

	(in thousands)			
	52 Weeks Ended January 29, 2011	**35 Weeks Ended January 30, 2010**	**$ Variance**	**% Change**
Payroll and Payroll Related	$ 524,120	$ 337,057	$ 187,063	55.5%
Occupancy	373,166	246,082	127,084	51.6
Other	141,430	95,248	46,182	48.5
Advertising	70,422	49,378	21,044	42.6
Business Insurance	32,149	22,955	9,194	40.1
Benefit Costs	15,326	9,054	6,272	69.3
Selling & Administrative Expenses	$ 1,156,613	$ 759,774	$ 396,839	52.2%

The increase in selling and administrative expense during Fiscal 2010 compared with the Transition Period was primarily caused by the additional 17 weeks included Fiscal 2010 compared with the Transition Period as well as the addition of 18 net new stores during Fiscal 2010. During the 17 week period, the Company incurred selling and administrative expenses of $363.4 million and new stores opened in Fiscal 2010 contributed $43.6 million to the increase in selling and administrative expenses.

As a percentage of net sales, selling and administrative expenses increased to 31.5% for Fiscal 2010 from 30.9% for the Transition Period.

Restructuring and Separation Costs

In an effort to better align our resources with our business objectives, in Fiscal 2009, we reviewed all areas of the business to identify efficiency opportunities to enhance our performance. In light of the challenging economic and retail sales environments, we 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. Our restructuring and separation efforts commenced in the third quarter of Fiscal 2009, and continued through the Transition Period and Fiscal 2010. We incurred $2.2 million and $2.4 million in restructuring and separation costs during Fiscal 2010 and the Transition Period, respectively.

Depreciation and Amortization

Depreciation and amortization expense related to the depreciation of fixed assets and the amortization of favorable and unfavorable leases amounted to $146.8 million during Fiscal 2010 compared with $103.6 million during the Transition Period. The increase in depreciation and amortization expense was primarily the result of the additional 17 weeks included in Fiscal 2010 compared with the Transition Period which amounted to additional depreciation and amortization expense of $48.4 million.

As a percentage of net sales, depreciation and amortization decreased to 4.0% during Fiscal 2010 from 4.2% during the Transition Period.

Impairment Charges Long-Lived Assets

Impairment charges related to long-lived assets were $2.1 million and $46.8 million for Fiscal 2010 and the Transition Period, respectively. The decrease in impairment charges during Fiscal 2010 as compared with the Transition Period is primarily related to the stabilization of the operating stores performance during Fiscal 2010 as compared with the Transition Period (refer to Note 8 to our Consolidated Financial Statements entitled Impairment of Long-Lived Assets for further discussion).

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 Fiscal 2010 and the Transition Period. In accordance with ASC Topic No. 350, *Intangibles Goodwill and Other,* (Topic 350), we perform our annual impairment testing of goodwill and indefinite-lived assets at the beginning of each May. In accordance with Topic 350, there were no triggering events that required us to test goodwill for impairment during Fiscal 2010 or the Transition Period.

Table of Contents

Other Income, net

Other income, net (consisting of investment income, gains and losses on disposition of assets, breakage income and other miscellaneous items) decreased $4.0 million to $11.3 million during Fiscal 2010 compared with the Transition Period. The decrease in other income during Fiscal 2010 compared with the Transition Period was primarily related to a $4.1 million decrease in the loss on the sale of fixed assets from January 30, 2010 as compared with January 29, 2011.

Interest Expense

Interest expense was $99.3 million and $59.5 million during Fiscal 2010 and the Transition Period, respectively. The $39.8 million increase in interest expense was primarily the result of the additional 17 weeks included in Fiscal 2010 compared with the Transition Period which amounted to an additional $34.3 million in interest expense. In addition to the additional 17 weeks, interest expense increased further due to increased expense related to our interest rate cap agreements, other interest expense, and our commitment fees. Adjustments of the interest rate cap agreements to fair value resulted in a loss of $5.5 million during Fiscal 2010 compared with a gain of $0.5 million during the Transition Period, respectively. These charges resulted in a period over period increase in non-cash interest expense of $6.0 million, which was recorded through the line item Interest Expense in our Consolidated Statements of Operations and Comprehensive (Loss) Income. Our interest rate cap agreements are discussed in more detail in Item 7A, Quantitative and Qualitative Disclosure About market Risk and Note 9 to our Consolidated Financial Statements entitled Derivatives and Hedging Activities.

Other interest expense increased $2.8 million during Fiscal 2010 as compared with the Transition Period, which was primarily driven by interest incurred as part of a legal settlement. The increase in commitment fees of $3.0 million was primarily related to a higher commitment fee charged to our new ABL Line of Credit combined with a lower average outstanding balance on the ABL Line of Credit during Fiscal 2010 as compared with the Transition Period.

These increases were partially offset by a lower average balance on our Term Loan and our ABL Line of Credit as follows:

	52 Weeks Ended January 29, 2011	35 Weeks Ended January 30, 2010
Average Interest Rate ABL Line of Credit	2.7%	2.7%
Average Interest Rate Term Loan	2.6%	2.6%
Average Balance ABL Line of Credit	$ 10.5 Million	$ 31.5 Million
Average Balance Term Loan	$ 854.8 Million	$ 867.0 Million

Income Tax Expense

Income tax expense was $22.1 million during Fiscal 2010 compared with income tax expense of $11.6 million during the Transition Period. The effective tax rates were 41.7% and 38.3%, respectively, during Fiscal 2010 and the Transition Period. The increase in the effective tax rate was primarily due to a reduction in the valuation allowance for state net operating losses and an increase in the state tax prior year adjustment, which had the effect of increasing our income tax expense (refer to Note 15 to our Consolidated Financial Statements entitled Income Taxes for further information).

Net Income

Net income amounted to $31.0 million during Fiscal 2010 compared with a net income of $18.7 million during the Transition Period. The increase in our operating results of $12.3 million was primarily attributable to fewer impairments.

Performance for the 35 Weeks Ended January 30, 2010 (Transition Period) Compared with the 35 Weeks Ended January 31, 2009

Net Sales

We experienced a decrease in net sales for the Transition Period compared with the 35 weeks ended January 31, 2009. Consolidated net sales decreased $19.0 million, or 0.8%, to $2,457.6 million during the Transition Period from $2,476.6 million during the 35 weeks ended January 31, 2009. This decrease was primarily attributable to:

- a comparative store sales decrease of $114.2 million, or 4.8%, to $2,263.2 million,
- a decrease in barter sales of $10.8 million, and
- a decrease in net sales of $2.5 million from stores closed since the comparable period in Fiscal 2009, partially offset by
- an increase in net sales of $63.2 million for stores previously opened that were not included in our comparative store sales,
- an increase in net sales of $34.1 million related to nine new stores opened during the Transition Period, and
- an increase in layaway and other sales of $10.8 million.

We believe the comparative store sales decrease was due to weather conditions and weakened consumer demand. November of 2009 was the warmest November in the prior eight years. The weakened consumer demand was a result of the contraction of credit available to consumers and the overall challenging retail conditions.

Other Revenue

Other revenue (consisting of rental income from Leased Departments, subleased rental income, layaway, alterations, other service charges, and miscellaneous revenue items) increased $1.4 million to $21.7 million during the Transition Period compared with $20.3 million for the 35 weeks ended January 31, 2009. This increase was primarily related to an increase in layaway fees of $1.8 million.

Cost of Sales

Cost of sales decreased $18.1 million or 1.2% during the Transition Period compared with the 35 weeks ended January 31, 2009. Cost of sales as a percentage of net sales decreased to 60.7% during the Transition Period compared with 61.0% during the 35 weeks ended January 31, 2009. The dollar decrease of $18.1 million in cost of sales between the Transition Period and the 35 weeks ended January 31, 2009 was primarily related to the decrease in our net sales during the same periods.

During the Transition Period, as compared with the 35 weeks ended January 31, 2009, we experienced an increase in gross margin as a percent of net sales from 39.0% to 39.3%. The improvement in our gross margin as a percent of net sales was primarily the result of fewer markdowns during the Transition Period as compared with the 35 weeks ended January 31, 2009. Markdowns improved 0.7% as a percentage of net sales as a result of our ongoing initiative to increase the amount of current inventory as a percent of our total inventory, ultimately leading to fewer markdowns. The improvement in markdowns was almost entirely offset by increased shrink of 0.6% as a percentage of net sales during the Transition Period as compared with the 35 weeks ended January 31, 2009.

Selling and Administrative Expenses

Selling and administrative expenses decreased $1.3 million, or 0.2%, to $759.8 million for the Transition Period from $761.1 million for the 35 weeks ended January 31, 2009. The decrease in selling and administrative expenses is summarized in the table below:

	(in thousands)			
	35 Weeks Ended			
	January 30, 2010	**January 31, 2009**	**$ Variance**	**% Change**
Payroll and Payroll Related	$ 337,057	$ 358,074	$ (21,017)	(5.9)%
Advertising	49,378	57,283	(7,905)	(13.8)
Benefit Costs	9,054	12,176	(3,122)	(25.6)
Business Insurance	22,955	17,071	5,884	34.5
Occupancy	246,082	235,534	10,548	4.5
Other	95,248	80,924	14,324	17.7
Selling & Administrative Expenses	$ 759,774	$ 761,062	$ (1,288)	(0.2)%

The decrease in selling and administrative expense during the Transition Period compared with the 35 weeks ended January 31, 2009 was primarily caused by decreases in payroll and payroll related costs. The decrease in payroll and payroll related costs of approximately $21.0 million was primarily related to a decrease in our store payroll as a percentage of net sales to 10.2% during the Transition Period from 10.9% during the 35 weeks ended January 31, 2009 and a corresponding decrease in payroll taxes of $1.8 million as a result of our initiative to reduce store payroll costs including the reduction of janitorial payroll in conjunction with our initiative to replace janitorial payroll with a third party provider.

The decrease in advertising expense of $7.9 million during the Transition Period compared with the 35 weeks ended January 31, 2009 was primarily related to shifts in the media used for marketing communications and a decrease in the number of grand opening advertisements. During the Transition Period we opened nine new BCF stores. During the 35 weeks ended January 31, 2009, we incurred additional marketing and advertising expense in connection with the opening of 34 new BCF stores.

The decrease in benefit costs of $3.1 million during the Transition Period compared with the 35 weeks ended January 31, 2009 was primarily a result of decreased 401(k) Plan expense. Under our 401(k) Plan, we are able to utilize monies recovered through forfeitures to fund some or all of our annual matching contribution obligation. A forfeiture is the portion of our contribution that is lost by a 401(k) Plan participant who terminates employment prior to becoming fully vested in such contribution. Based on the forfeitures available to us, we were not required to record any 401(k) Plan expense during the Transition Period. We used $3.5 million of 401(k) Plan forfeitures to fund our entire 401(k) Plan matching contribution for the 2009 401(k) Plan year.

The increase in business insurance of $5.9 million during the Transition Period compared with the 35 weeks ended January 31, 2009 was the result of our claims experience for the period. During the Transition Period, we experienced an increase in the cost of workers compensation claims and an increase in the number of general liability claims, each of which we believe was a result of the economic environment.

The increase in occupancy related costs of $10.5 million during the Transition Period as compared with the 35 weeks ended January 31, 2009 was primarily related to new store openings. New BCF stores opened during the Transition Period accounted for $4.2 million of the total increase; new BCF stores opened during this period that were not operating for a full 35 weeks during the 35 week period ended January 31, 2009 incurred incremental occupancy costs of $4.5 million during the Transition Period. Janitorial service expense increased $4.5 million ($0.4 million related to new stores) during the Transition Period compared with the 35 weeks ended January 31, 2009 due to our initiative to replace janitorial payroll with a third party provider. Real estate taxes increased $1.0 million due primarily to annual tax rate increases. These increases were partially offset by a decrease in utilities expense of $2.7 million as a result of our ongoing initiative to reduce costs.

The increase in other selling and administrative expenses of $14.3 million during the Transition Period compared with the 35 weeks ended January 31, 2009 was primarily due to a $7.5 million increase in our legal reserve, and a $3.0 million increase associated with the acceleration of fees associated with store physical inventories related to our change in fiscal year end.

Restructuring and Separation Costs

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 in Fiscal 2009. In light of the challenging economic and retail sales environments, we 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. Our restructuring and separation efforts commenced in the third quarter of Fiscal 2009, and continued during the Transition Period. We incurred $2.4 million and $1.9 million in restructuring and separation costs during the Transition Period and the 35 weeks ended January 31, 2009, respectively.

Depreciation and Amortization

Depreciation and amortization expense related to the depreciation of fixed assets and the amortization of favorable and unfavorable leases amounted to $103.6 million during the Transition Period compared with $106.8 for the 35 weeks ended January 31, 2009. The decrease in depreciation and amortization expense was primarily a result of various assets that were recorded pursuant to purchase accounting in conjunction with the Merger Transaction. These assets became fully depreciated during Fiscal 2009, which resulted in less depreciation expense during the Transition Period.

Table of Contents

Impairment Charges Long-Lived Assets

Impairment charges related to long-lived assets were $46.8 million and $28.1 million for the Transition Period and January 31, 2009, respectively. The increase in impairment charges was primarily related to the decline in the operating performance of 33 stores as a result of decreased comparative store sales.

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.

The majority of the impairment charges during the Transition Period were related to the impairment of favorable leases in the amount of $34.6 million related to 24 of our stores. We also impaired $9.5 million of leasehold improvements, $2.3 million of furniture and fixtures and $0.4 million of other long-lived assets.

The majority of the impairment charges for the 35 week period ended January 31, 2009 was related to the impairment of favorable leases in the amount of $20.9 million related to 15 of our stores. We also impaired $5.8 million of leasehold improvements and $1.4 million of furniture and fixtures.

Impairment Charges Tradenames

There was no impairment charge related to our tradenames during the Transition Period. Impairment charges related to our tradenames during the 35 weeks ended January 31, 2009 amounted to $279.3 million. In accordance with ASC Topic No. 350, *Intangibles Goodwill and Other,* (Topic 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 third quarter of Fiscal 2009 (relating to the three months ended February 28, 2009) as well as our Fiscal 2009 financial statements (relating to 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 then anticipated future macroeconomic conditions and customer behavior;
- The determination that these macroeconomic conditions were impacting our sales trends as evidenced by the decreases in comparative store sales that we were experiencing;
- Decreased comparative store sales results of the peak holiday and winter selling seasons in the third quarter of Fiscal 2009 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 developed a more moderate store opening plan which reduced our future projections of revenue and operating results offset by initiatives (which have since 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.

Table of Contents

During the 35 weeks ended January 31, 2009, we recorded an impairment charge related to our tradenames in the amount of $279.3 million. This impairment charge reflected lower revenues and profitability projections associated with our tradenames at the time 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 (refer to Note 6 to our Consolidated Financial Statements entitled Intangible Assets for further discussion).

Other Income, net

Other income, net (consisting of investment income, gains and losses on disposition of assets, breakage income and other miscellaneous items) increased $10.6 million to $15.3 million during the Transition Period as compared with the 35 week period ended January 31, 2009.

The increase in other income during the Transition Period compared with the 35 weeks ended January 30, 2009 was primarily related to the following:

- An increase in miscellaneous income of $6.0 million primarily related to a gain on a legal settlement in our favor and other miscellaneous income,
- an increase in gain on investment of $5.5 million related to additional distributions received from the Reserve Primary Fund (Fund) in excess of those anticipated,
- an increase of $2.1 million related to insurance recoveries, and
- an increase in breakage income of $2.8 million; partially offset by
- a $5.1 million decrease related to a loss on the disposal of various fixed assets primarily related to our conversion to a new warehouse management system in Edgewater Park, New Jersey.

Interest Expense

Interest expense was $59.5 million and $74.3 million during the Transition Period and the 35 weeks ended January 31, 2009, respectively. The decrease in interest expense was primarily driven by lower average interest rates on our Term Loan and ABL Line of Credit and a lower average balance on our ABL Line of Credit as follows:

	35 Weeks Ended	
	January 30, 2010	**January 31, 2009**
Average Interest Rate ABL Line of Credit	2.7%	4.4%
Average Interest Rate Term Loan	2.6%	4.8%
Average Balance ABL Line of Credit	$ 31.5 Million	$ 219.5 Million
Average Balance Term Loan	$ 867.0 Million	$ 872.8 Million

Offsetting the decrease in interest expense were smaller gains on the adjustments of our interest rate cap agreements to fair value during the Transition Period as compared to the 35 weeks ended January 31, 2009. Our interest rate cap agreements are discussed in more detail in Item 7A, Quantitative and Qualitative Disclosures About Market Risk and Note 9 to our Consolidated Financial Statements entitled Derivatives and Hedging Activities. Adjustments of the interest rate cap agreements to fair value resulted in gains of $0.5 million and $2.7 million during the

Transition Period and the 35 weeks ended January 31, 2009, respectively, each of which were recorded in the line item Interest Expense in our Consolidated Statements of Operations and Comprehensive (Loss) Income.

Table of Contents

Income Tax Expense

Income tax expense was $11.6 million during the Transition Period compared with an income tax benefit of $104.7 million for the 35 weeks ended January 31, 2009. The effective tax rates were 38.3% and 40.2%, respectively, for the Transition Period and the 35 week period ended January 31, 2009. The decrease in the effective tax rate was primarily due to a change in the valuation allowance for state net operating losses and lower state blended tax rates, which had the effect of reducing our net deferred tax liability and decreasing our income tax expense.

Net Income

Net income amounted to $18.7 million during the Transition Period compared with a net loss of $155.6 million for the 35 weeks ended January 31, 2009. The increase in our operating results of $174.3 million was primarily attributable to fewer impairments.

Liquidity and Capital Resources

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 January 28, 2012, we had unused availability on our ABL Line of Credit of $242.6 million.

Our ability to satisfy our 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.

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

As discussed previously under section Debt Refinancing and Dividend and later in Note 10 to the our Consolidated Financial Statements entitled Long Term Debt, during the first quarter of Fiscal 2011 we completed the refinancing of our Previous Term Loan Facility, Previous Senior Notes, and Previous Senior Discount Notes. As a result of these transactions, the Previous Senior Notes and Previous Senior Discount Notes were repurchased. In addition, BCFWC completed the sale of the Notes at an issue price of 100%. Additionally, the Previous Term Loan was replaced with our New Term Loan Facility. In connection with the offering of the Notes and the refinancing of the Previous Term Loan Facility, a cash dividend of $300.0 million in the aggregate was declared to the equity holders of Parent on a pro rata basis. In addition, on September 2, 2011, we completed an amendment and restatement of the credit agreement governing our $600 million ABL Line of Credit, which, among other things, extended the maturity date to September 2, 2016.

Our New 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 and maintain a consolidated interest coverage ratio of at least a certain amount. The consolidated leverage ratio compares our total debt to Adjusted EBITDA, as each term is defined in the credit agreement governing the New Term Loan, for the trailing twelve months most recently ended, and such ratio may not exceed 6.75 to 1 through October 27, 2012; 6.25 to 1 through November 2, 2013; 5.50 to 1 through November 1, 2014; 5.00 to 1 through October 31, 2015; and 4.75 to 1 at January 30, 2016 and thereafter. The consolidated interest coverage ratio compares our consolidated interest expense to Adjusted EBITDA, as each term is defined in the credit agreement governing the New Term Loan, for the trailing twelve months most recently ended, and such ratio must exceed 1.75 to 1 through October 27, 2012; 1.85 to 1 through November 2, 2013; 2.00 to 1 through October 31, 2015; and 2.10 to 1 at January 30, 2016 and thereafter.

Adjusted EBITDA is a non-GAAP financial measure of our liquidity. Adjusted EBITDA, as defined in the credit agreement governing our 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 and the consolidated interest coverage 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. As of January 28, 2012, we were in compliance with all of our covenants under our New Term Loan Facility.

Given the importance Adjusted EBITDA has on our operations, achievement at a predetermined threshold Adjusted EBITDA level is required for the payment of incentive awards to our corporate employees under our Management Incentive Bonus Plan (Bonus Plan) for Fiscal 2011. The Bonus Plan is more fully described under the caption Annual Incentive Awards in Item 11, Executive Compensation.

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 Fiscal 2011 increased $11.9 million, or 3.5%, to $350.0 million from $338.1 million for Fiscal 2010. This improvement in Adjusted EBITDA was primarily the result of increased net sales.

Adjusted EBITDA for Fiscal 2010 increased $31.3 million, or 10.2%, to $338.1 million from $306.8 million for the 52 weeks ended January 30, 2010. This improvement in Adjusted EBITDA was primarily the result of increased net sales and the cost reductions realized during Fiscal 2010.

Adjusted EBITDA for Fiscal 2010 increased $77.6 million, or 29.8%, to $338.1 million from $260.5 million for the Transition Period. This improvement in Adjusted EBITDA was primarily the result of an additional 17 weeks of operations during Fiscal 2010 compared with the Transition Period.

Adjusted EBITDA for the Transition Period increased $12.0 million, or 4.8%, to $260.5 million from $248.5 million for the 35 weeks ended January 31, 2009. This improvement in Adjusted EBITDA was primarily the result of the cost reductions realized during the Transition Period.

37

Table of Contents

The following table shows our calculation of Adjusted EBITDA for Fiscal 2011, Fiscal 2010, the 52 weeks ended January 30, 2010, the Transition Period, the 35 weeks ended January 31, 2009 and Fiscal 2009, each of which were derived from audited and unaudited financial information.

	(in thousands)					
	Years Ended		52 Weeks Ended	35 Weeks Ended		Year Ended
	January 28, 2012	January 29, 2011	January 30, 2010	January 30, 2010	January 31, 2009	May 30, 2009
Reconciliation of Net Income (Loss) to Adjusted EBITDA:						
Net (Loss) Income	$ (6,272)	$ 30,998	$ (15,179)	$ 18,653	$ (155,643)	(191,583)
Interest Expense	129,121	99,309	84,423	59,476	74,263	102,716
Income Tax (Benefit) Expense	(4,148)	22,130	(29,753)	11,570	(104,667)	(147,389)
Depreciation and Amortization	153,070	146,759	156,388	103,605	106,823	159,607
Impairment Charges - Long-Lived Assets	1,735	2,080	56,141	46,776	28,134	37,498
Impairment Charges - Tradenames			15,250		279,300	294,550
Interest Income	(82)	(384)	(303)	(196)	(535)	(641)
Non Cash Straight-Line Rent Expense (a)	9,211	10,639	5,320	4,196	6,236	7,358
Advisory Fees (b)	4,285	4,289	4,198	2,879	3,342	4,660
Stock Compensation Expense (c)	5,797	2,230	4,391	994	2,728	6,124
SOX Compliance (d)			112		1,077	1,189
(Gain) Loss on Investment in Money Market Fund (e)		(240)	(859)	(3,849)	1,669	4,661
Amortization of Purchased Lease Rights (f)	901	857	896	560	620	893
Severance (g)	7,438	81	3,097	2,264	1,929	2,737
Franchise Taxes (h)	1,498	1,172	1,620	751	631	1,500
Insurance Reserve (i)		3,916	9,037	3,731	255	5,561
Advertising Expense Related to Barter Transactions (j)	4,864	2,644	2,275	1,816	1,875	2,334
CEO Transition Costs (k)			2,147			2,173
Loss on Disposal of Fixed Assets (l)	2,673	1,740	6,160	5,824	468	805
Change in Fiscal Year End Costs (m)		587	1,445	1,445		
Litigation Reserve (n)	2,618	4,923				
Transfer Tax (o)	(20)	1,358				
Refinancing Fees (p)	(473)	3,040				
Loss on Extinguishment of Debt (q)	37,764					
Adjusted EBITDA	$ 349,980	$ 338,128	$ 306,806	$ 260,495	$ 248,505	294,753
Reconciliation of Adjusted EBITDA to Net Cash Provided by Operating Activities:						
Adjusted EBITDA	$ 349,980	$ 338,128	306,806	$ 260,495	$ 248,505	$ 294,753
Interest Expense	(129,121)	(99,309)	(84,423)	(59,476)	(74,263)	(102,716)
Changes in Operating Assets and Liabilities	37,311	(27,405)	(220,884)	(72,323)	118,846	(30,929)
Other Items, Net	(8,187)	(2,710)	6,481	(25,169)	(25,245)	11,188
Net Cash Provided by Operating Activities	$ 249,983	$ 208,704	7,980	$ 103,527	$ 267,843	$ 172,296
Net Cash Used in Investing Activities	$ (158,773)	$ (159,962)	(89,465)	$ (54,074)	$ (109,887)	$ (145,280)
Net Cash (Used in) Provided by Financing Activities	$ (85,760)	$ (43,278)	64,529	$ (50,513)	$ (156,351)	$ (41,307)

During Fiscal 2011, with approval from the administrative agents for the New Term Loan Facility and ABL Line of Credit, we changed the components comprising Adjusted EBITDA such that specific charges associated with our debt refinancing transaction were added back to consolidated net (loss) income when calculating Adjusted EBITDA. These changes, summarized in footnote (q) below, resulted in approximately $37.8 million in Adjusted EBITDA during Fiscal 2011 and had no impact on the prior periods presented. We believe that these add-backs provide a more accurate comparison to the comparative periods performance.

(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 New Term Loan Facility 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 New Term Loan Facility and ABL Line of Credit.

(c) Represents expenses recorded under ASC No. 718 *Stock Compensation* during the fiscal periods, in accordance with the credit agreements governing the New Term Loan Facility 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 New Term Loan Facility and ABL Line of Credit.

(e) Represents the (gain) loss on our investment in the Reserve Primary Fund (Fund), related to recoveries/declines in the fair value of the underlying securities held by the Fund, as approved by the administrative agents for the New Term Loan Facility and ABL Line of Credit.

(f) 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 New Term Loan Facility and ABL Line of Credit.

(g) Represents a severance charge resulting from a reorganization of certain positions within our stores and corporate locations in Fiscal 2011 and reduction of our workforce during Fiscal 2010, the Transition Period and Fiscal 2009, in accordance with the credit agreements governing the New Term Loan Facility and ABL Line of Credit.

(h) Represents franchise taxes paid based on our equity, as approved by the administrative agents for the New Term Loan Facility 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 New Term Loan Facility 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 New Term Loan Facility and ABL Line of Credit.

(k) 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 New Term Loan Facility and ABL Line of Credit.

(l) 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 New Term Loan Facility 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 35 weeks ended January 30, 2010. This change was approved by the administrative agents for the New Term Loan Facility 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 New Term Loan Facility and the ABL Line of Credit.

(o) Represents one-time transfer taxes incurred on certain leased properties as approved by the administrative agents for the New Term Loan Facility and the ABL Line of Credit.

(p) Represents refinancing fees that reduce Adjusted EBITDA per the administrative agents for the New Term Loan Facility and the ABL Line of Credit.

(q) Represents charges incurred in accordance with Topic No. 470, resulting from a loss on the settlement of the old debt instruments as approved by the administrative agents for the New Term Loan Facility and the ABL Line of Credit.

Cash Flows

Cash Flows for Fiscal 2011 Compared with Fiscal 2010

We generated $5.5 million of cash flow for both Fiscal 2011 and Fiscal 2010. Net cash provided by operating activities amounted to $250.0 million and $208.7 million for Fiscal 2011 and Fiscal 2010, respectively. The increase in net cash provided by operating activities was primarily the result of our working capital management strategy employed at the end of Fiscal 2010 and the Transition Period in which we accelerated $237.7 million and $274.8 million, respectively, of payments that typically would not have been made until the first quarters of Fiscal 2011 and Fiscal 2010, respectively. In comparison, during Fiscal 2011, we made accelerated payments of $152.9 million that would not have been made until the first quarter of Fiscal 2012.

Net cash used in investing activities decreased $1.2 million to $158.8 million during Fiscal 2011 from $160.0 million during Fiscal 2010. This decrease was primarily the result of $23.1 million less cash being designated as restricted during Fiscal 2011 compared with Fiscal 2010 partially offset by $21.3 million of additional capital expenditures primarily related to new stores opened during Fiscal 2011. During Fiscal 2010, the Company reclassified $27.8 million as restricted cash related to the establishment of collateral for self-insurance in lieu of a letter of credit for certain insurance contracts.

Table of Contents

Net cash used in financing activities increased $42.5 million to $85.8 million during Fiscal 2011 compared with Fiscal 2010. Increased use of cash in financing activities was primarily related to the payment of $297.9 million of dividends paid in conjunction with our February 2011 debt refinancing transaction. This increase was partially offset by the net impact of the increase in borrowings in conjunction with the debt refinancing transaction.

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 January 28, 2012 was $337.9 million compared with $386.2 million at January 29, 2011. The decrease in working capital from January 29, 2011 is primarily attributable to increased accounts payable balances at January 28, 2012, related to our working capital management strategy whereby we accelerated less payments in Fiscal 2011 than we did in Fiscal 2010, partially offset by increased inventory, as a result of increased purchases related to opportunistic buys as well as new store inventory.

Net cash flows for Fiscal 2010, as derived from audited financial statements, the 52 week period January 30, 2010, as derived from unaudited financial statements, the Transition Period, as derived from audited financial statements, and the 35 week period ended January 31, 2009, as derived from unaudited financial statements, were as follows:

	Year Ended January 29, 2011	52 Weeks Ended January 30, 2010	35 Weeks Ended January 30, 2010	35 Weeks Ended January 31, 2009
OPERATING ACTIVITIES				
Net Income (Loss)	$ 30,998	$ (15,179)	$ 18,653	$ (155,643)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	146,759	156,388	103,605	106,823
Amortization of Debt Issuance Costs	12,346	11,616	8,238	6,957
Impairment Charges Long-Lived Assets	2,080	56,141	46,776	28,134
Impairment Charges Tradenames		15,250		279,300
Accretion of Senior Notes and Senior Discount Notes	733	655	449	402
Interest Rate Cap Contracts-Adjustment to Market	5,500	(5,443)	(455)	(2,692)
Provision for Losses on Accounts Receivable	2,098	2,799	1,993	2,026
Provision for Deferred Income Taxes	886	(25,931)	(19,815)	(137,494)
Loss on Disposition of Fixed Assets and Leasehold Improvements	1,539	5,417	5,386	266
(Gain) Loss on Investments in Money Market Fund	(240)	(857)	(3,849)	1,669
Non-Cash Stock Option Expense	2,230	4,390	994	2,728
Non-Cash Rent Expense	(1,485)	(5,334)	(3,327)	1,711
Changes in Assets and Liabilities:				
Accounts Receivable	(1,168)	(1,316)	(3,638)	(5,649)
Merchandise Inventories	(30,933)	81,743	28,538	24,491
Prepaid and Other Current Assets	(18,272)	(6,763)	2,013	1,238
Accounts Payable	50,659	(258,826)	(89,955)	61,588
Other Current Liabilities and Income Tax Payable	(28,183)	(23,510)	(8,737)	24,517
Deferred Rent Incentives	19,429	13,285	7,649	36,246
Other Long-Term Assets and Long-Term Liabilities	13,728	3,455	9,009	(8,775)
Net Cash Provided by Operations	208,704	7,980	103,527	267,843
INVESTING ACTIVITIES				
Cash Paid for Property and Equipment	(132,131)	(94,070)	(60,035)	(95,922)
Change in Restricted Cash and Cash Equivalents	(27,659)	(315)	17	402
(Expenses) Proceeds From Sale of Property and Equipment and Assets Held for Sale	(38)	1,320	1,062	111
Lease Acquisition Costs	(422)	(1,337)		(2,391)

Lease Rights Acquired				(250)
Purchase of Tradename Rights		(6,250)		
Issuance of Notes Receivable				
Redesignation of Cash Equivalents to Investment in Money Market Fund				(56,294)
Redemption of Investment in Money Market Fund	240	11,115	4,844	44,367
Purchase of Tradenames Rights				
Other	48	72	38	90
Net Cash Used in Investing Activities	(159,962)	(89,465)	(54,074)	(109,887)
FINANCING ACTIVITIES				
Proceeds from Long Term Debt ABL Line of Credit	204,200	715,115	444,315	601,851
Principal Payments on Long Term Debt ABL Line of Credit	(156,800)	(623,915)	(473,422)	(753,451)
Principal Payments on Long Term Debt	(1,998)	(1,743)	(1,537)	(1,391)
Principal Payments on Long Term Debt Term Loan	(87,202)	(8,055)	(5,998)	
Purchase of Interest Rate Cap Contract				
Payment of Dividends	(251)	(3,214)	(212)	(3,360)
Debt Issuance Costs	(1,227)	(13,659)	(13,659)	
Net Cash (Used in) Provided by Financing Activities	(43,278)	64,529	(50,513)	(156,351)
Increase (Decrease) in Cash and Cash Equivalents	5,464	(16,956)	(1,060)	1,605
Cash and Cash Equivalents at Beginning of Period	24,750	41,706	25,810	40,101
Cash and Cash Equivalents at End of Period	$ 30,214	$ 24,750	$ 24,750	$ 41,706
Supplemental Disclosure of Cash Flow Information:				
Interest Paid	$ 79,187	$ 80,610	$ 47,963	$ 55,110
Income Tax Payment (Refund), Net	$ 41,505	$ 34,979	$ 48,764	$ 8,444
Non-Cash Investing Activities:				
Accrued Purchases of Property and Equipment	$ 17,606	$ 10,667	$ 10,667	$ 1,064
Notes Receivable from Sale of Assets Held for Sale	$	$ (2,000)	$ (2,000)	$

Table of Contents

Cash Flows for the 52 Weeks Ended January 29, 2011 (Fiscal 2010) Compared with the 52 Weeks Ended January 30, 2010

We generated $5.5 million of cash flow for Fiscal 2010 compared with using $17.0 million of cash flow for the 52 week period ended January 30, 2010. Net cash provided by operating activities amounted to $208.7 million for Fiscal 2010. For the 52 weeks ended January 30, 2010, net cash provided by operating activities was $8.0 million. The increase in net cash provided by operating activities was primarily the result of our working capital management strategy at the end of Fiscal 2010 and the 52 weeks ended January 30, 2010 in which we accelerated $237.7 million and $274.8 million, respectively, of payments that typically would not have been made until the first quarters of Fiscal 2010 and Fiscal 2011, respectively. Because our fiscal year end had not changed at the time, there was no working capital management strategy employed at January 31, 2009. The working capital management strategy resulted in a significant amount of cash outflows during the twelve months ended January 30, 2010 as the result of paying accounts payable in the normal course during the period and then accelerating payments at the end of the period that typically would not have been paid until after January 30, 2010. The repeat of the working capital management strategy at the end of Fiscal 2010, which accelerated Fiscal 2011 payments into Fiscal 2010 did not have as great an impact on cash flow in Fiscal 2010 as it did in the prior fiscal year because there were fewer accounts payable paid during Fiscal 2010 due to the fact that the working capital management strategy during the 52 weeks ended January 30, 2010 had advanced payment of approximately the first two months of the accounts payable for Fiscal 2010.

Table of Contents

The increase in net cash flows provided by operating activities was partially offset by an increase in net cash used in investing and financing activities. Net cash used in investing activities increased to $160.0 million during Fiscal 2010 from $89.5 million for the 52 weeks ended January 30, 2010. This increase was primarily the result of increased capital expenditures during Fiscal 2010 compared with the 52 week period ended January 30, 2010. Capital expenditures increased $38.1 million for Fiscal 2010 compared with the 52 weeks ended January 30, 2010 due to more store openings during Fiscal 2010 compared with the 52 weeks ended January 30, 2010. Also contributing to the increased use of cash in investing activities was $27.7 million of cash being designated as restricted cash used as collateral, in lieu of a letter of credit, related to certain self-insurance contracts.

Net cash used in financing activities increased $107.8 million during Fiscal 2010 compared with the 52 weeks ended January 30, 2010. Increased use of cash in financing activities was primarily related to repayments on our Term Loan, which amounted to $87.2 million and $8.1 million, respectively, for Fiscal 2010 and the 52 week period ended January 30, 2010. Also contributing to the increased use of cash in financing activities was a decrease in our ABL borrowings, net of repayments. During Fiscal 2010 we borrowed $47.4 million, net of repayments, compared with $91.2 million of borrowings, net of repayments, during the 52 weeks ended January 30, 2010.

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 January 29, 2011 was $386.2 million compared with $349.7 million at January 30, 2010. The increase in working capital was primarily the result of increased inventory and accounts receivable balances as of January 29, 2011 compared with January 30, 2010 due to new stores opened during Fiscal 2010.

Cash Flows for the 52 Weeks Ended January 29, 2011 (Fiscal 2010) Compared with the 35 Weeks Ended January 30, 2010 (Transition Period)

Cash and cash equivalents increased $5.5 million during Fiscal 2010 compared with a decline of $1.1 million during the Transition Period. Net cash provided by operating activities increased to $208.7 million during Fiscal 2010 from $103.5 million during the Transition Period. The $105.2 million increase in net cash provided by operating activities was primarily the result of the acceleration of $237.7 million and $274.8 million of accounts payable payments at the end of Fiscal 2010 and the Transition Period, respectively, as part of our working capital management strategy. As the working capital management strategy was not employed at January 31, 2009, the Transition Period had a higher accounts payable balance during the year as compared with Fiscal 2010, resulting in a larger decrease in the accounts payable balance after the accelerated payment was made at January 30, 2010. The decrease in accounts payable due to the working capital management strategy was partially offset by an increase in inventory due to more new stores opened during Fiscal 2010.

The increase in net cash provided by operating activities was partially offset by increased net cash used in investing activities. Net cash used in investing activities increased $105.9 million to $160.0 million during Fiscal 2010 from $54.1 million used during the Transition Period. The increase in net cash used in investing activities was primarily related to increased capital expenditures related to 18 net new stores opened during Fiscal 2010 compared with 9 new stores opened during the Transition Period. Also contributing to the increased use of cash in investing activities was an additional $27.7 million of cash being designated as restricted cash used as collateral, in lieu of a letter of credit, related to certain self-insurance contracts.

Net cash used in financing activities decreased $7.2 million during Fiscal 2010 compared with the Transition Period. The decreased use of cash in financing activities was primarily related to repayments on our Term Loan partially offset by ABL borrowings. Repayments on our Term Loan amounted to $87.2 million and $6.0 million, respectively, for Fiscal 2010 and the Transition Period. The decreased use of cash in financing activities was a partially offset by an increase in our ABL borrowings, net of repayments. During Fiscal 2010 we borrowed $47.4 million, net of repayments, compared with $29.1 million of repayments, net of borrowings, during the Transition Period.

Cash Flows for the 35 Weeks Ended January 30, 2010 (Transition Period) Compared with the 35 Weeks Ended January 31, 2009

Cash and cash equivalents declined $1.1 million during the Transition Period compared with generating $1.6 million of cash flow for the 35 week period ended January 31, 2009. Net cash provided by operating activities amounted to $103.5 million during the Transition Period. For the 35 weeks ended January 31, 2009, net cash provided by operating activities was $267.8 million. The decrease in net cash provided by operating activities was primarily the result of our working capital management strategy at the end of the Transition Period in which we accelerated $274.8 million of payments that typically would not have been made until the first quarter of Fiscal 2010. This lowered our accounts payable balance at the end of the Transition Period which resulted in a decrease in accounts payable for the 35 weeks ended January 30, 2010 of $151.5 million compared with the 35 week period of Fiscal 2009. There was no such working capital management strategy in place during the 35 weeks ended January 31, 2009.

The decrease in net cash flows provided by operating activities was partially offset by improvements in net cash used in investing and financing activities. Net cash used in investing activities decreased to $54.1 million for the 35 weeks ended January 30, 2010 from $109.9 million for the 35 weeks ended January 31, 2009. This reduction was primarily the result of decreased capital expenditures during the 35 weeks ended January 30, 2010 compared with the 35 week period ended January 31, 2009. Capital expenditures decreased $35.9 million for the 35 weeks ended January 30, 2010 compared with the 35 weeks ended January 31, 2009 due to fewer store openings during the 35 weeks ended January 30, 2010 compared with the first 35 weeks of Fiscal 2009.

Net cash used in financing activities decreased $105.8 million during the 35 weeks ended January 30, 2010 compared with the 35 weeks ended January 31, 2009. The decreased use of cash in financing activities was primarily related to repayments, net of borrowings, on our ABL Line of Credit. Repayments, net of borrowings, on our ABL Line of Credit amounted to $29.1 million and $151.6 million, respectively, during the Transition Period and the 35 week period ended January 31, 2009.

Working capital at January 30, 2010 was $349.7 million compared with $179.7 million at January 31, 2009. The increase in working capital was primarily the result of decreased accounts payable as of January 30, 2010 compared with January 31, 2009 due to our working capital management strategy.

Operational Growth

During Fiscal 2011, we opened 20 new BCF stores, and closed one BCF store, one MJM store and one Super Baby Depot. The MJM store and the Super Baby Depot were in the same shopping center as an existing BCF store, which was expanded and remodeled to absorb both businesses. As of January 28, 2012, we operated 477 stores under the names Burlington Coat Factory Warehouse (461 stores), Cohoes Fashions (two stores), MJM Designer Shoes (13 stores) and Super Baby Depot (one store).

We monitor the availability of desirable locations for our stores by, among other things, presentations by brokers, real estate developers and existing landlords, evaluating dispositions by other retail chains and bankruptcy auctions. Most of our stores are located in malls, strip shopping centers, regional power centers or are freestanding. We also lease existing space and have opened a limited number of built-to-suit locations. For most of our new leases, we provide for a minimum initial ten year term with a number of five year options thereafter. Typically, our lease strategy includes obtaining landlord allowances for leasehold improvements. We believe our lease model makes us 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.

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 Disposal in our 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 Disposal and into the respective asset category based on the lesser of their carrying value or fair value less cost to sell.

Debt

Holdings and each of our current wholly owned subsidiaries, except one subsidiary which is considered minor, have fully, jointly, severally and unconditionally guaranteed BCFWC s obligations pursuant to the $600 million ABL Line of Credit, $1,000 million New Term Loan Facility and the $450 million of Notes due in 2019. As of January 28, 2012, we were in compliance with all of our debt covenants. Significant changes in our debt consist of the following:

Senior Notes and Senior Discount Notes

Senior Notes Offering and Extinguishment of Previous Notes

On February 24, 2011, BCFW issued $450.0 million aggregate principal amount of 10% Senior Notes due 2019 at an issue price of 100% (the Notes). The Notes were issued pursuant to an indenture, dated February 24, 2011 (the Indenture), among BCFWC, the guarantors signatory thereto, and Wilmington Trust FSB.

The Notes are senior unsecured obligations of BCFW and are guaranteed on a senior basis by BCFW, the Company and each of BCFW s U.S. subsidiaries to the extent such guarantor is a guarantor of BCFW s obligations under the New Term Loan Facility (as defined below). Interest is payable on the Notes on each February 15 and August 15, commencing August 15, 2011.

In connection with the issuance of the Notes, on February 24, 2011, BCFW entered into a registration rights agreement relating to the Notes, pursuant to which BCFW agreed to use its reasonable best efforts to file, and did initially file on July 15, 2011, the Exchange Offer Registration Statement, enabling holders to exchange the Notes for registered notes with terms substantially identical in all material respects to the Notes, except the exchange notes would be freely tradable. On October 19, 2011, the Exchange Offer Registration Statement was declared effective by the SEC, and we completed the exchange offer on December 2, 2011. The Previous Notes were purchased or redeemed in connection with the issuance of the Notes.

$1 Billion Senior Secured Term Loan Facility

In connection with the offering of the Notes, on February 24, 2011, BCFW refinanced its Previous Term Loan Facility with the proceeds of a $1,000.0 million New Term Loan Facility.

Like the Previous Term Loan Facility, the New Term Loan Facility is secured by (a) a perfected first priority lien on BCFW s real estate, favorable leases, and machinery and equipment and (b) a perfected second priority lien on BCFW s inventory and receivables, in each case subject to various limitations and exceptions. The New Term Loan Facility is to be repaid in quarterly payments of $2.5 million from January 30, 2016 to January 28, 2017, with the balance of the New Term Loan Facility due upon maturity on February 23, 2017. Beginning with the fiscal year ending on January 28, 2012, at the end of each fiscal year, BCFW is required to make a payment based on its available free cash flow (as defined in the credit agreement governing the New Term Loan Facility). This payment offsets future mandatory quarterly payments. During Fiscal 2011 the Company made $42.5 million of prepayments on the New Term Loan which will offset the mandatory quarterly payments through the second quarter of the Fiscal 2015. Based on our free cash flow calculation as of January 28, 2012, we were required to make an additional payment of $7.0 million. This payment further offsets our future mandatory quarterly payments through October 31, 2015 as well as a portion of the mandatory quarterly payment due on January 30, 2016.

The New Term Loan Facility contains financial, affirmative and negative covenants and requires that BCFW, among other things, maintain on the last day of each fiscal quarter a consolidated leverage ratio not to exceed a maximum amount and maintain a consolidated interest coverage ratio of at least a certain amount. The consolidated leverage ratio compares our total debt to Adjusted EBITDA, as each term is defined in the credit agreement governing the New Term Loan Facility (the New Term Loan Credit Agreement), for the trailing twelve months most recently ended and such ratios may not exceed 6.75 to 1 through October 27, 2012; 6.25 to 1 through November 2, 2013; 5.50 to 1 through November 1, 2014; 5.00 to 1 through October 31, 2015; and 4.75 to 1 at January 30, 2016 and thereafter.

The consolidated interest coverage ratio compares our consolidated interest expense to Adjusted EBITDA, as each term is defined in the New Term Loan Credit Agreement, for the trailing twelve months most recently ended, and such ratios must exceed 1.75 to 1 through October 27, 2012; 1.85 to 1 through November 2, 2013; 2.00 to 1 through October 31, 2015; and 2.10 to 1 at January 30, 2016 and thereafter. Adjusted EBITDA is a non-GAAP financial measure of our liquidity. Adjusted EBITDA, as defined in the credit agreement governing our New Term Loan, starts with consolidated net (loss) income for the period and adds back (i) depreciation, amortization, impairments and other non-cash charges that were deducted in arriving at consolidated net loss, (ii) the (benefit) provision for taxes, (iii) interest expense, (iv) advisory fees, and (v) unusual, non-recurring or extraordinary expenses, losses or charges as reasonably approved by the administrative agent for such period.

The interest rates for the New Term Loan Facility are based on: (i) for LIBO rate loans for any interest period, at a rate per annum equal to (a) the greater of (x) the LIBO rate as determined by the Term Loan Administrative Agent, for such interest period multiplied by the Statutory Reserve Rate (as defined in the New Term Loan Credit Agreement) and (y) 1.50% (the New Term Loan Adjusted LIBO Rate), plus an applicable margin; and (ii) for prime rate loans, a rate per annum equal to the highest of (a) the variable annual rate of interest then announced by JPMorgan Chase Bank, N.A. at its head office as its prime rate, (b) the federal funds rate in effect on such date plus 0.50% per annum, and (c) the New Term Loan Adjusted LIBO Rate for the applicable class of term loans for one-month plus 1.00%, plus, in each case, an applicable margin. The interest rate on the New Term Loan Facility was 6.3% as of January 28, 2012.

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

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

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

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

ABL Line of Credit

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

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

Capital Expenditures

We incurred capital expenditures of $116.4 million, net of $32.4 million of landlord allowances, during Fiscal 2011. These capital expenditures include $62.2 million (net of the $32.4 million of landlord allowances) for store expenditures, $14.2 million for upgrades of distribution facilities, and $40.0 million for IT software and other capital expenditures.

For Fiscal 2012, we estimate that we will spend between $130 million and $140 million, net of the benefit of landlord allowances of approximately $30 million, for store openings, improvements to distribution facilities, information technology upgrades, and other capital expenditures. Of the total planned expenditures, approximately $90 million, net of the benefit of $30 million of landlord allowances, is currently expected for expenditures related to new stores, relocations and other store requirements. Capital of approximately $20 million is expected to support information technology and the remaining capital is currently expected to support continued distribution facility enhancements and other initiatives. As part of our growth strategy, we plan to open between 17 and 25 new BCF stores (exclusive of three relocations) and remodel/expand approximately 25 BCF stores during Fiscal 2012.

Dividends

Payment of dividends is prohibited under our credit agreements except in limited circumstances. Dividends equal to $297.9 million, $0.3 million, $0.2 million, and $3.0 million were paid during Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009, respectively. During Fiscal 2011, in connection with the offering of the Notes and the refinancing of the New Term Loan Facility, a cash dividend of approximately $300.0 million, in the aggregate, was declared payable to the equity holders of Parent on a pro rata basis. The dividend was approved by the Parent s Board of Directors in February 2011 and $297.9 million of the dividend declared was paid in Fiscal 2011 and the remaining $2.1 million was recorded in Current Liabilities in the Company s Consolidated Balance Sheet as of January 28, 2012 and will be paid during Fiscal 2012. Dividend payments during Fiscal 2010, the Transition Period and Fiscal 2009 were paid to Holdings in order to repurchase capital stock of the Parent from executives who left our employment.

Table of Contents

Certain Information Concerning Contractual Obligations

The following table sets forth certain information regarding our obligations to make future payments under current contracts as of January 28, 2012:

	Payments Due By Period (in thousands)				
	Total	Less Than 1 Year	2-3 Years	4-5 Years	Thereafter
Long-Term Debt Obligations (1)	$ 1,407,500	$ 6,953	$	$ 10,547	$ 1,390,000
Interest on Long-Term Debt (2)	638,566	104,518	208,818	208,533	116,697
Capital Lease Obligations (3)	42,266	2,724	5,488	5,730	28,324
Operating Lease Obligations (4)	1,267,887	203,571	377,990	197,715	488,611
Related Party Fees (5)	16,830	4,000	8,000	4,830	
Purchase Obligations (6)	471,621	470,029	1,592		
Topic No. 740 and Other Tax Liabilities (7)					
Letters of Credit (8)	35,300	35,300			
Other (9)	1,004	1,004			
Total	$ 3,880,974	$ 828,099	$ 601,888	$ 427,355	$ 2,023,632

Notes:

(1) Excludes interest on Long-Term Debt and the ABL Line of Credit balance as of January 28, 2012 of $190.0 million, which is not required to be paid until maturity in 2016, but may be repaid at any time prior.

(2) The interest rate related to the New Term Loan Facility was 6.3% as of January 28, 2012. The ABL Line of Credit agreement has no annual minimum principal payment requirements, and therefore principal and interest payments are excluded from the table above. Based on the ABL Line of Credit balance outstanding at January 28, 2012, interest payments would be $6.2 million within the next fiscal year, $12.4 million in the next 2 to 3 years and $9.8 million in the next 4 to 5 years.

(3) Capital Lease Obligations include future interest payments.

(4) Represents minimum rent payments for operating leases under the current terms.

(5) Represent fees to be paid to Bain Capital under the terms of our advisory agreement with them (refer to Note 18 to our Consolidated Financial Statements entitled Related Party Transactions for further detail).

(6) Represents commitments to purchase goods or services that have not been received as of January 28, 2012.

(7) The Topic No. 740 liabilities represent uncertain tax positions related to temporary differences. The total Topic No. 740 liability was $22.1 million exclusive of $12.5 million of interest and penalties included in our total Topic No. 740 liability neither of which is presented in the table above as we are not certain if and when these payments would be required.

(8) Represents irrevocable letters of credit guaranteeing payment and performance under certain leases, insurance contracts, debt agreements and utility agreements as of January 28, 2012 (refer to Note 17 to our Consolidated Financial Statements entitled Commitments and Contingencies for further discussion).

(9) Represents severance agreements with former members of management. Our agreements with each of three former employees (including our former President and Chief Executive Officer) to pay their beneficiaries $1.0 million upon their deaths for a total of $3.0 million which is not reflected in the table above because the timing of the payments is unpredictable.

During Fiscal 2007, we sold lease rights for three store locations that were previously operated by us. In the event of default by the assignee, we could be liable for obligations associated with these real estate leases which have future lease related payments (not discounted to present value) of approximately $2.4 million through the end of our fiscal year ending February 1, 2014, and which are not reflected in the table above. The scheduled future aggregate minimum rentals for these leases over the two consecutive fiscal years following Fiscal 2011 are $1.6 million and $0.8 million, respectively. We believe the likelihood of a material liability being triggered under these leases is remote, and no liability has been accrued for these contingent lease obligations as of January 28, 2012.

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). We believe there are several accounting policies that are critical to understanding our historical and future performance as these policies affect the reported amounts of revenues and other significant areas that involve management s judgments and estimates. The preparation of our financial statements requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities; (ii) the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements; and (iii) the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, inventories, long-lived assets, intangible assets, goodwill impairment, insurance reserves 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. A critical accounting estimate meets two criteria: (1) it requires assumptions about highly uncertain matters and (2) there would be a material effect on the financial statements from either using a different, although reasonable, amount within the range of the estimate in the current period or from reasonably likely period-to-period changes in the estimate.

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

Revenue Recognition. We record revenue at the time of sale and delivery of merchandise, net of allowances for estimated future returns. We present sales, net of sales taxes, in our Consolidated Statements of Operations and Comprehensive (Loss) Income. We account for layaway sales and leased department revenue in compliance with ASC Topic No. 605, *Revenue Recognition in Financial Statements.* Layaway sales are recognized upon delivery of merchandise to the customer. The amount of cash received upon initiation of the layaway is recorded as a deposit liability within the line item Other Current Liabilities in our Consolidated Balance Sheets. Store value cards (gift cards and store credits issued for merchandise returns) are recorded as a liability at the time of issuance, and the related sale is recorded upon redemption.

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

Inventory. Our inventory is valued at the lower of cost or market using the retail inventory method. Under the retail inventory method, the valuation of inventory at cost and resulting gross margin are calculated by applying a calculated cost to retail ratio to the retail value of inventory. The retail inventory method is an averaging method that is widely used in the retail industry due to its practicality. Additionally, the use of the retail inventory method results in valuing inventory at the lower of cost or market if markdowns are currently taken as a reduction of the retail value of inventory. Inherent in the retail inventory method calculation are certain significant management judgments and estimates including merchandise markon, markups, markdowns and shrinkage, which significantly impact the ending inventory valuation at cost as well as the resulting gross margin. Management believes that our retail inventory method and application of the average cost method provides an inventory valuation which approximates cost using a first-in, first-out assumption and results in carrying value at the lower of cost or market. Typically, estimates are used to record inventory shrinkage for the first three quarters of a fiscal year. Actual physical inventories are typically conducted during the fourth quarter of each fiscal year to calculate actual shrinkage. While we make estimates on the basis of the best information available to us at the time the estimates are made, over accruals or under accruals of shrinkage may be identified as a result of the physical inventory requiring fourth quarter adjustments in a typical fiscal year. During the fourth quarter of Fiscal 2011, we recorded shrinkage adjustments of $5.7 million, as a result of actual shrink being less than what we had estimated.

We also estimate required aged inventory reserves. If actual market conditions are less favorable than those projected by management, additional markdowns may be required.

Long-Lived Assets. We test for recoverability of long-lived assets in accordance with Topic 360 whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. This includes performing an analysis of anticipated undiscounted future net cash flows of long-lived assets. If the carrying value of the related assets exceeds the undiscounted cash flow, we reduce the carrying value to its fair value, which is generally calculated using discounted cash flows. 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. To the extent these future projections change, our conclusions regarding impairment may differ from the estimates. Future adverse changes in market conditions or poor operating results of underlying assets could result in losses or an inability to recover the carrying value of the assets that may not be reflected in an asset s current carrying value, thereby possibly requiring an impairment charge in the future. During Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009, we recorded $1.2 million, $2.0 million, $12.0 million and $10.0 million, respectively, in impairment charges related to long-lived assets (exclusive of finite-lived intangible assets).

Intangible Assets. As discussed above, the Merger Transaction was completed on April 13, 2006 and was financed by a combination of borrowings under our senior secured credit facilities, the issuance of senior notes and senior discount notes and the equity investment of affiliates of Bain Capital and management. The purchase price, including transaction costs, was approximately $2.1 billion. All assets and liabilities were recorded at fair value on the acquisition date, including identifiable intangible assets separate from goodwill. Identifiable intangible assets include tradenames, and net favorable lease positions. The fair values and useful lives of identified intangible assets are based on many factors, including estimates and assumptions of future operating performance, estimates of cost avoidance, the specific characteristics of the identified intangible assets and our historical experience. Goodwill represents the excess of cost over the fair value of net assets acquired.

On an annual basis we compare the carrying value of our tradenames, which we consider to be indefinite-lived intangible assets to their estimated fair value. The determination of fair value 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

- 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 Fiscal 2011, Fiscal 2010 and the Transition Period, we did not record any impairment charges related to our indefinite-lived intangible assets. During Fiscal 2009 we recorded $294.6 million of impairment charges related to our indefinite-lived intangible assets in the line item Impairment Charges Tradenames in our Consolidated Statement of Operations and Comprehensive (Loss) Income.

Our favorable leases, which we consider to be finite-lived intangible assets, are amortized over their respective lease terms, and are reviewed for impairment whenever circumstances change, in conjunction with the impairment testing of our long-lived assets as described above. If the carrying value is greater than the respective estimated fair value, we then determine if the asset is impaired, and whether some, or all, of the asset should be written off as a charge to operations, which could have a material adverse effect on our financial results. Impairment charges of $0.1 million, $34.6 million and $26.1 million were recorded related to our favorable leases during Fiscal 2011, the Transition Period and Fiscal 2009, respectively, and are included in the line item Impairment Charges Long-Lived Assets in our Consolidated Statements of Operations and Comprehensive (Loss) Income. There were no impairment charges related to our finite-lived intangible assets during Fiscal 2010.

Goodwill Impairment. Goodwill represents the excess of cost over the fair value of net assets acquired. Topic No. 350 requires periodic tests of the impairment of goodwill. Topic No. 350 requires a comparison, at least annually, of the net book value of the assets and liabilities associated with a reporting unit, including goodwill, with the fair value of the reporting unit, which corresponds to the discounted cash flows of the reporting unit, in the absence of an active market. Our impairment analysis includes a number of assumptions around our future performance, which may differ from actual results. When this comparison indicates that impairment exists, the impairment recognized is the amount by which the carrying amount of the assets exceeds the fair value of these assets. Our annual goodwill impairment review is typically performed during the beginning of May of the fiscal year. For Fiscal 2009, in response to several factors, including, but not limited to declines in the U.S. and international financial markets, decreased comparative store sales results of the peak holiday and winter selling seasons and our expectation that the then current comparative store sales trends would continue for an extended period, we determined that it was appropriate to perform our annual goodwill impairment testing in the third and fourth quarters of Fiscal 2009. There were no impairment charges recorded on the carrying value of our goodwill during Fiscal 2011, Fiscal 2010, the Transition Period, or Fiscal 2009.

Insurance Reserves. We have risk participation agreements with insurance carriers with respect to workers compensation, general liability insurance and health insurance. Pursuant to these arrangements, we are responsible for paying individual claims up to designated dollar limits. The amounts included in our costs related to these claims are estimated and can vary based on changes in assumptions or claims experience included in the associated insurance programs. For example, changes in legal trends and interpretations, as well as changes in the nature and method of how claims are settled, can impact ultimate costs. An increase in workers compensation claims by employees, health insurance claims by employees or general liability claims may result in a corresponding increase in our costs related to these claims. Insurance reserves amounted to $49.6 million at both January 28, 2012 and January 29, 2011.

Income Taxes. We account for income taxes in accordance with ASC Topic No. 740 *Income Taxes* (Topic No. 740). Our provision for income taxes and effective tax rates are based on a number of factors, including our income, tax planning strategies, differences between tax laws and accounting rules, statutory tax rates and credits, uncertain tax positions, and valuation allowances, by legal entity and jurisdiction. We use significant judgment and estimations in evaluating our tax positions. Topic No. 740 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Topic No. 740 requires that we recognize in our financial statements the impact of a tax position taken or expected to be taken in a tax return, if that position is more likely than not of being sustained upon examination by the relevant taxing authority, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Additionally, Topic No. 740 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure.

U.S. federal and state tax authorities regularly audit our tax returns. We establish tax reserves when it is considered more likely than not that we will not succeed in defending our positions. We adjust these tax reserves, as well as the related interest and penalties, based on the latest facts and circumstances, including recently published rulings, court cases, and outcomes of tax audits. To the extent our actual tax liability differs from our established tax reserves our effective tax rate may be materially impacted. While it is often difficult to predict the final outcome of, the timing of, or the tax treatment of any particular tax position or deduction, we believe that our tax reserves reflect the most likely outcome of known tax contingencies.

We record deferred tax assets and liabilities for any temporary differences between the tax reflected in our financial statements and tax presumed rates. We establish valuation allowances for our deferred tax assets when we believe it is more likely than not that the expected future taxable income or tax liabilities thereon will not support the use of a deduction or credit. For example, we would establish a valuation allowance for the tax benefit associated with a loss carryover in a tax jurisdiction if we did not expect to generate sufficient taxable income to utilize the loss carryover.

Recent Accounting Pronouncements

Refer to Note 3 to our Consolidated Financial Statements entitled Recent Accounting Pronouncements for a discussion of recent accounting pronouncements and their impact on our Consolidated Financial Statements.

Fluctuations in Operating Results

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

Seasonality

Our business is seasonal, with our highest sales occurring in the months of September through January of each year. For the past 60 months, an average of approximately 50% of our net sales occurred during the period from September through January. Weather, however, continues to be an important contributing factor to our sales. Generally, our sales are higher if the weather is cold during the Fall and warm during the early Spring.

Inflation

We do not believe that our operating results have been materially affected by inflation during Fiscal 2011. Historically, as the costs of merchandising and related operating expenses have increased, the Company has been able to mitigate the effect of such impact on the Company s operations.

The U.S retail industry continues to face increased pressure on margins as commodity prices increase and the overall challenging retail conditions have led consumers to be more value conscious. Despite a plentiful supply of goods in the market, which historically created downward pricing pressure for wholesale purchases, we expect to continue to experience rising costs. Our open to buy paradigm, in which we purchase both pre-season and in-season merchandise, allows us the flexibility to purchase less pre-season with the balance purchased in-season and opportunistically. It also provides us the flexibility to shift purchases between suppliers and categories. This enables us to obtain better terms with our suppliers which we expect to help offset the expected rising costs of goods.

Market Risk

We are exposed to market risks relating to fluctuations in interest rates. Our senior secured credit facilities contain floating rate obligations and are subject to interest rate fluctuations. The objective of our financial risk management is to minimize the negative impact of interest rate fluctuations on our earnings and cash flows. Interest rate risk is managed through the use of a combination of fixed and variable interest debt as well as the periodic use of interest rate cap agreements.

As more fully described in Note 9 to our Consolidated Financial Statements entitled, Derivatives and Hedging Activities, we enter into interest rate cap agreements to manage interest rate risks associated with our long-term debt obligations. Gains and losses associated with these contracts are accounted for as interest expense and are recorded under the caption Interest Expense on our Consolidated Statements of Operations and Comprehensive (Loss) Income. We continue to have exposure to interest rate risks to the extent they are not hedged.

Off-Balance Sheet Transactions

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

At January 28, 2012, we had $474.0 million principal amount of fixed-rate debt and $1,139.1 million of floating-rate debt. Based on $1,139.1 million outstanding as floating rate debt, an immediate increase of one percentage point would cause an increase to cash interest expense of approximately $11.3 million per year, resulting in $11.3 million less in our pre-tax earnings. As of January 29, 2011, we estimated that an immediate increase of one percentage point would cause an increase to cash interest expense of approximately $9.5 million per year. 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 point increase in interest rate were to occur over the next four fiscal quarters (excluding the effect of our interest rate cap agreements discussed below), such an increase would result in the following additional interest expenses (assuming our current ABL Line of Credit borrowing level remains constant with fiscal year end levels):

			(in thousands)		
Floating-Rate Debt	**Principal Outstanding at January 28, 2012**	**Additional Interest Expense Q1 2012**	**Additional Interest Expense Q2 2012**	**Additional Interest Expense Q3 2012**	**Additional Interest Expense Q4 2012**
ABL Line of Credit	$ 190,000	$ 475	$ 475	$ 475	$ 475
Term Loan	949,123	2,349	2,350	2,351	2,352
Total	$ 1,139,123	$ 2,824	$ 2,825	$ 2,826	$ 2,827

We have two interest rate cap agreements for a maximum principal amount of $900.0 million which limit our interest rate exposure to 7% for our first $900.0 million of borrowings under our variable rate debt obligations. If interest rates were to increase up to the 7% cap rate from the rates in effect as of January 28, 2012, for a full fiscal year, then our maximum interest rate exposure would be $12.8 million on borrowing levels of up to $900.0 million. Currently, we have unlimited interest rate risk related to our variable rate debt in excess of $900.0 million. At January 28, 2012, our borrowing rate related to our ABL Line of Credit was 2.2%. At January 28, 2012, the borrowing rate related to our Term Loan was 6.3%.

We and our subsidiaries, affiliates, and significant shareholders may from time to time seek to retire or purchase our outstanding debt (including publicly issued debt) through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions, by tender offer or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. During Fiscal 2009, an affiliate of Bain Capital, LLC, our indirect controlling stockholder, purchased a portion of Holdings 14 1/2% Previous Senior Discount Notes due 2014 (the Purchased Notes). The Purchased Notes were sold in October of 2009.

Table of Contents

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

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.

Table of Contents

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

	Page
Consolidated Financial Statements	
Report of Independent Registered Public Accounting Firm	53
Consolidated Balance Sheets as of January 28, 2012 and January 29, 2011	54
Consolidated Statements of Operations and Comprehensive (Loss) Income for the fiscal years ended January 28, 2012 and January 29, 2011, the 35 week period ended January 30, 2010 and the fiscal year ended May 30, 2009	55
Consolidated Statements of Cash Flows for the fiscal years ended January 28, 2012 and January 29, 2011, the 35 week period ended January 30, 2010 and the fiscal year ended May 30, 2009	56
Consolidated Statements of Stockholder s Equity for the fiscal years ended January 28, 2012 and January 29, 2011, the 35 week period ended January 30, 2010 and the fiscal year ended May 30, 2009	58
Notes to Consolidated Financial Statements for the fiscal years ended January 28, 2012 and January 29, 2011, the 35 week period ended January 30, 2010 and the fiscal year ended May 30, 2009	59

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of Burlington Coat Factory Investments Holdings, Inc.

Burlington, NJ

We have audited the accompanying consolidated balance sheets of Burlington Coat Factory Investments Holdings, Inc. and subsidiaries (the Company) as of January 28, 2012 and January 30, 2010, and the related consolidated statements of operations and comprehensive (loss) income, stockholder s (deficit) equity, and cash flows for the years ended January 28, 2012 and January 29, 2011, the 35 week period ended January 30, 2010 and the year ended May 30, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Burlington Coat Factory Investments Holdings, Inc. and subsidiaries as of January 28, 2012 and January 29, 2011, and the results of their operations and their cash flows for the years ended January 28, 2012 and January 29, 2011, the 35 week period ended January 30, 2010 and the year ended May 30, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey
April 20, 2012

Table of Contents

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(All amounts in thousands, except share amounts)

	January 28, 2012	January 29, 2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 35,664	$ 30,214
Restricted Cash and Cash Equivalents	34,800	30,264
Accounts Receivable (Net of Allowances for Doubtful Accounts of $85 at January 28, 2012, and $175 at January 29, 2011)	40,119	49,875
Merchandise Inventories	682,260	644,228
Deferred Tax Assets	23,243	24,835
Prepaid and Other Current Assets	40,062	36,109
Prepaid Income Taxes	21,319	16,447
Assets Held for Disposal	521	2,156
Total Current Assets	877,988	834,128
Property and Equipment Net of Accumulated Depreciation	865,215	857,589
Tradenames	238,000	238,000
Favorable Leases Net of Accumulated Amortization	359,903	389,986
Goodwill	47,064	47,064
Other Assets	112,973	91,241
Total Assets	$ 2,501,143	$ 2,458,008
LIABILITIES AND STOCKHOLDER S (DEFICIT)/EQUITY		
Current Liabilities:		
Accounts Payable	$ 276,285	$ 190,460
Income Taxes Payable	2,501	4,429
Other Current Liabilities	218,842	208,515
Current Maturities of Long Term Debt	7,659	14,264
Total Current Liabilities	505,287	417,668
Long Term Debt	1,605,464	1,358,021
Other Liabilities	224,352	215,528
Deferred Tax Liabilities	276,985	279,279
Commitments and Contingencies (Note 10, 12, 17, and 18)		
Stockholder s (Deficit)/Equity:		
Common Stock, Par Value $0.01; Authorized 1,000 Shares; 1,000 Issued and Outstanding at January 28, 2012 and January 29, 2011		
Capital in Excess of Par Value	474,569	466,754
Accumulated (Deficit)/Equity	(585,514)	(279,242)
Total Stockholder s (Deficit)/Equity	(110,945)	187,512

Total Liabilities and Stockholder s (Deficit)/Equity	$ 2,501,143	$ 2,458,008

See Notes to Consolidated Financial Statements

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(All amounts in thousands)

	Year Ended January 28, 2012	Year Ended January 29, 2011	35 Weeks Ended January 30, 2010	Year Ended May 30, 2009
REVENUES:				
Net Sales	$ 3,854,134	$ 3,669,602	$ 2,457,567	$ 3,541,981
Other Revenue	33,397	31,487	21,730	29,386
Total Revenue	3,887,531	3,701,089	2,479,297	3,571,367
COSTS AND EXPENSES:				
Cost of Sales (Exclusive of Depreciation and Amortization as Shown Below)	2,363,464	2,252,346	1,492,349	2,199,766
Selling and Administrative Expenses	1,215,301	1,156,613	759,774	1,115,248
Restructuring and Separation Costs (Note 14)	7,438	2,200	2,429	6,952
Depreciation and Amortization	153,070	146,759	103,605	159,607
Impairment Charges Long-Lived Assets	1,735	2,080	46,776	37,498
Impairment Charges Tradenames				294,550
Other Income, Net	(9,942)	(11,346)	(15,335)	(5,998)
Loss on Extinguishment of Debt	37,764			
Interest Expense (Inclusive of (Gain)/Loss on Interest Rate Cap Agreements)	129,121	99,309	59,476	102,716
Total Costs and Expenses	3,897,951	3,647,961	2,449,074	3,910,339
(Loss)/Income Before Income Tax (Benefit)/Expense	(10,420)	53,128	30,223	(338,972)
Income Tax (Benefit)/Expense	(4,148)	22,130	11,570	(147,389)
Net (Loss)/Income	(6,272)	30,998	18,653	(191,583)
Total Comprehensive (Loss)/Income	$ (6,272)	$ 30,998	$ 18,653	$ (191,583)

See Notes to Consolidated Financial Statements

Table of Contents

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in thousands)

	Year Ended January 28, 2012	Year Ended January 29, 2011	35 Weeks Ended January 30, 2010	Year Ended May 30, 2009
OPERATING ACTIVITIES				
Net (Loss) Income	$ (6,272)	$ 30,998	$ 18,653	$ (191,583)
Adjustments to Reconcile Net (Loss) Income to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	153,070	146,759	103,605	159,607
Amortization of Debt Issuance Costs	11,904	12,346	8,238	10,335
Impairment Charges Long-Lived Assets	1,735	2,080	46,776	37,498
Impairment Charges Tradenames				294,550
Accretion of Senior Notes and Senior Discount Notes	59	733	449	608
Interest Rate Cap Contracts-Adjustment to Market	3,165	5,500	(455)	(4,173)
Provision for Losses on Accounts Receivable	1,211	2,098	1,993	2,832
Provision for Deferred Income Taxes	(701)	886	(19,815)	(144,106)
Loss on Disposition of Fixed Assets and Leasehold Improvements	2,261	1,539	5,386	297
(Gain) Loss on Investments in Money Market Fund		(240)	(3,849)	4,661
Loss on Extinguishment of Debt Write-off of Deferred Financing Fees	16,435			
Non-Cash Stock Compensation Expense	5,797	2,230	994	6,124
Non-Cash Rent Expense	(5,363)	(1,485)	(3,327)	(296)
Excess Tax Benefit from Stock Based Compensation	32			
Changes in Assets and Liabilities:				
Accounts Receivable	(1,650)	(1,168)	(3,638)	(175)
Merchandise Inventories	(38,033)	(30,933)	28,538	77,696
Prepaid and Other Current Assets	(8,845)	(18,272)	2,013	(7,538)
Accounts Payable	85,824	50,659	(89,955)	(107,283)
Other Current Liabilities and Income Tax Payable	6,959	(28,183)	(8,737)	8,345
Deferred Rent Incentives	32,427	19,429	7,649	38,730
Other Long-Term Assets and Long-Term Liabilities	(10,032)	13,728	9,009	(13,833)
Net Cash Provided by Operations	249,983	208,704	103,527	172,296
INVESTING ACTIVITIES				
Cash Paid for Property and Equipment	(153,373)	(132,131)	(60,035)	(129,957)
Change in Restricted Cash and Cash Equivalents	(4,536)	(27,659)	17	70
Proceeds (Expenses) From Sale of Property and Equipment and Assets Held for Sale	757	(38)	1,062	369
Lease Acquisition Costs	(557)	(422)		(3,978)
Redesignation of Cash Equivalents to Investment in Money Market Fund				(56,294)
Redemption of Investment in Money Market Fund		240	4,844	50,637
Purchase of Tradenames Rights				(6,250)
Other	(1,064)	48	38	123
Net Cash Used in Investing Activities	(158,773)	(159,962)	(54,074)	(145,280)

56

Table of Contents

FINANCING ACTIVITIES				
Proceeds from Long Term Debt ABL Line of Credit	1,073,700	204,200	444,315	857,051
Proceeds from Long Term Debt Notes Payable	450,000			
Proceeds from Long Term Debt Term Loan	991,623			
Principal Payments on Long Term Debt ABL Line of Credit	(1,052,300)	(156,800)	(473,422)	(888,344)
Principal Repayments on Long Term Debt Senior Discount Notes	(302,056)			
Principal Repayments on Long Term Debt Senior Notes	(99,309)			
Principal Payments on Long Term Debt	(829)	(1,998)	(1,537)	(1,597)
Principal Payments on Long Term Debt Term Loan	(42,500)	(87,202)	(5,998)	(2,057)
Principal Repayments on Previous Term Loan	(777,550)			
Purchase of Interest Rate Cap Contract				(3,360)
Payment of Dividends	(297,917)	(251)	(212)	(3,000)
Stock Option Exercise and Related Tax Benefits	2,018			
Debt Issuance Costs	(30,640)	(1,227)	(13,659)	
Net Cash Used in Financing Activities	(85,760)	(43,278)	(50,513)	(41,307)
Increase (Decrease) in Cash and Cash Equivalents	5,450	5,464	(1,060)	(14,291)
Cash and Cash Equivalents at Beginning of Period	30,214	24,750	25,810	40,101
Cash and Cash Equivalents at End of Period	$ 35,664	$ 30,214	$ 24,750	$ 25,810
Supplemental Disclosure of Cash Flow Information:				
Interest Paid	$ 102,304	$ 79,187	$ 47,963	$ 96,543
Income Tax Payment (Refund), Net	$ 5,697	$ 41,505	$ 48,764	$ (5,341)
Non-Cash Investing Activities:				
Accrued Purchases of Property and Equipment	$ 12,969	$ 17,606	$ 10,667	$ (1,849)
Notes Receivable from Sale of Assets Held for Sale	$	$	$ (2,000)	$

See Notes to Consolidated Financial Statements

Table of Contents

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDER S DEFICIT

(All amounts in thousands)

	Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Total
Balance at May 31, 2008	$	$ 457,371	$ (133,847)	$ 323,524
Net Loss			(191,583)	(191,583)
Stock Based Compensation		6,124		6,124
Dividend			(3,000)	(3,000)
Balance at May 30, 2009		463,495	(328,430)	135,065
Net Income			18,653	18,653
Stock Based Compensation		994		994
Dividend			(212)	(212)
Balance at January 30, 2010		464,489	(309,989)	154,500
Net Income			30,998	30,998
Excess Tax Benefit of Vested Restricted Stock		35		35
Stock Based Compensation		2,230		2,230
Dividend			(251)	(251)
Balance at January 29, 2011		466,754	(279,242)	187,512
Net Loss			(6,272)	(6,272)
Stock Options Exercised and Related Tax Benefits		2,018		2,018
Stock Based Compensation		5,797		5,797
Dividend			(300,000)	(300,000)
Balance at January 28, 2012	$	$ 474,569	$ (585,514)	$ (110,945)

See Notes to Consolidated Financial Statements

Table of Contents

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Business and Current Conditions

As of January 28, 2012, Burlington Coat Factory Investments Holdings, Inc. and its subsidiaries (the Company or Holdings) operated 477 stores in 44 states and Puerto Rico, selling apparel, shoes and accessories for men, women and children. A majority of those stores offer a home furnishing and linens department and a juvenile furniture department. As of January 28, 2012, the Company operated stores under the names Burlington Coat Factory (461 stores), Cohoes Fashions (two stores), MJM Designer Shoes (13 stores), and Super Baby Depot (one store). Cohoes Fashions offers products similar to that of Burlington Coat Factory. MJM Designer Shoes offers moderately priced designer and fashion shoes. The Super Baby Depot store offers baby clothing, accessories, furniture and other merchandise in the middle to higher price range. During Fiscal 2011, the Company opened 17 net new Burlington Coat Factory Warehouse stores.

The primary subsidiary of the Company is Burlington Coat Factory Warehouse Corporation (BCFWC), which was initially organized in 1972 as a New Jersey corporation. In 1983, BCFWC was reincorporated in Delaware and currently exists as a Delaware corporation. The Company was incorporated in 2006 (and currently exists) as a Delaware corporation. In 2006, BCFWC became a wholly-owned subsidiary of the Company in a take private transaction (the Merger Transaction).

In the first quarter of Fiscal 2011, the Company completed the refinancing of its $900 million Senior Secured Term Loan (Previous Term Loan Facility), 11.1% Senior Notes (Previous Senior Notes), and 14.5% Senior Discount Notes (Previous Senior Discount Notes). As a result of these transactions, the Previous Senior Notes and Previous Senior Discount Notes, with carrying values at February 24, 2011 of $302.0 million and $99.3 million, respectively, were repurchased. These debt instruments were replaced when BCFWC completed the sale of $450 million aggregate principal amount of 10% Senior Notes due 2019 (the Notes) at an issue price of 100%. The Previous Term Loan Facility with a carrying value of $777.6 million at February 24, 2011 was replaced with a $1,000.0 million senior secured term loan facility (New Term Loan Facility) under which we borrowed net proceeds of $990.0 million. In connection with the offering of the Notes and the refinancing of the Previous Term Loan Facility, a cash dividend of $300.0 million in the aggregate was declared to the equity holders of Parent on a pro rata basis. Borrowings on our $600 million Available Business Line Senior Secured Revolving Facility (ABL Line of Credit) related to these refinancing transactions were $101.6 million. In addition, on September 2, 2011, the Company completed an amendment and restatement of the credit agreement governing the ABL Line of Credit, which, among other things, extended the maturity date to September 2, 2016.

Significant declines in the United States and international financial markets and the resulting impact of such events on macroeconomic conditions have impacted customer behavior and consumer spending at retailers which impacts the Company s sales trends. In response to these economic conditions, the Company implemented several initiatives to restructure its workforce (refer to Note 14 to the Company s 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 operating results. The Company believes it is prudently managing its capital spending and operating expenses in response to the current macroeconomic conditions.

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 will be sufficient to fund its 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 decline, the Company would be able to continue to offset decreases in its comparative store sales with continued savings initiatives. At January 28, 2012, working capital was $337.9 million, cash and cash equivalents were $35.7 million and unused availability under the Company s ABL Senior Secured Revolving Facility (ABL Line of Credit) was $242.6 million.

Fiscal Years

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. As a result, these Consolidated Financial Statements include the 52 week periods ended January 28, 2012 (Fiscal 2011) and January 29, 2011 (Fiscal 2010), the 35 week period ended January 30, 2010 (the Transition Period) and the 52 week period ended May 30, 2009 (Fiscal 2009). See Note 2 to the Company s Consolidated Financial Statements entitled Fiscal Year End Change for the comparative Consolidated Statements of Operations and

Comprehensive (Loss) Income for the Transition Period compared with the 35 week period ended January 31, 2009.

Basis of Presentation

The Consolidated Financial Statements include the subsidiaries of the Company, in which it has controlling financial interest through direct ownership. The Company has no operations and its only asset is 100% of the stock of BCFWC. All discussions of operations in this report relate to BCFWC, which are reflected in the Consolidated Financial Statements of the Company.

Principles of Consolidation

The Consolidated Financial Statements include the subsidiaries of the Company in which it has controlling financial interest through direct ownership. All intercompany accounts and transactions have been eliminated.

The Company was incorporated in the State of Delaware on April 10, 2006. The Company s Certificate of Incorporation authorizes 1,000 shares of common stock, par value of $0.01 per share. All 1,000 shares are issued and outstanding and Burlington Coat Factory Holdings, Inc. (Parent) is the only holder of record of this stock.

Use of Estimates

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Inventories

Merchandise inventories are valued at the lower of cost, on an average cost basis, or market, as determined by the retail inventory method. The Company records its cost of merchandise (net of purchase discounts and certain vendor allowances), certain merchandise acquisition costs (primarily commissions and import fees), inbound freight, outbound freight from distribution centers, and freight on internally transferred merchandise in the line item Cost of Sales in the Company s Consolidated Statements of Operations and Comprehensive (Loss) Income. Costs associated with the Company s distribution, buying, and store receiving functions are included in the line items Selling and Administrative Expenses and Depreciation and Amortization in the Company s Consolidated Statements of Operations and Comprehensive (Loss) Income. Distribution and purchasing costs included in the line item Selling and Administrative Expenses amounted to $84.6 million, $74.1 million, $40.1 million and $63.3 million for Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009, respectively. Depreciation and amortization related to the distribution and purchasing functions for the same periods amounted to $8.9 million, $9.6 million, $12.3 million and $9.3 million, respectively.

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 has either identified or is actively seeking out potential buyers for these assets as of the balance sheet dates. The asset listed in the line item Assets Held for Disposal in the Company s Consolidated Balance Sheets, as of January 28, 2012, is a plot of land adjacent to one of the Company s stores. As of January 29, 2011, the assets listed in the line item

60

Assets Held for Disposal in the Company s Consolidated Balance Sheets was comprised of three owned parcels of land adjacent to three of the Company s stores and an owned building which is currently vacant. Assets held for disposal as of January 28, 2012 and January 29, 2011 amounted to $0.5 million and $2.2 million, respectively.

Based on prevailing market conditions, the Company may determine that it is no longer advantageous to continue marketing certain assets and reclassify those assets out of the line item Assets Held for Disposal and into the respective asset category based on the lesser of their carrying value or fair value less cost to sell.

Property and Equipment

Property and equipment are recorded at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are between 20 and 40 years for buildings, depending upon the expected useful life of the facility, and three to ten years for store fixtures and equipment. Leasehold improvements are depreciated over the lease term including any reasonably assured renewal options or the expected economic life of the improvement, whichever is less. Repairs and maintenance expenditures are expensed as incurred. Renewals and betterments, which significantly extend the useful lives of existing property and equipment, are capitalized. Assets recorded under capital leases are recorded at the present value of minimum lease payments and are amortized over the lease term. Amortization of assets recorded as capital leases is included in the line item Depreciation and Amortization in the Company s Consolidated Statements of Operations and Comprehensive (Loss) Income. The carrying value of all long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, in accordance with ASC Topic No. 360 *Property, Plant, and Equipment* (Topic No. 360). Refer to the section below entitled Impairment of Long-Lived Assets and Note 8 to the Company s Consolidated Financial Statements entitled Impairment of Long-Lived Assets for further discussion around impairment of long-lived assets.

Capitalized Computer Software Costs

The Company accounts for capitalized software in accordance with ASC Topic No. 350 *Intangibles Goodwill and Other* (Topic No. 350). Topic No. 350 requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use. The Company capitalized $23.0 million and $22.9 million relating to these costs during Fiscal 2011 and Fiscal 2010, respectively.

Purchased and internally developed software is amortized on a straight line basis over the product s estimated economic life, which is generally three to five years. The net carrying value of software is included in the line item Property and Equipment Net of Accumulated Depreciation on the Company s Consolidated Balance Sheets and software amortization is included in the line item Depreciation and Amortization on the Company s Consolidated Statements of Operations and Comprehensive (Loss) Income.

Intangible Assets

The Company accounts for intangible assets in accordance with Topic No. 350. The Company s intangible assets primarily represent tradenames and favorable lease positions. The tradename asset, Burlington Coat Factory, is expected to generate cash flows indefinitely and does not have an estimable or finite useful life and, therefore, is accounted for as an indefinite-lived asset not subject to amortization. The values of favorable and unfavorable lease positions are amortized on a straight-line basis over the expected lease terms. Amortization of net favorable lease positions is included in the line item Depreciation and Amortization in the Company s Consolidated Statements of Operations and Comprehensive (Loss) Income.

Indefinite-lived intangible assets: The Company tests identifiable intangible assets with an indefinite life for impairment on an annual basis, or when a triggering event occurs, relying on a number of factors that include operating results, business plans and projected future cash flows. The impairment test consists of a comparison of the fair value of the indefinite-lived intangible asset with its carrying amount. The Company determines fair value through multiple valuation techniques. During Fiscal 2009, the Company recorded impairment charges related to its tradenames of $294.6 million. See Note 6 to the Company s Consolidated Financial Statements entitled Intangible Assets for further discussion of impairment charges recorded as part of the Company s review.

Finite-lived intangible assets: Identifiable intangible assets that are subject to amortization are evaluated for impairment in accordance with Topic No. 360 using a process similar to that used to evaluate other long-lived assets as described in Note 8 to the Company s Consolidated Financial Statements entitled Impairment of Long-Lived Assets. An impairment loss is recognized for the amount by which the carrying value exceeds the fair value of the asset. For the favorable lease positions, if the carrying amount exceeds the estimated expected undiscounted future cash flows, the Company measures the amount of the impairment by comparing the carrying amount of the asset to its fair value. The estimation of fair value is measured by discounting expected future cash flows using the Company s risk adjusted rate of interest. During Fiscal 2011, the Company recorded $0.1 million of impairment charges related to identifiable intangible assets. There were no charges related to identifiable intangible assets during Fiscal 2010. The Company recorded impairment charges related to identifiable intangible assets of $34.6 million and $26.1 million during the Transition Period and Fiscal 2009, respectively. These charges are recorded in the line item Impairment Charges Long-Lived Assets in the Company s Consolidated Statements of Operations and Comprehensive (Loss) Income.

Goodwill

Goodwill represents the excess of the acquisition cost over the estimated fair value of tangible assets and other identifiable intangible assets acquired less liabilities assumed. Topic No. 350 requires a comparison, at least annually, of the carrying value of the assets and liabilities associated with a reporting unit, including goodwill, with the fair value of the reporting unit. The Company determines fair value through multiple valuation techniques. If the carrying value of the assets and liabilities exceeds the fair value of the reporting unit, the Company would calculate the implied fair value of its reporting unit goodwill as compared with the carrying value of its reporting unit goodwill to determine the appropriate impairment charge. The Company estimates the fair value of its reporting unit using widely accepted valuation techniques. These techniques use a variety of assumptions including projected market conditions, discount rates and future cash flows. See Note 7 to the Company s Consolidated Financial Statements entitled Goodwill for further discussion of the fair value of reporting unit goodwill.

Impairment of Long-Lived Assets

The Company accounts for impaired long-lived assets in accordance with Topic No. 360. This Topic requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Also, long-lived assets and certain intangibles to be disposed of should be reported at the lower of the carrying amount or fair value less cost to sell. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the estimated future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds the estimated expected undiscounted future cash flows, the Company measures the amount of the impairment by comparing the carrying amount of the asset to its fair value. The estimation of fair value is either based on prices for similar assets or measured by discounting expected future cash flows by the Company s risk adjusted rate of interest. The Company recorded impairment charges related to long-lived assets of $1.2 million, $2.0 million, $12.0 million and $10.0 million during Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009, respectively. These charges are recorded in the line item Impairment Charges Long-Lived Assets in the Company s Consolidated Statements of Operations and Comprehensive (Loss) Income. See Note 8 to the Company s Consolidated Financial Statements entitled Impairment of Long-Lived Assets for further discussion of the Company s measurement of impairment of long-lived assets.

Other Assets

Other assets consist primarily of deferred financing fees, landlord owned store assets that the Company has paid for as part of its lease, purchased lease rights and notes receivable. Deferred financing fees are amortized over the life of the related debt facility using the interest method of amortization. Amortization of deferred financing fees is recorded in the line item Interest Expense in the Company s Consolidated Statements of Operations and Comprehensive (Loss) Income. Landlord owned assets represent leasehold improvements at certain stores where the landlord has retained title to such assets. These assets are amortized over the straight line rent period and the amortization is included in the line item Depreciation and Amortization in the Company s Consolidated Statements of Operations and Comprehensive (Loss) Income. Purchased lease rights are amortized over the straight line rent period and the amortization is recorded in the line item Selling and Administrative Expenses in the Company s Consolidated Statements of Operations and Comprehensive (Loss) Income. Both landlord owned assets and purchased lease rights are assessed for impairment in accordance with Topic No. 360. During Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009, the Company recorded impairment charges of $0.4 million, $0.1 million, $0.1 million and $1.4 million, respectively, related to landlord owned assets and purchased lease rights. These charges were recorded in the line item Impairment Charges Long-Lived Assets in the Company s Consolidated Statements of Operations and Comprehensive (Loss) Income. See Note 8 to the Company s Consolidated Financial Statements entitled Impairment of Long-Lived Assets for further discussion of the Company s measurement of impairment of long-lived assets.

Table of Contents

Other Current Liabilities

Other current liabilities primarily consist of sales tax payable, customer liabilities, accrued payroll costs, self-insurance reserves, accrued operating expenses, payroll taxes payable, current portion of straight line rent liability and other miscellaneous items. Customer liabilities totaled $29.7 million and $30.2 million, as of January 28, 2012 and January 29, 2011, 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 workers compensation claims by employees, 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 $49.6 million as of both January 28, 2012 and January 29, 2011. At both January 28, 2012 and January 29, 2011, the portion of the self insurance reserve expected to be paid in the next twelve months of $19.1 million, was recorded in the line item Other Current Liabilities in the Company s Consolidated Balance Sheets. The remaining balances of $30.5 million for both periods were recorded in the line item Other Liabilities in the Company s Consolidated Balance Sheets.

Other Liabilities

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

Deferred lease incentives are funds received or receivable from landlords used primarily to offset the costs incurred for remodeling. 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 Consolidated Statements of Operations and Comprehensive (Loss) Income. At January 28, 2012 and January 29, 2011, deferred lease incentives were $129.4 million and $123.0 million, respectively.

Common Stock

The Company has 1,000 shares of common stock issued and outstanding, all of which are owned by Parent. Parent has 51,674,204 shares of Class A common stock, par value $0.001 per share and 5,769,356 shares of Class L common stock, par value $0.001 per share, authorized. As of January 28, 2012, 45,942,093 shares of Class A common stock and 5,104,677 shares of Class L common stock were outstanding. As of January 29, 2011, 45,458,316 shares of Class A common stock and 5,050,924 shares of Class L common stock were outstanding.

Revenue Recognition

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

The Company determines an estimated store value card breakage rate by continuously evaluating historical redemption data. Breakage income is recognized monthly in proportion to the historical redemption patterns for those store value cards for which the likelihood of redemption is remote. During Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009, the Company recorded $4.1 million, $2.7 million, $4.9 million and $3.1 million, respectively, of breakage income.

Table of Contents

Other Revenue

Other revenue consists of rental income received from leased departments; subleased rental income; layaway, alteration, dormancy and other service charges, inclusive of shipping and handling revenues (Service Fees); and other miscellaneous items as shown in the table below:

	(in thousands)			
	Years Ended		35 weeks Ended	Year Ended
	January 28, 2012	January 29, 2011	January 30, 2010	May 30, 2009
Service Fees	$ 13,096	$ 12,453	$ 8,183	9,517
Rental Income from Leased Departments	9,566	7,843	5,997	8,699
Subleased Rental Income and Other Miscellaneous Items	10,735	11,191	7,550	11,170
Total	$ 33,397	$ 31,487	$ 21,730	29,386

Rental income from leased departments results from arrangements at some of the Company s stores where the Company has granted unaffiliated third parties the right to use designated store space solely for the purpose of selling such third parties goods, including such items as fragrances and jewelry. The Company does not own or have any rights to any tradenames, licenses or other intellectual property in connection with the brands sold by such unaffiliated third parties.

Vendor Rebates and Allowances

Rebates and allowances received from vendors are accounted for in accordance with Topic No. 605, which specifically addresses whether a reseller should account for cash consideration received from a vendor as an adjustment of cost of sales, revenue, or as a reduction to a cost incurred by the reseller. Rebates and allowances received from vendors that are dependent on purchases of inventories are recognized as a reduction of cost of goods sold when the related inventory is sold or marked down.

Rebates and allowances that are reimbursements of specific expenses that meet the criteria of Topic No. 605 are recognized as a reduction of selling and administrative expenses when earned, up to the amount of the incurred cost. Any vendor reimbursement in excess of the related incurred cost is characterized as a reduction of inventory and is recognized as a reduction to cost of sales as inventories are sold. Reimbursements of expenses, exclusive of advertising rebates, amounted to $2.7 million, $1.9 million, $1.3 million and $2.6 million during Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009, respectively.

Advertising Costs

The Company s net advertising costs consist primarily of television and newspaper costs. The production costs of net advertising are expensed as incurred. Net advertising expenses are included in the line item Selling and Administrative Expenses on the Company s Consolidated Statements of Operations and Comprehensive (Loss) Income. During Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009, advertising expense was $77.6 million, $70.4 million, $49.4 million and $75.2 million, respectively.

The Company nets certain cooperative advertising reimbursements received from vendors that meet the criteria of Topic No. 605 against specific, incremental, identifiable costs incurred in connection with selling the vendors products. Any excess reimbursement is characterized as a reduction of inventory and is recognized as a reduction to cost of sales as inventories are sold. Vendor rebates netted against advertising expenses were $0.6 million, $0.4 million, $0.2 million and $1.7 million during Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009, respectively.

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 Fiscal 2011 and Fiscal 2009, the Company exchanged $13.9 million and $10.7 million, respectively, of inventory for certain advertising credits. During Fiscal 2010 and the Transition Period, the Company did not enter into any new barter agreements. To account for the exchange, the Company recorded Sales and Cost of Sales of $13.9 million and $10.7 million in the Company s Consolidated Statements of Operations and Comprehensive (Loss) Income during Fiscal 2011 and Fiscal 2009, respectively. The $16.9 million of unused advertising credits received as of January 28, 2012 are expected to be used over the eight consecutive fiscal years following Fiscal 2011.

Table of Contents

The following table summarizes the prepaid advertising expense in the line items Prepaid and Other Current Assets and Other Assets in the Company s Consolidated Balance Sheets as of January 28, 2012 and January 29, 2011:

	(in thousands)	
	January 28, 2012	**January 29, 2011**
Prepaid and Other Current Assets	$ 3,474	$ 2,681
Other Assets	13,406	4,864
Total Prepaid Advertising Expense	$ 16,880	$ 7,545

The following table details barter credit usage for Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009:

	(in thousands)			
	Fiscal Years Ended		**35 Weeks Ended**	**Fiscal Year Ended**
	January 28, 2012	**January 29, 2011**	**January 30, 2010**	**May 30, 2009**
Barter Credit Usage	$ 4,712	$ 2,644	$ 1,816	$ 2,334

Income Taxes

The Company accounts for income taxes in accordance with Topic No. 740. Deferred income taxes reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. A valuation allowance against the Company s deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the need for a valuation allowance, management is required to make assumptions and to apply judgment, including forecasting future earnings, taxable income, and the mix of earnings in the jurisdictions in which the Company operates. Management periodically assesses the need for a valuation allowance based on the Company s current and anticipated results of operations. The need for and the amount of a valuation allowance can change in the near term if operating results and projections change significantly.

Topic No. 740 also clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Topic No. 740 requires the recognition in the Company s Consolidated Financial Statements of the impact of a tax position taken or expected to be taken in a tax return, if that position is more likely than not of being sustained upon examination by the relevant taxing authority, based on the technical merits of the position. The tax benefits recognized in the Company s Consolidated Financial Statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Additionally, Topic No. 740 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company records interest and penalties related to unrecognized tax benefits as part of income taxes.

Other Income, Net

Other income, net, consists of investment income gains and losses, breakage income, net losses from disposition of fixed assets, and other miscellaneous income items. During Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009, the Company recognized $4.1 million, $2.7 million, $4.9 million and $3.1 million, respectively, of breakage income.

Comprehensive (Loss) Income

The Company presents Comprehensive (Loss) Income on its Consolidated Statements of Operations and Comprehensive (Loss) Income in accordance with ASC Topic No. 220 *Comprehensive Income.* During Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009 there were no differences between Comprehensive (Loss) Income and net (loss) income.

Lease Accounting

The Company leases store locations, distribution centers and office space used in its operations. The Company accounts for these types of leases in accordance with ASC Topic No. 840, *Leases* (Topic No. 840) and subsequent amendments, which require that leases be evaluated and classified as operating or capital leases for financial reporting purposes. Assets held under capital leases are included in the line item Property and Equipment Net of Accumulated Depreciation in the Company s Consolidated Balance Sheets. For leases classified as operating, the Company calculates rent expense on a straight-line basis over the lesser of the lease term including renewal options, if reasonably assured, or the economic life of the leased premises, taking into consideration rent escalation clauses, rent holidays and other lease concessions. The Company commences recording rent expense during the store fixturing and merchandising phase of the leased property.

Share-Based Compensation

The Company accounts for share-based compensation in accordance with ASC Topic No. 718, *Stock Compensation* (Topic No. 718), which requires companies to record stock compensation expense for all non-vested and new awards beginning as of the grant date. There are 730,478 units reserved under the 2006 Management Incentive Plan (as amended). Each unit consists of nine shares of Parent s Class A common stock and one share of Parent s Class L common stock. As of January 28, 2012, 472,673 options to purchase units and 91,571 units of restricted stock were outstanding. During Fiscal 2011, Fiscal 2010, the Transition Period and Fiscal 2009, the Company recognized non cash stock compensation expense of $5.8 million, $2.2 million, $1.0 million and $6.1 million, respectively (refer to Note 11 to the Company s Consolidated Financial Statements entitled Stock Option and Award Plans and Stock Based Compensation for further details).

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and investments. The Company manages the credit risk associated with cash equivalents and investments by investing with high-quality institutions and, by policy, limiting investments only to those which meet prescribed investment guidelines. The Company maintains cash accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses from maintaining cash accounts in excess of such limits. Management believes that it is not exposed to any significant risks on its cash and cash equivalent accounts.

Segment Information

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

2. Fiscal Year End Change

On February 25, 2010, the Company s Board of Directors resolved that the fiscal year that began on May 31, 2009, would end on the Saturday nearest January 31, 2010, and from and after that date, fiscal years would be the 52 or 53 week periods ending on the Saturday closest to January 31 of each successive year.

Table of Contents

For comparative purposes, Consolidated Statements of Operations and Comprehensive (Loss) Income for the 35 week periods ended January 30, 2010 and January 31, 2009 are presented as follows:

	(in thousands) 35 Weeks Ended	
	January 30, 2010	**January 31, 2009 (Unaudited)**
REVENUES:		
Net Sales	$ 2,457,567	$ 2,476,635
Other Revenue	21,730	20,277
Total Revenue	2,479,297	2,496,912
COSTS AND EXPENSES:		
Cost of Sales (Exclusive of Depreciation and Amortization as Shown Below)	1,492,349	1,510,409
Selling and Administrative Expenses	759,774	761,062
Restructuring and Separation Costs (Note 14)	2,429	1,929
Depreciation and Amortization	103,605	106,823
Impairment Charges Long-Lived Assets	46,776	28,134
Impairment Charges Tradenames		279,300
Other Income, Net	(15,335)	(4,698)
Interest Expense (Inclusive of Gain/Loss on Interest Rate Cap Agreements)	59,476	74,263
Total Costs and Expenses	2,449,074	2,757,222
Income (Loss) Before Income Tax Expense (Benefit)	30,223	(260,310)
Income Tax Expense (Benefit)	11,570	(104,667)
Net Income (Loss)	18,653	(155,643)
Total Comprehensive Income (Loss)	$ 18,653	$ (155,643)

3. Recent Accounting Pronouncements

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

4. Restricted Cash and Cash Equivalents

At January 28, 2012, restricted cash and cash equivalents consisted of $34.8 million of collateral in lieu of a letter of credit for certain insurance contracts. The Company has the ability to convert the restricted cash to a letter of credit, which would ultimately reduce available borrowings on the Company s ABL Line of Credit by $34.8 million. At January 29, 2011 restricted cash and cash equivalents consisted of $27.8 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. During Fiscal 2011, the $2.5 million in restricted cash was distributed as required pursuant to the terms of the acquisition.

Table of Contents

5. Property and Equipment

Property and equipment consist of:

		(in thousands)	
	Useful Lives	**January 28, 2012**	**January 29, 2011**
Land	N/A	$ 162,985	$ 160,998
Buildings	20 to 40 Years	358,631	353,187
Store Fixtures and Equipment	3 to 10 Years	435,783	383,927
Software	3 to 5 Years	141,630	118,630
Leasehold Improvements	Shorter of lease term or useful life	374,378	358,976
Construction in Progress	N/A	8,755	6,104
		1,482,162	1,381,822
Less: Accumulated Depreciation		(616,947)	(524,233)
Total Property and Equipment, Net of Accumulated Depreciation		$	