BURLINGTON COAT FACTORY WAREHOUSE CORP
Form 10-Q
October 13, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 29, 2009

OR

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

For the transition period from to .

Commission File Number 1-37917

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.
(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

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

As of October 13, 2009, the registrant had 1,000 shares of common stock outstanding (all of which are owned by Burlington Coat Factory Holdings, Inc., our holding company, and are not publicly traded.

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(All amounts in thousands)

	August 29, 2009	May 30, 2009
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 25,974	$ 25,810
Restricted Cash and Cash Equivalents	2,624	2,622
Investment in Money Market Fund	995	995
Accounts Receivable, Net of Allowances for Doubtful Accounts	27,976	25,468
Merchandise Inventories	719,605	641,833
Deferred Tax Assets	52,677	52,958
Prepaid and Other Current Assets	32,588	30,047
Prepaid Income Taxes	1,728	6,249
Assets Held for Disposal	722	2,717
Total Current Assets	864,889	788,699
Property and Equipment - Net of Accumulated Depreciation	886,520	895,827
Tradenames	238,000	238,000
Favorable Leases - Net of Accumulated Amortization	469,418	477,572
Goodwill	47,064	47,064
Other Assets	91,050	86,206
Total Assets	$ 2,596,941	$ 2,533,368
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 448,773	$ 229,757
Income Taxes Payable	19,182	18,100
Other Current Liabilities	235,616	215,127
Current Maturities of Long Term Debt	7,087	10,795
Total Current Liabilities	710,658	473,779
Long Term Debt	1,305,760	1,438,751
Other Liabilities	149,025	159,409

Deferred Tax Liability	319,841	326,364
Commitments and Contingencies (Note 16)		
Stockholders' Equity:		
Common Stock	-	-
Capital in Excess of Par Value	463,500	463,495
Accumulated Deficit	(351,843)	(328,430)
Total Stockholders' Equity	111,657	135,065
Total Liabilities and Stockholders' Equity	$ 2,596,941	$ 2,533,368

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	August 29, 2009	August 30, 2008
REVENUES:		
Net Sales	$ 704,693	$ 707,036
Other Revenue	6,855	6,389
Total Revenue	711,548	713,425
COSTS AND EXPENSES:		
Cost of Sales (Exclusive of Depreciation and Amortization)	437,326	439,227
Selling and Administrative Expenses	261,703	265,712
Restructuring and Separation Costs (Note 3)	700	-
Depreciation and Amortization	38,488	41,061
Interest Expense (Inclusive of Gain/Loss on Interest Rate Cap Agreements)	16,815	26,374
Impairment Charges - Long-Lived Assets	63	-
Other Income, Net	(6,249)	(2,542)
	748,846	769,832
Loss Before Income Tax Benefit	(37,298)	(56,407)
Income Tax Benefit	(13,885)	(23,939)
Net Loss	$ (23,413)	$ (32,468)

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(All amounts in thousands)

	Three Months Ended	
	August 29, 2009	August 30, 2008
OPERATING ACTIVITIES		
Net Loss	$ (23,413)	$ (32,468)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	38,488	41,061
Impairment Charges - Long-Lived Assets	63	-
Accretion of Senior Notes and Senior Discount Notes	162	146
Interest Rate Cap Agreement - Adjustment to Market	(2,368)	149
Provision for Losses on Accounts Receivable	550	552
Provision for Deferred Income Taxes	(6,242)	(8,738)
Loss on Disposition of Fixed Assets and Leasehold Improvements	35	53
Non-Cash Stock Option Expense	6	1,255
Non-Cash Rent Expense	(834)	1,875
Changes in Assets and Liabilities:		
Accounts Receivable	487	(1,179)
Merchandise Inventories	(77,772)	(105,980)
Prepaid and Other Current Assets	1,981	(19,506)
Accounts Payable	219,016	114,003
Other Current Liabilities and Income Tax Payable	21,252	1,917
Deferred Rent Incentives	771	6,846
Other Long Term Assets and Long Term Liabilities	(13,046)	47
Net Cash Provided by Operating Activities	159,136	33
INVESTING ACTIVITIES		
Cash Paid for Property and Equipment	(22,136)	(43,800)
Proceeds Received from Sale of Property and Equipment and Assets Held for Sale	103	26
Change in Restricted Cash and Cash Equivalents	(2)	(1)
Lease Acquisition Costs	-	(250)
Other	(75)	70
Net Cash Used in Investing Activities	(22,110)	(43,955)

FINANCING ACTIVITIES				
Proceeds from Long Term Debt - ABL Line of Credit		186,200		283,551
Principal Payments on Long Term Debt		(157)		(149)
Principal Payments on Long Term Debt - Term Loan		(5,998)		-
Principal Payments on Long Term Debt - ABL Line of Credit		(316,907)		(180,151)
Net Cash (Used in) Provided by Financing Activities		(136,862)		103,251
Increase in Cash and Cash Equivalents		164		59,329
Cash and Cash Equivalents at Beginning of Period		25,810		40,101
Cash and Cash Equivalents at End of Period	$	25,974	$	99,430
Supplemental Disclosure of Cash Flow Information				
Interest Paid	$	6,555	$	14,027
Net Income Tax (Refunds)/Payments	$	(227)	$	9,400
Non-Cash Investing Activities:				
Accrued Purchases of Property and Equipment	$	451	$	4,566
Sale of Assets Held for Sale for Note Receivable	$	(2,000)	$	-

See Notes to Condensed Consolidated Financial Statements.

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BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 29, 2009
(UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Presentation

These unaudited Condensed Consolidated Financial Statements include the accounts of Burlington Coat Factory Investments Holdings, Inc. and all of its subsidiaries (Company or Holdings). Holdings has no operations and its only asset is all of the stock of Burlington Coat Factory Warehouse Corporation. All discussions of operations in this report relate to Burlington Coat Factory Warehouse Corporation and its subsidiaries (BCFWC), which are reflected in the financial statements of Holdings. The Condensed Consolidated Financial Statements are unaudited, but in the opinion of management reflect all adjustments (which are of a normal and recurring nature) necessary for the fair presentation of the results of operations for the interim periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended May 30, 2009 (Fiscal 2009). The balance sheet at May 30, 2009 has been derived from the audited Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for Fiscal 2009. Because the Company's business is seasonal in nature, the operating results for the three month period ended August 29, 2009 are not necessarily indicative of results for the fiscal year ending May 29, 2010 (Fiscal 2010).

Subsequent Events

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 165, “Subsequent Events” (SFAS No. 165). SFAS No. 165 requires companies to recognize in their financial statements the effects of subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. An entity shall disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued. Companies are not permitted to recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are issued. Some non-recognized subsequent events must be disclosed to keep the financial statements from being misleading. For such events, a company must disclose the nature of the event, an estimate of its financial effect, or a statement that such an estimate cannot be made. SFAS No. 165 applies prospectively for interim or annual financial periods ending after June 15, 2009.

The Company adopted the provisions of SFAS No. 165 as of May 31, 2009 and has performed an evaluation of subsequent events through October 13, 2009, the date these financial statements were issued.

Current Conditions

The Company has experienced recurring net losses since its formation in April 2006, in part due to the interest expense associated with its leveraged debt structure detailed in Note 2 to the Company’s Condensed Consolidated Financial Statements entitled “Long Term Debt” and discussed further in its Annual Report on Form 10-K for Fiscal 2009. At August 29, 2009, working capital was $151.6 million, cash and cash equivalents were $26.0 million and unused availability under the Company’s $800 million ABL Senior Secured Revolving Facility (ABL Line of Credit) was $406.9 million. Significant declines in the United States and international financial markets during Fiscal 2009 and the resulting impact of such events on macroeconomic conditions have impacted and are anticipated to continue to impact customer behavior and consumer spending at retailers, which in turn impacts the Company's sales trends. In response to these economic conditions, the Company implemented several initiatives to restructure its workforce and reduce its cost structure as discussed in the Company's Form 10-K for Fiscal 2009 (refer to Note 3 to the Company's Condensed Consolidated Financial Statements entitled "Restructuring and Separation Costs" for further discussion). The Company continues to focus on a number of ongoing initiatives aimed at improving its comparative store sales and its operating results. The Company is also prudently managing its capital spending and operating expenses.

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

2. Long Term Debt

Long term debt consists of:

	(in thousands)	
	August 29, 2009	May 30, 2009
$900,000 Senior Secured Term Loan Facility, LIBOR plus 2.3% due in quarterly payments of $2,250 from February 27, 2010 to May 28, 2013	$ 864,752	$ 870,750
$800,000 ABL Senior Secured Revolving Facility, LIBOR plus spread based on average outstanding balance, expires April 15, 2011	19,600	150,307
Senior Notes, 11.1% due at maturity on April 15, 2014, semi-annual interest payments from October 15, 2009 to April 15, 2014	300,978	300,815
Senior Discount Notes, 14.5% due at maturity on October 15, 2014, semi-annual interest payments from October 15, 2009 to October 15, 2014	99,309	99,309
Industrial Revenue Bonds, 6.1% due in semi-annual payments of various amounts from September 1, 2009 to September 1, 2010	2,305	2,305
Promissory Note, non-interest bearing, due in monthly payments of $17 through January 1, 2012	483	533
Promissory Note, 4.4% due in monthly payments of $8 through December 23, 2011	201	221
Capital Lease Obligations	25,219	25,306
Total debt	1,312,847	1,449,546
Less: current maturities	(7,087)	(10,795)
Long-term debt, net of current maturities	$ 1,305,760	$ 1,438,751

The $900 million Senior Secured Term Loan Facility (Term Loan) is to be repaid in quarterly payments of $2.3 million from February 27, 2010 to May 28, 2013. At the end of each fiscal year, the Company is required to make a payment based on 50% of its available free cash flow (as defined in the credit agreement governing the Term Loan). This payment offsets future mandatory quarterly payments. Based on its available free cash flow for Fiscal 2009, the Company was required to make a free cash flow payment of $6.0 million on August 28, 2009. This payment offsets the mandatory quarterly payments through the second quarter of Fiscal 2010 and $1.5 million of the mandatory quarterly payment to be made in the third quarter of Fiscal 2010.

The Company's Term Loan agreement contains financial, affirmative and negative covenants and requires that the Company, among other things; maintain on the last day of each fiscal quarter a consolidated leverage ratio not to exceed a maximum amount. Specifically, the Company's total debt to Adjusted EBITDA, as each term is defined in the credit agreement governing the Term Loan, for the four fiscal quarters most recently ended on or prior to such date, may not exceed 5.75 to 1 at August 29, 2009 and November 28, 2009; 5.50 to 1 at February 27, 2010; 5.25 to 1 at May 29, 2010, August 28, 2010 and November 27, 2010; 5.00 to 1 at February 26, 2011; and 4.75 to 1 at May 28, 2011 and thereafter. Adjusted EBITDA is a non-GAAP financial measure of the Company's liquidity. Adjusted EBITDA, as defined in the credit agreement governing the Company's Term Loan, starts with consolidated net income (loss) for the period and adds back (i) depreciation, amortization, impairments and other non-cash charges that were deducted in arriving at consolidated net income, (ii) the 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 $800 million ABL Line of Credit was entered into on April 13, 2006 and is for a five-year period at an interest rate of LIBOR plus a spread which is determined by the Company's annual average borrowings outstanding. The maximum borrowing under the facility during the three month period ended August 29, 2009 was $150.3 million. Average borrowings during the three month period ended August 29, 2009 amounted to $57.4 million at an average interest rate of 2.7%. At August 29, 2009 and May 30, 2009, $19.6 million and $150.3 million, respectively, were outstanding under this credit facility. Commitment fees of .25% are charged on the unused portion of the facility and are included in the line item "Interest Expense" on the Company's Condensed Consolidated Statements of Operations. For the three months ended August 29, 2009, the Company repaid $130.7 million, net of borrowings.

Holdings and certain subsidiaries of BCFWC fully and unconditionally guarantee BCFWC's obligations under the $800 million ABL Line of Credit and the $900 million Term Loan. These guarantees are both joint and several.

As of August 29, 2009, the Company was in compliance with all of its debt covenants. The agreements regarding the ABL Line of Credit and Term Loan, as well as the indentures governing the BCFWC Senior Notes and Holdings Senior Discount Notes, contain covenants that, among other things, limit the Company's ability, and the ability of the Company's restricted subsidiaries, to pay dividends on, redeem or repurchase capital stock; make investments; incur additional indebtedness or issue preferred stock; create liens; permit dividends or other restricted payments by the Company's subsidiaries; sell all or substantially all of the Company's assets or consolidate or merge with or into other companies; and engage in transactions with affiliates.

The Company had $32.3 million and $34.9 million in deferred financing fees, net of accumulated amortization, as of August 29, 2009 and May 30, 2009, respectively, related to its debt instruments recorded in the line item "Other Assets" on the Company's Condensed Consolidated Balance Sheets. Amortization of deferred financing fees amounted to $2.6 million for both the three month periods ended August 29, 2009 and August 30, 2008. These amounts are recorded in the line item "Depreciation and Amortization" in the Company's Condensed Consolidated Statements of Operations.

3. Restructuring and Separation Costs

During Fiscal 2009, in an effort to better align the Company's resources with its business objectives, the Company reviewed all areas of the business to identify efficiency opportunities to enhance the organization's performance. In light of the challenging economic and retail sales environments, the Company executed the implementation of several initiatives, including some that resulted in the elimination of certain positions and the restructuring of certain other jobs and functions. This resulted in the reduction of more than 2,300 positions in the Company's corporate office and its stores during the third and fourth quarters of Fiscal 2009. These reductions, which were approximately 9% of the Company's workforce, resulted in severance and related payroll tax charges during Fiscal 2009 of approximately $2.8 million. During the three months ended August 29, 2009, the Company continued this process and recorded $0.7 million of additional severance payments related to the elimination of certain positions and other terminations in the Company's corporate office. These payments are expected to be made over the next 12 months.

Additionally, on February 16, 2009, the Company's former President and Chief Executive Officer (Former CEO), entered into a separation agreement with the Company. As part of his separation agreement, the Company paid the Former CEO's salary through May 30, 2009 at which time continuation payments and other benefits payable as provided in his separation agreement commenced. The continuation payments will be paid out in bi-weekly installments through May 30, 2011. The total amount of all continuation payments and other benefits payable to the Former CEO pursuant to the terms of his separation agreement was approximately $4.2 million, all of which was recorded during Fiscal 2009 and $2.4 million of which was non-cash stock compensation.

The table below summarizes the charges incurred related to the Company's restructuring and separation costs, which are included in the line items "Other Current Liabilities" and "Other Liabilities" in the Company's Condensed Consolidated Balance Sheet as of August 29, 2009:

(in thousands)	May 30, 2009	Charges	Adjustments	Capital in Excess of Par Value	Cash Payments	August 29, 2009
Severance-Restructuring (a)	$ 1,124	700	-	-	(921)	903
Severance-Separation Cost (b)	1,608	-	-	-	(387)	1,221
Total	$ 2,732	700	-	-	(1,308)	2,124

(a) The balance as of August 29, 2009 is recorded in the line item "Other Current Liabilities" in the Company's Condensed Consolidated Balance Sheet.

(b) Approximately $0.7 million and $0.5 million of the balance as of August 29, 2009 are recorded in the line items "Other Current Liabilities" and "Other Liabilities," respectively, in the Company’s Condensed Consolidated Balance Sheet.

4. 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 assets listed as “Assets Held for Disposal” in the Company’s Condensed Consolidated Balance Sheet as of August 29, 2009 are comprised of owned parcels of land adjacent to two of the Company’s stores.

The assets included in the line item “Assets Held for Disposal” in the Company’s Condensed Consolidated Balance Sheet as of May 30, 2009 are owned parcels of land adjacent to two of the Company’s stores, a purchased lease right related to one of the Company’s stores and various distribution equipment that was being held for sale.

Assets held for disposal are valued at the lower of their carrying value or fair value as follows:

	(in thousands) August 29, 2009	May 30, 2009
Property and Equipment	$ 722	$ 783
Purchased Lease Rights	-	1,934
	$ 722	$ 2,717

During the three months ended August 29, 2009, the Company sold assets with a total carrying value of $2.0 million that were held for sale as of May 30, 2009, including all the distribution equipment and the purchased lease right. In exchange for the purchased lease right, the Company received a $2.0 million note receivable, of which $0.4 million is included in the line item “Prepaid and Other Current Assets” on the Company’s Condensed Consolidated Balance Sheet and the remaining $1.6 million is included in the line item “Other Assets” on the Company’s Condensed Consolidated Balance Sheet. The sale of both the distribution equipment and the purchased lease rights resulted in no gain or loss in the Company’s Condensed Consolidated Statements of Operations.

5. Intangible Assets

Intangible assets at August 29, 2009 and May 30, 2009 consist primarily of tradenames and favorable lease positions as follows:

(in thousands)

	August 29, 2009			May 30, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Tradenames	$ 238,000	$ -	$ 238,000	$ 238,000	$ -	$ 238,000
Favorable Leases	$ 567,034	$ (97,616)	$ 469,418	$ 567,034	$ (89,462)	$ 477,572

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

Fiscal years:	(in thousands)
2010	$ 32,599
2011	32,272
2012	31,594
2013	30,477
2014	29,644
Total	$ 156,586

6. Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement," (SFAS No. 157) which defines fair value, establishes a framework for measurement and expands disclosure about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS No. 157 classifies the inputs used to measure fair value into the following hierarchy:

Level 1:	Quoted prices for identical assets or liabilities in active markets.
Level 2:	Quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

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

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

The provisions of SFAS No. 157 for financial assets and financial liabilities were adopted by the Company as of June 1, 2008. The Company adopted the provisions of SFAS No. 157 for non-financial assets and non-financial liabilities as of May 31, 2009. The adoption of SFAS No. 157 for both financial and non-financial assets and financial and non-financial liabilities did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure eligible items (including many financial instruments and certain other items) at fair value at the specified election date. Unrealized gains and losses for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The Company adopted this statement on June 1, 2008. The Company has not elected to measure any financial assets or financial liabilities at fair value which were not previously required to be measured at fair value. Therefore, the adoption of SFAS No. 159 had no impact on the Company's Condensed Consolidated Financial Statements.

Financial Assets

The Company's financial assets as of August 29, 2009 include cash equivalents, interest rate cap agreements and an investment in a money market fund. The Company's financial liabilities are discussed below. The carrying value of cash equivalents approximates fair value due to its short-term nature. The fair value of the interest rate caps are determined using quotes provided by the respective bank counterparties that are based on models whose inputs are observable LIBOR forward interest rate curves. To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments to appropriately reflect both the Company's non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of the Company's derivative contracts for the effect of non-performance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with the Company's derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default. As of August 29, 2009, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of the Company's derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified within Level 2 of the fair value hierarchy.

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

	(in thousands) Fair Value Measurements at August 29, 2009
Assets:	

Level 1		
Cash equivalents (including restricted cash)	$	2,626
Level 2		
Interest rate cap agreements (a)	$	10,692
Investment in Money Market Fund	$	995

(a) Included in “Other Assets” within the Company’s Condensed Consolidated Balance Sheets (Refer to Footnote 7 of the Company’s Condensed Consolidated Financial Statements, entitled “Derivative Instruments and Hedging Activities” for further discussion regarding the Company's interest rate cap agreements).

During Fiscal 2009, the Company made investments into The Reserve Primary Fund (Fund) of $56.3 million. On September 22, 2008, the Fund announced that redemptions of shares of the Fund were suspended pursuant to an SEC order so that an orderly liquidation may be effected for the protection of the Fund's investors. To date, the Company has received total distributions of its investment in the Fund of $50.6 million and recorded losses of approximately $4.7 million. As of August 29, 2009, $1.0 million was recorded in the line item "Investment in Money Market Fund" on the Company's Condensed Consolidated Balance Sheet. The Company received the remaining $1.0 million during September 2009.

Financial Liabilities

In April 2009, the FASB issued FSP SFAS 107-1 and Accounting Principles Board Opinion (APB) No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments" (FSP SFAS 107-1 and APB 28-1), which amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," and Accounting Principles Board Opinion No. 28, "Interim Financial Reporting" , to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP SFAS 107-1 and APB 28-1 became effective for interim periods ending after June 15, 2009. FSP SFAS 107-1 and APB 28-1 did not have a material effect on the Company's Condensed Consolidated Financial Statements.

The fair value of the Company's debt as of August 29, 2009 and May 30, 2009 is noted in the table below:

	(in thousands)			
	August 29, 2009		May 30, 2009	
	Carrying Amount (3)	Fair Value (3)	Carrying Amount (3)	Fair Value (3)
$900,000 Senior Secured Term Loan Facility, LIBOR plus 2.3% due in quarterly payments of $2,250 from February 27, 2010 to May 28, 2013.	$864,752	$756,658	$870,750	$612,428
$800,000 ABL Senior Secured Revolving Facility, LIBOR plus spread based on average outstanding balance. (1)	19,600	19,600	150,307	150,307
Senior Notes, 11.1% due at maturity on April 15, 2014, semi-annual interest payments from October 15, 2009 to April 15, 2014	300,978	286,493	300,815	218,091
Senior Discount Notes, 14.5% due at maturity on October 15, 2014, semi-annual interest payments from October 15, 2009 to October 15, 2014	99,309	94,530	99,309	71,999
Other debt (2)	2,989	2,989	3,059	3,059
Total debt	$1,287,628	$1,160,270	$1,424,240	$1,055,884

(1) The carrying value of the ABL Line of Credit approximates its fair value due to its short term nature (borrowings are typically done in increments of 30 days or less) and its variable interest rate.
(2) Other debt includes the industrial revenue bonds and both promissory notes, as further described in Note 2 to the Company's Condensed Consolidated Financial Statements entitled "Long Term Debt."
(3) Capital lease obligations are excluded from the table above.

As of August 29, 2009, the fair value of the Company's debt, exclusive of capital leases, was $1,160.3 million compared to the carrying value of $1,287.6 million. The fair values presented herein are based on estimates using quoted market prices for the same or similar issues and other pertinent information available to management as of the respective period end dates. Although management is not aware of any factors that could significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these Condensed Consolidated Financial Statements since that date, and current estimates of fair value may differ from amounts presented herein.

7. Derivative Instruments and Hedging Activities

The Company adopted SFAS No. 161, "Disclosures About Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS No. 161), on November 30, 2008. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), with the intent to provide users of financial statements with an enhanced understanding of: (i) How and why an entity uses derivative instruments; (ii) How derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (iii) How derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The adoption of SFAS No. 161 did not have a material impact on the Company's Condensed Consolidated Financial Statements.

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

SFAS No. 133 requires recognition of all derivative instruments as either assets or liabilities at fair value in the statement of financial position. The Company does not monitor its interest rate cap agreements for hedge effectiveness and therefore does not designate its interest rate cap agreements as cash flow hedges of certain future interest payments on variable-rate debt. Instead, the interest rate cap agreements are adjusted to market on a quarterly basis. As a result, gains or losses associated with the interest rate cap agreements are recorded in the line item "Interest Expense" on the Company's Condensed Consolidated Statements of Operations and in the line item "Interest Rate Cap Contract – Adjustment to Market" on the Company's Condensed Consolidated Statements of Cash Flows.

As of August 29, 2009 and May 30, 2009, the Company was party to four outstanding interest rate cap agreements to manage the interest rate risk associated with future interest payments on variable-rate debt.

(in thousands)

Fair Values of Derivative Instruments

Asset Derivatives

	August 29, 2009		May 30, 2009	
Derivatives Not Designated as Hedging Instruments Under FAS 133	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest Rate Cap Agreements	Other Assets	$ 10,692	Other Assets	$ 8,324

Liability Derivatives

	August 29, 2009		May 30, 2009	
Derivatives Not Designated as Hedging Instruments Under FAS 133	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest Rate Cap Agreements	Other Liabilities	$ -	Other Liabilities	$ -

(Gain)/Loss on Derivatives Instruments

Derivatives Not Designated as Hedging Instruments Under Statement 133	Location of (Gain) or Loss Recognized in Income on Derivatives	Amount of (Gain) or Loss Recognized in Income on Derivatives	
		Three Months Ended	
		August 29, 2009	August 30, 2008
Interest Rate Cap Agreements	Interest Expense	$ (2,368)	$ 149

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One of the four interest rate cap agreements became effective on May 12, 2006. It has a notional principal amount of $300 million with a cap rate of 7.0% and terminates on May 31, 2011. The Company adjusts this interest rate cap to fair value on a quarterly basis and records all gains and losses associated with this agreement in the line item "Interest Expense" in the Company's Condensed Consolidated Statements of Operations.

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

On January 16, 2009, the Company entered into two additional interest rate cap agreements to limit interest rate risk associated with its future long term debt obligations. Each agreement will be effective on May 31, 2011 upon termination of the Company's existing $300 million and $600 million interest rate cap agreements described above. Each agreement has a notional principal amount of $450 million with a cap rate of 7.0% and terminates on May 31, 2015. The Company will determine prior to the effective date of each agreement whether it will monitor them for hedge effectiveness. Until the Company determines the accounting treatment that will be used, the Company will adjust the interest rate caps to fair value on a quarterly basis and as a result, gains or losses associated with these agreements will be included in the line item "Interest Expense" on the Company's Condensed Consolidated Statements of Operations and in the line item "Interest Rate Cap Contract – Adjustment to Market" on the Company's Condensed Consolidated Statements of Cash Flows.

8. Store Exit Costs

The Company establishes reserves covering future obligations of closed stores and stores expected to be closed, including lease and severance obligations. These reserves are included in the line item "Other Current Liabilities" in the Company's Condensed Consolidated Balance Sheets. These charges are recorded in the line item "Selling and Administrative Expenses" on the Company's Condensed Consolidated Statements of Operations. Reserves at August 29, 2009 and May 30, 2009 consisted of:

	(in thousands)			
Fiscal Year Reserve Established	Balance at May 30, 2009	Provisions	Payments	Balance at August 29, 2009
2008	11	-	-	11

The Company believes that these reserves are adequate to cover the expected contractual lease payments and other ancillary costs related to the closings. Scheduled rent related payments over the remainder of the contractual obligation periods are all expected to be paid during Fiscal 2010.

9. Income Taxes

As of August 29, 2009, the Company had a current deferred tax asset of $52.7 million and a non-current deferred tax liability of $319.8 million. As of May 30, 2009, the Company had a current deferred tax asset of $53.0 million and a non-current deferred tax liability of $326.3 million. Current deferred tax assets consisted primarily of certain operating costs and inventory related costs not currently deductible for tax purposes. Non-current deferred tax liabilities primarily relate to rent expense, pre-opening costs, intangible costs and depreciation expense where the Company has a future obligation for tax purposes.

In accordance with Accounting Principles Board Opinion No. 28, Interim Financial Reporting (APB 28) and FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods — an interpretation of APB Opinion No. 28 (FIN 18), at the end of each interim period the Company is required to determine the best estimate of its annual effective tax rate and then apply that rate in providing for income taxes on a current year-to-date (interim period) basis. For the first quarter ending August 29, 2009, the Company's best estimate of its annual effective income tax rate was 39.1% (before discrete items).

As of August 29, 2009 and May 30, 2009, valuation allowances amounted to $8.6 million and related primarily to state tax net operating losses. The Company believes that it is more likely than not that a portion of the benefit of the state tax net operating losses will not be realized. The state net operating losses have been generated in a number of taxing jurisdictions and are subject to various expiration periods ranging from five to twenty years beginning with Fiscal 2009. Any future tax benefit recognized by the use of a state tax net operating loss that was established prior to the April 13, 2006 merger transaction involving Bain Capital, LLC (Merger Transaction), in each case where a valuation allowance has been established, and any future tax benefits related to the recognition of any state tax net operating losses, where a valuation allowance has been established, will be recorded to the Company's Condensed Consolidated Statements of Operations according to the provisions of SFAS No. 141, "Business Combinations (revised 2007)" (SFAS No. 141R).

10. Barter Transactions

The Company accounts for barter transactions under SFAS No. 153, “Exchanges of Nonmonetary Assets, an amendment of APB Opinion Number 29,” and Emerging Issues Task Force 93-11, “Accounting for Barter Transactions Involving Barter Credits.” 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.

Based on the expected usage of the barter credits received during Fiscal 2008 and Fiscal 2009, the Company recorded prepaid advertising expense of $2.6 million in the line item “Prepaid and Other Current Assets” and $9.2 million in the line item “Other Assets” in the Company’s Condensed Consolidated Balance Sheets as of August 29, 2009. As of May 30, 2009, the Company recorded prepaid advertising expense of $2.7 million in the line item “Prepaid and Other Current Assets” and $9.3 million in the line item “Other Assets” in the Company’s Condensed Consolidated Balance Sheets.

For both the three month periods ended August 29, 2009 and August 30, 2008, the Company utilized $0.3 million of the barter advertising credits.

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

On April 13, 2006, Burlington Coat Factory Holdings, Inc.’s (Parent) Board of Directors (the Board) adopted the 2006 Management Incentive Plan (the Plan). The Plan provides for the granting of service-based and performance-based stock options, restricted stock and other forms of awards to executive officers and other key employees of the Company and its subsidiaries. Awards made pursuant to the Plan are comprised of units of Parent’s common stock. Each unit consists of nine shares of Class A common stock and one share of Class L common stock of the Parent. The shares comprising a unit are in the same proportion as the shares of Class A and Class L common stock held by all stockholders of the Parent. Options granted pursuant to the Plan are exercisable only for whole units and cannot be separately exercised for the individual classes of the Parent common stock. As of August 29, 2009, there were 730,478 units reserved under the Plan consisting of 6,574,302 shares of Class A common stock of Parent and 730,478 shares of Class L common stock of Parent.

Non-cash stock compensation expense for the three months ended August 29, 2009 and August 30, 2008 amounted to $0.0 million and $1.3 million, respectively. The table below summarizes the types of stock compensation:

	(in thousands) Three Months Ended	
Type of Non-Cash Stock Compensation	August 29, 2009	August 30, 2008
Stock Option Compensation (A)	$ (318)	$ 1,255
Restricted Stock Compensation (A)	324	-
Total	$ 6	$ 1,255

(A) Included in the line item "Selling and Administrative Expense" in the Company's Condensed Consolidated Statements of Operations.

Stock Options

Options granted during the three month period ended August 29, 2009 were all service-based awards and were granted at exercise prices of $90 per unit and $180 per unit. Options granted during the three month period ended August 30, 2008 were all service-based awards and were granted at exercise prices of $100 per unit, $180 per unit and $270 per unit. These grants were modified during Fiscal 2009 to lower the exercise prices of options issued at $270 per unit and options issued at $100 per unit to $90 per unit. All of the service-based awards issued vest 40% on the second anniversary of the award (or the modification of the award) with the remaining amount vesting ratably over the subsequent three years. The final exercise date for any option granted is the tenth anniversary of the grant date.

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

As of August 29, 2009, the Company had 478,500 options outstanding to purchase units, all of which are service-based awards. The Company accounts for awards issued under the Plan in accordance with SFAS No. 123R (Revised 2004), "Share-Based Payments" (SFAS 123R), using the modified prospective method, which requires companies to record stock compensation expense for all non-vested and new awards beginning as of the adoption date (June 4, 2006 for the Company). For the three months ended August 29, 2009 the Company recognized non-cash stock compensation expense of \$0.9 million before the adjustment for forfeitures of \$1.2 million, which resulted in contra-expense for the quarter of \$0.3 million (\$0.2 million after tax). These forfeiture adjustments were the result of actual forfeitures being higher than initially estimated. The Company recorded adjustments for actual forfeitures incurred as well as an adjustment to increase the estimated forfeiture percentage during the three months ended August 29, 2009.

In comparison, for the three months ended August 30, 2008, the Company recognized expense of \$1.3 million (\$0.8 million after tax). During the three months ended August 30, 2008, there was no forfeiture adjustment.

Non-cash stock option compensation expense is included in the line item "Selling and Administrative Expense" in the Company's Condensed Consolidated Statements of Operations. As of August 29, 2009 there was approximately \$7.5 million of unearned non-cash stock-based compensation that the Company expected to recognize as expense over the next 5.0 years. The service-based awards are expensed on a straight-line basis over the requisite service period of 5 years. As of August 29, 2009, 23.9% of outstanding options to purchase units had vested.

Stock Option Unit Transactions are summarized as follows:

	Number of Units	Weighted Average Exercise Price Per Unit
Options Outstanding May 30, 2009	488,500	$ 123.62
Options Issued	17,500	120.00
Options Forfeited	(27,500)	120.00
Options Cancelled	-	-
Options Outstanding August 29, 2009	478,500	$ 123.70

Non-vested stock option unit transactions during the three months ended August 29, 2009 are summarized below:

	Number of Units	Weighted Average Grant Date Fair Value Per Unit
Non-Vested Options Outstanding, May 30, 2009	374,633	$ 40.09
Granted	17,500	24.59
Vested	(4,666)	60.45

Forfeited	(23,500)		51.73
Cancellations	-		-
Non-Vested Options Outstanding, August 29, 2009	363,967	$	38.93

The following table summarizes information about the options to purchase units that are outstanding under the Plan as well as options that are exercisable under the Plan as of August 29, 2009:

	Stock Option Units Outstanding		Option Units Exercisable	
Exercise Prices	Number Outstanding At August 29, 2009	Weighted Average Remaining Contractual Life (Years)	Number Exercisable at August 29, 2009	Weighted Average Remaining Contractual Life (Years)
$90.00	313,333	8.7	62,355	6.1
$180.00	151,167	7.6	38,178	5.7
$270.00	14,000	3.8	14,000	3.8
	478,500		114,533	

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

Exercise Prices	Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
Expected to Vest as of August 29, 2009			
$ 90.00	253,467	8.7	$ 90.00
$ 180.00	123,733	7.6	$ 180.00
$ 270.00	14,000	3.8	$ 270.00
	391,200		

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants under the Plan during the three months ended August 29, 2009 and August 30, 2008:

Three Months Ended	
August 29, 2009	August 30, 2008

Risk-Free Interest Rate		3.2 – 3.5%		3.6 – 3.8%
Expected Volatility		52.5%		35.0%
Expected Life (years)		6.9 - 9.8		6.6 – 8.3
Contractual Life (years)		10.0		10.0
Expected Dividend Yield		0.0 %		0.0%
Weighted Average Grant Date Fair Value of Options Issued at an exercise price of:				
$ 90.00	$	25.23	$	63.76
$180.00	$	23.33	$	39.77
$270.00	$	N/A	$	32.44

The weighted average grant date fair value of options granted has varied from period to period due to changes in the Company’s business enterprise value r