BURLINGTON COAT FACTORY WAREHOUSE CORP
Form 10-Q
January 15, 2008

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 December 1, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

As of December 1, 2007, 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)

	December 1, 2007	June 2, 2007
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 42,815	$ 33,878
Restricted Cash and Cash Equivalents	2,719	2,753
Accounts Receivable - Net	41,051	30,590
Merchandise Inventories	870,934	710,571
Deferred Tax Assets	34,436	35,143
Prepaid and Other Current Assets	42,067	34,257
Income Tax Receivable	3,655	1,109
Assets Held for Disposal	6,990	35,073
Total Current Assets	1,044,667	883,374
Property and Equipment (Net of Accumulated Depreciation)	961,072	948,334
Tradenames	526,300	526,300
Favorable Leases (Net of Accumulated Amortization)	565,868	574,879
Goodwill	46,219	46,219
Other Assets	55,522	57,415
Total Assets	$ 3,199,648	$ 3,036,521
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 626,052	$ 395,375
Other Current Liabilities	215,900	198,627
Current Maturities of Long Term Debt	1,584	5,974
Total Current Liabilities	843,536	599,976
Long Term Debt	1,399,401	1,456,330
Other Liabilities	124,277	48,447
Deferred Tax Liability	488,966	551,298
Commitments and Contingencies		

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Stockholders' Equity:		
Common Stock	-	-
Capital in Excess of Par Value	455,467	454,935
Accumulated Deficit	(111,999)	(74,465)
Total Stockholders' Equity	343,468	380,470
Total Liabilities and Stockholders' Equity	$ 3,199,648	$ 3,036,521

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)

	Six Months Ended		Three Months Ended	
	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006
REVENUES:				
Net Sales	$ 1,625,335	$ 1,641,613	$ 946,566	$ 984,767
Other Revenue	15,863	19,554	9,085	12,134
	1,641,198	1,661,167	955,651	996,901
COSTS AND EXPENSES:				
Cost of Sales (Exclusive of Depreciation and Amortization)Amortization)	1,000,938	1,027,383	557,163	600,469
Selling and Administrative Expenses	529,288	534,641	278,401	287,581
Depreciation	61,602	69,574	30,845	34,590
Amortization	21,380	21,822	10,629	10,889
Interest Expense	66,910	70,630	33,685	35,216
Impairment Charges	7,379	3,677	6,826	3,677
Other (Income), Net	(2,501)	(1,663)	(1,849)	(682)
	1,684,996	1,726,064	915,700	971,740
(Loss) Income Before Income Tax (Benefit) Expense	(43,798)	(64,897)	39,951	25,161
Income Tax (Benefit) Expense	(16,576)	(24,836)	16,778	13,414
Net (Loss) Income	$ (27,222)	$ (40,061)	$ 23,173	$ 11,747

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	December 1, 2007	December 2, 2006
OPERATING ACTIVITIES		
Net Loss	$ (27,222)	$ (40,061)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation	61,602	69,574
Amortization	21,380	21,822
Impairment Charges	7,379	3,677
Accretion	6,605	5,759
Interest Rate Cap Contract - Adjustment to Market	51	1,675
Provision for Losses on Accounts Receivable	1,324	1,460
Provision for Deferred Income Taxes	(13,303)	(25,602)
Loss on Disposition of Fixed Assets and Leaseholds	807	91
Stock Option Expense and Deferred Compensation Amortization	532	4,513
Non-Cash Rent Expense and Other	800	3,649
Changes in Assets and Liabilities		
Investments	--	(192)
Accounts Receivable	(17,477)	(15,440)
Merchandise Inventories	(160,363)	(205,074)
Prepaid and Other Current Assets	(13,184)	(2,174)
Accounts Payable	230,677	191,431
Accrued and Other Current Liabilities	14,545	44,318
Deferred Rent Incentives	10,351	16,674
Net Cash Provided by Operating Activities	124,504	76,100
INVESTING ACTIVITIES		
Cash Paid for Property and Equipment	(47,103)	(39,176)
Proceeds Received from Sale of Fixed Assets and Leaseholds	--	4,648
Other	85	22
Net Cash (Used in) Investing Activities	(47,018)	(34,506)
FINANCING ACTIVITIES		
Proceeds from Long Term Debt - ABL Senior Secured Revolving Facility	292,001	244,900
Principal Payments on Long Term Debt	(1,181)	(1,105)
Principal Payments on Term Loan	(11,443)	(13,500)
Principal Payments on Long Term Debt - ABL Senior Secured Revolving Facility	(347,301)	(292,139)
Equity Investment	--	200
Payment of Dividends	(625)	--

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Net Cash (Used in) Financing Activities		(68,549)		(61,644)
Increase (Decrease) in Cash and Cash Equivalents		8,937		(20,050)
Cash and Cash Equivalents at Beginning of Period		33,878		58,376
Cash and Cash Equivalents at End of Period	$	42,815	$	38,326
Supplemental Disclosure of Cash Flow Information;				
Interest Paid	$	60,972	$	68,673
Income Taxes Paid, Net of Refunds	$	(727)	$	2,825
Non-Cash Investing Activities:				
Accrued Purchases of Property and Equipment	$	2,670	$	(773)

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX AND THREE MONTH PERIODS ENDED DECEMBER 1, 2007 AND
DECEMBER 2, 2006
(UNAUDITED)

1. Basis of
Presentation

The unaudited Condensed Consolidated Financial Statements include the accounts of Burlington Coat Factory Investments Holdings, Inc. and all of its subsidiaries (“Company" or “Holdings”). Burlington Coat Factory Investments Holdings, Inc. has no operations and its only asset is all of the stock in 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 Burlington Coat Factory Investments Holdings, Inc. and its subsidiaries. The accompanying 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. The balance sheet at June 2, 2007 has been derived from the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 2, 2007 (Fiscal 2007). Because the Company's business is seasonal in nature, the operating results for the six and three month periods ended December 1, 2007 and the corresponding periods ended December 2, 2006 are not necessarily indicative of results for the fiscal years ending May 31, 2008 (Fiscal 2008) and June 2, 2007.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these unaudited Condensed Consolidated Financial Statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 2, 2007.

2. Principles of Consolidation

The unaudited Condensed Consolidated Financial Statements include the accounts of Burlington Coat Factory Investments Holdings, Inc. and all of its subsidiaries in which it has the controlling financial interest through direct ownership of a majority voting interest or a controlling managerial interest. All intercompany accounts and transactions have been eliminated.

Holdings was incorporated in the State of Delaware on April 10, 2006. Holdings’ 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.

3. 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" are primarily comprised of buildings related to store operations and store leases held by the Company.

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

	December 1, 2007	June 2, 2007
Fixed Assets	$ 4,237	$ 32,320
Favorable Leases	2,753	2,753
	$ 6,990	$ 35,073

During the six months ended December 1, 2007, assets which were previously held for sale no longer qualified as held for sale due to the fact that there is no longer an active program to locate a buyer. The Company reclassified operating stores with a fixed asset value of $28.0 million out of the caption "Assets Held for Disposal" on the Company's Condensed Consolidated Balance Sheets into the caption "Property and Equipment – Net of Accumulated Depreciation." The impact of the transaction resulted in a charge against "Other (Income), Net" in the Company's Condensed Consolidated Statements of Operations of $0.3 million for the six and three months ended December 1, 2007, reflecting the adjustment for depreciation expense that would have been recognized had the asset been continuously classified as held and used.

4. Long Term Debt

Long-term debt consists of (in thousands):

	December 1, 2007	June 2, 2007
Industrial Revenue Bonds, principal due annually, 6.0% interest due in semi-annual payments of various amounts from March 1, 2008 to September 1, 2010	$ 3,295	$ 4,190
Promissory Note, 4.43% due in monthly payments of $8 through December 23, 2011	338	375
Promissory Note, non-interest bearing, due in monthly payments of $17 through January 1, 2012	833	934
Senior Notes, 11 % due at maturity on April 15, 2014, semi-annual interestpayments from April 15, 2008 to April 15, 2014	299,929	299,665
Senior Discount Notes, 14.5% due at maturity on October 15, 2014. Semi-annual discount accretion to maturity amount from October 15, 2006 to April 15, 2008 and semi-annual interest payments from October 15, 2008 to October 15, 2014.	94,320	87,978
$900 million senior secured term loan facility, Libor + 2.25% due in quarterlypayments of $2.3 million from March 1, 2008 to May 28, 2013.	872,807	884,250
$800 million ABL Senior Secured Revolving Facility, Libor plus spread based onaverage outstanding balance.	103,700	159,000
Capital Lease Obligations	25,763	25,912
Subtotal	1,400,985	1,462,304
Less Current Portion	(1,584)	(5,974)
Long-Term Debt and Obligations Under Capital Leases	$ 1,399,401	$ 1,456,330

The $900 million senior secured term loan is to be repaid in quarterly payments of $2.3 million from May 30, 2006 to May 28, 2013. At the end of each fiscal year, the Company is required to make a payment based on 50% of the available free cash flow (as defined in the credit agreement). This payment offsets future mandatory quarterly payments. Based on the available free cash flow (as defined in the credit agreement) for the year ended June 2, 2007, the Company paid $11.4 million on September 4, 2007. This payment offsets the quarterly payments of $2.3 million through the third quarter of fiscal year 2009 and $0.2 million of the quarterly payment to be made in the fourth quarter of fiscal year 2009. As a result, the Company will not make any cash payments related to the mandatory quarterly payments until the fourth quarter of Fiscal 2009.

Repayments, net of borrowings, amounted to $55.3 million and $114.7 million for the six and three months ended December 1, 2007, respectively, related to the Company's $800 million Available Business Line (ABL)Senior Secured Revolving Facility. These repayments are the result of excess cash flow that the Company used to pay down the facility at various points in time.

Holdings and certain subsidiaries of BCFWC fully and unconditionally guarantee BCFWC's obligations under the $800 million ABL Senior Secured Revolving Facility and $900 million senior secured term loan facility. These guarantees are both joint and several.

As of December 1, 2007, the Company is in compliance with all of its debt covenants. The agreements regarding the ABL Senior Secured Revolving Facility and the senior secured term loan facility as well as 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 has $50.5 million and $55.6 million in deferred financing fees, net of accumulated amortization, as of December 1, 2007 and June 2, 2007, respectively, related to its long term debt instruments recorded in the line item "Other Assets" on the Condensed Consolidated Balance Sheets. Amortization of deferred financing fees amounted to $5.1 million and $2.5 million for the six and three month periods ended December 1, 2007, respectively, and $5.1 and $2.6 million for the six and three month periods ended December 2, 2006, respectively. These amounts are recorded in the line item "Amortization" in the Company's Condensed Consolidated Statements of Operations.

5. Lines of Credit

The Company is a party to an $800 million ABL senior secured revolving credit facility. The facility, entered into on April 13, 2006, 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 six and three month period ended December 1, 2007 was $247.2 million. Average borrowings during the six and three month periods ended December 1, 2007 amounted to $204.5 million and $200.6 million, respectively, at an average interest rate of 7.16% and 7.15% respectively. At December 1, 2007 and June 2, 2007, $103.7 million and $159.0 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.

6. Derivative Instruments and Hedging Activities

The Company participates in two interest rate cap agreements to manage interest rate risk associated with its long-term debt obligations. These agreements are classified as "Other Assets" within the Company's Condensed Consolidated Balance Sheets. Each agreement became effective on May 12, 2006. One interest rate cap agreement has a notional principal amount of $300 million with a cap rate of 7.0%, and terminates on May 31, 2011. The other agreement has a notional principal amount of $700 million with a cap rate of 7.0%, and terminates on May 29, 2009. The Company does not monitor these interest rate cap agreements for hedge effectiveness. Losses associated with these contracts amounted to $0.1 million and $0.2 million for the six and three month periods ended December 1, 2007, respectively, compared with $1.7 million and $0.6 million for the six and three month periods ended December 2, 2006, respectively, and are included in the line item "Interest Expense" on the Company's Condensed Consolidated Statements of Operations. The fair market value of the interest rate contracts at December 1, 2007 and June 2, 2007 amounted to $0.2 million and $0.3 million respectively. (See also Note 18 to the Condensed Consolidated Financial Statements entitled "Subsequent Events" for further discussion related to derivative instruments and hedging activities.)

7. 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 and are recorded under the line item "Selling and Administrative Expenses" on the Company's Condensed Consolidated Statement of Operations. Reserves at December 1, 2007 and June 2, 2007 consisted of (in thousands):

Fiscal Year Reserve Established	Balance at June 2, 2007	Additions	Payments	Balance at December 1, 2007
2005	$ 241	-	$ (107)	$ 134
2007	1,078	-	(1,047)	31
2008	-	$ 450	(149)	301
	$ 1,319	$ 450	$ (1,303)	$ 466

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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 for the costs over the remainder of the contractual obligation periods are: Fiscal 2008 - $0.4 million and Fiscal 2009 - $0.1 million.

8. Income Taxes

As of December 1, 2007, the Company had a current deferred tax asset of $34.4 million and a non-current deferred tax liability of $489.0 million. As of June 2, 2007, the Company had a current deferred tax asset of $35.1 million and a non-current deferred tax liability of $551.3 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.

Income taxes are provided on an interim basis based upon the Company's estimate of the effective annual income tax rate. As of December 1, 2007 and June 2, 2007, valuation allowances amounted to $8.3 million and related primarily to state tax net operating losses. The Company believes that it is more likely than not that a majority of the benefit of the state tax net operating losses will not be realized. Any future tax benefit recognized by the use of a state tax net operating loss that was established prior to the merger, where a valuation allowance has been established, will be recorded first to reduce to zero the goodwill related to the merger, second to reduce to zero other noncurrent intangible assets and third to reduce income tax expense.

The Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109" (FIN 48) as of June 3, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. FIN 48 requires that the Company recognize in the 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, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Upon adoption, the cumulative effect of applying the provisions of FIN 48 was an increase of approximately $48.9 million in the liability for unrecognized tax benefits and related interest and penalty, a $39.2 million decrease in the deferred income tax liability and a $9.7 million increase in the accumulated deficit. As of December 1, 2007, there have been no material changes to the Company's unrecognized tax benefits since the date of adoption.

As of December 1, 2007, the Company reported total unrecognized benefits of $58.0 million, which if recognized $19.9 million would affect the Company's effective tax rate. For the six and three month periods ended December 1, 2007, the Company recorded $2.3 million and $1.3 million, respectively, of interest and penalties, as a result of positions taken during a prior period. Cumulative interest and penalties of $14.8 million have been recorded on the Company's balance sheet as of December 1, 2007. The Company recognizes interest and penalties related to unrecognized tax benefits as part of income taxes.

The Company files tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for fiscal years 2003 through 2006. The Company or its subsidiaries' state income tax returns are open to audit under the statute of limitations for the fiscal years 2003 through 2006.

9. Barter Transactions

The Company accounts for barter transactions under Statement of Financial Accounting Standards No. 153 (SFAS 153), “Exchanges of Nonmonetary Assets, an amendment of APB Opinion Number 29” and Emerging Issues Task Force 93-11 (EITF 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. During the Company’s first quarter of Fiscal 2008, the Company exchanged $5.2 million of inventory for certain advertising credits. To account for the exchange, the Company recorded “Sales” and “Cost of Sales” of $5.2 million in the Company’s Condensed Consolidated Statements of Operations. The advertising credits received are to be used over the next three to five years. The Company recorded prepaid advertising in the line items “Prepaid and Other Current Assets” and “Other Assets,” of $1.6 million and $2.9 million, respectively, in the Company’s Condensed Consolidated Balance Sheets as of December 1, 2007. For the six and three month periods ended December 1, 2007, the Company utilized $0.8 million and $0.7 million, respectively, of the barter advertising credits.

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

On April 13, 2006, the Parent's Board of Directors adopted the 2006 Management Incentive Plan ("Plan"). The Plan provides for the granting of service-based and performance-based stock options and restricted stock to executive officers and other key employees of the Company and its subsidiaries. Pursuant to the Plan employees are granted options to purchase "units" of common stock in the Parent. 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. The options are exercisable only for whole units and cannot be separately exercised for the individual classes of the Parent common stock. There are 511,122 units reserved under the Plan consisting of 4,600,098 shares of Class A common stock of Holdings and 511,122 shares of Class L common stock of Holdings.

Units granted during the six and three month period ended December 1, 2007 were granted in three tranches with exercise prices as follows: Tranche 1: $100 per Unit; Tranche 2: $180 per Unit; and Tranche 3: $270 per Unit. The service-based awards cliff vest 40% on the second anniversary of the award with the remaining amount vesting ratably over the subsequent three years. The final exercise date for any option granted is the tenth anniversary of the grant date.

All options become exercisable upon a change of control unless the options are assumed by the acquiring or surviving entity. Unless determined otherwise by the plan administrator, 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 December 1, 2007, the Company had 372,000 options outstanding to purchase units. All options granted to date are service based awards. On June 4, 2006, the Company adopted SFAS No. 123R (Revised 2004), "Share-Based Payment" (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. For the six and three months ended December 1, 2007, the Company recognized non-cash stock compensation expense of $0.5 million ($0.3 million after tax) and $0.3 million ($0.2 million after tax), respectively, net of $0.9 million and $0.4 million forfeiture adjustments for the respective periods that were recorded as a result of actual forfeitures being higher than initially estimated. In comparison, for the six and three months ended December 2, 2006, the Company recorded $1.5 million ($0.9 million after tax) and $0.8 million ($0.4 million after tax), respectively, of non-cash stock compensation expense. The amounts for all periods are included in the line item "Selling and Administrative Expense" on the Company's Condensed Consolidated Statements of Operations. The application of SFAS 123R had no impact on cash flow from operations or financing activities. At December 1, 2007, there is approximately $10.1 million of unearned non-cash stock-based compensation that the Company expects to recognize as expense over the next 5.0 years. The service based awards are expensed on a straight line basis over the requisite service period of five years. During the six and three months ended December 1, 2007, there were options granted to purchase 85,000 and 17,500 units. There were no options to purchase units cancelled and no options were exercised during the period ended December 1, 2007. At December 1, 2007 no options are exercisable.

Stock Option Unit Transactions are summarized as follows:

	Number of Units	Weighted Average Exercise Price Per Unit
Options Outstanding June 2, 2007	367,000	$180.00

Options Issued	85,000	$183.33
Options Forfeited	(80,000)	$180.00
Options Cancelled	--	--
Options Exercised	--	--
Options Outstanding December 1, 2007	372,000	$180.76

The following table summarizes information about the stock options outstanding under the Parent's 2006 Plan as of December 1, 2007:

	Option Units Outstanding			Option Units Exercisable	
	Range of Exercise Prices	Number Outstanding at December 1, 2007	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 1, 2007
Tranche 1	$ 90.00 - $100.00	124,000	8.7 years	$ 92.28	-0-
Tranche 2	$ 180.00	124,000	8.7 years	$ 180.00	-0-
Tranche 3	$ 270.00	124,000	8.7 years	$ 270.00	-0-
		372,000			-0-

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 Parent's 2006 Plan in Fiscal 2007 and Fiscal 2008:

	Six Months Ended December 1, 2007	Six Months Ended December 2, 2006
Risk-free interest rate	4.11%	4.75%
Expected volatility	67%	70%
Expected life	4.5 years	4.5 years
Contractual life	10 years	10 years
Expected dividend yield	0.0%	0.0%
Fair value of option units granted		
Tranche 1	$56.65	$53.13
Tranche 2	$42.60	$38.79
Tranche 3	$33.13	$30.53

11. Impairment of Long-Lived Assets

The Company accounts for impaired long-lived assets in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity 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 measured by discounting expected future cash flows using the Company's incremental borrowing rate.

Impairment charges recorded during each of the six and three month periods ended December 1, 2007 amounted to $7.4 million and $6.8 million, respectively. The majority of the impairment charges for both the six and three month periods ended December 1, 2007 is related to the impairment of favorable leases in the amount of $4.7 million related to six of the Company's stores. The Company also impaired $1.1 of leasehold improvements and $1.0 million of furniture and fixtures related to ten of the Company's stores for both the six and three month periods ended December

1, 2007. For the six months ended December 1, 2007, $0.6 million of certain warehouse equipment was also impaired. Impairment charges recorded during each of the six and three month periods ended December 2, 2006 amounted to $3.7 million. For the six and three months ended December 2, 2006, $2.6 million of the impairment charge related to leasehold improvements and $1.1 million of the impairment charge related to favorable leases at two of the Company's stores. The impairment charges for the periods ended December 1, 2007 and December 2, 2006 are predominately related to a decline in operating performance of certain stores.

12. Comprehensive Income/(Loss)

The Company accounts for comprehensive income/(loss) in accordance with SFAS No. 130, Reporting Comprehensive Income. For the six and three month period ended December 1, 2007 and the six and three month period ended December 2, 2006, comprehensive income/(loss) consisted of net income/(loss).

13. Other Revenue

Other Revenue consists of rental income received from leased departments, subleased rental income, layaway, alteration and other service charges and other miscellaneous items. Layaway, alteration and other service fees amounted to $6.6 million and $4.2 million for the six and three month periods ended December 1, 2007, respectively, compared to $8.7 and $6.6 million for the six and three month periods ended and December 2, 2006, respectively. Rental income from leased departments amounted to $3.5 million and $2.0 million for each of the six and three month periods ended December 1, 2007, respectively compared to $4.8 million and $2.5 million for each of the six and three month periods ended December 2, 2006, respectively. Subleased rental income and other miscellaneous revenue items amounted to $5.8 million and $2.9 million for the six and three month periods ended December 1, 2007, respectively compared to $6.1 million and $3.0 million for the six and three month periods ended December 2, 2006, respectively.

14. Segment Information

The Company reports segment information in accordance with SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information. The Company has one reportable segment, operating within the United States. Sales by major product categories are as follows (in thousands):

	Six Months Ended		Three Months Ended	
	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006
Apparel	$ 1,310,913	$ 1,308,687	$ 778,969	$ 801,267
Home Products	314,422	332,926	167,597	183,500
	$ 1,625,335	$ 1,641,613	$ 946,566	$ 984,767

Apparel includes all clothing items for men, women and children and apparel accessories, such as jewelry, perfumes and watches. Home Products includes linens, home furnishings, gifts, baby furniture and baby furnishings.

15. Acquisition of Value City Leases and Lease Properties

On October 3, 2007, Burlington Coat Factory Warehouse Corporation and certain wholly-owned subsidiaries (“Burlington”) entered into an Agreement to Acquire Leases and Lease Properties (the “Agreement”) from Retail Ventures, Inc., an Ohio corporation (the “RVI”), together with its wholly-owned subsidiaries, Value City Department Stores LLC, an Ohio limited liability company (“Value City” or “VCDS”), and GB Retailers, Inc., a Delaware corporation (“GB Retailers” and, together with VCDS, the “VCDS Tenants”), and from Schottenstein Stores Corporation (“SSC”) and certain affiliates of SSC (collectively with SSC, the “SSC Landlords”). RVI, the VCDS Tenants and the SSC Landlords are collectively referred to as the Value City Entities. The aggregate purchase price to be paid by Burlington for up to 24 leases is approximately $16.0 million subject to certain potential adjustments provided for in the Agreement.

The Value City Entities and Burlington have been working together in good faith to obtain the necessary landlord consents and lease amendments to allow the disposition of the Leased Premises to occur as specified in the Agreement. In the event that any necessary landlord consents or lease amendments cannot be obtained, the parties may remove one or more of the Leased Premises from the transaction. The effective dates of the lease assignments and transfer of possession of the Leased Premises will occur on various dates, subject to change as described in the Agreement. The Agreement contains customary representations, warranties and covenants, and the transactions contemplated by the Agreement are subject to certain adjustments and closing conditions.

In connection with the Agreement, the parties entered into an Escrow Agreement pursuant to which approximately ten percent (10%) of the purchase price for the Leased Premises was deposited with the escrow agent upon execution of the Agreement. The escrow proceeds and the remainder of the purchase price will be delivered to Value City at the closing of the contemplated transactions. Also at the closing, RVI will enter into an Indemnification Agreement with Burlington pursuant to which the Company will provide certain indemnities and undertake certain obligations in favor of Burlington. The Company is scheduled to close on fourteen (two of which will result in relocations of current Burlington Coat Factory Stores) of these leases in Fiscal 2008.

16. Commitments and Contingencies

The Company is party to various litigation matters arising in the ordinary course of business. The ultimate legal and financial liability of the Company with respect to such litigation cannot be estimated with certainty, but Management believes, based on its examination of these matters, experience to date and discussions with counsel, that ultimate liability from the Company’s various litigation matters will not be material to the business, financial condition, results of operations or cash flows of the Company.

17. Reclassifications

Certain reclassifications have been made to the Condensed Consolidated Statements of Operations for the six and three month periods ended December 2, 2006 and to the Condensed Consolidated Statement of Cash Flows for the six months ended December 2, 2006 to conform to the classifications used in the current period. In the Condensed Consolidated Statements of Operations, impairment expense of $2.6 million and $1.1 million, previously recorded in "Depreciation" and "Amortization," respectively, for both the six and three month periods ended December 2, 2006, has been reclassified as "Impairment" for the respective periods.

In the Condensed Consolidated Statement of Cash Flows for the six month period ended December 2, 2006, impairment expense of $2.6 million and $1.1 million, previously included in "Depreciation" and "Amortization," respectively, has been reclassified as "Impairment." Also in the Condensed Consolidated Statement of Cash Flows for the six months ended December 2, 2006, Deferred Rent Incentives of $3.6 million and $13.1 million previously recorded in the line items "Non-Cash Rent Expense and Other" and "Accounts Receivable," respectively, have been reclassified and included in the line item "Deferred Rent Incentives."

18. Subsequent Events

On December 20, 2007, the Company entered into an 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 will be classified as "Other Assets" within the Company's Condensed Consolidated Balance Sheets. The agreement will be effective on May 29, 2009 upon the termination of the Company's existing $700 million interest rate cap. The Company will determine prior to the effective date whether it will monitor this interest rate cap agreement for hedge effectiveness. Until the Company determines the accounting treatment that will be used, the Company will adjust the interest rate cap to fair value on a quarterly basis and as a result, gains/(losses) associated with this contract will be included in the line item "Interest Expense" on the Company's Condensed Consolidated Statements of Operations.

19. Recent Accounting Pronouncements

a. In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements which defines fair value, establishes a framework for measurement and expands disclosure about fair value measurements. Where applicable, SFAS 157 simplifies and codifies related guidance within generally accepted accounting principles. This statement shall be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is in the process of evaluating the impact of SFAS No. 157 on its Consolidated Financial Statements.

b. 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 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is in the process of evaluating the impact of SFAS No. 159 on its Consolidated Financial Statements.

c. On December 4, 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) applies to any transaction or other event that meets the definition of a business combination. Where applicable, SFAS No. 141(R) establishes principles and requirements for how the acquirer recognizes and measures identifiable assets acquired, liabilities assumed, noncontrolling interest in the acquiree and goodwill or gain from a bargain purchase. In addition, SFAS 141(R) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is to be applied prospectively for fiscal years beginning after December 15, 2008. The Company is in the process of evaluating the impact of SFAS No. 141(R) on its Consolidated Financial Statements.

d. On December 4, 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, An Amendment of ARB No. 51. SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of FASB Statement No. 141(R). This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The statement shall be applied prospectively as of the beginning of the fiscal year in which the statement is initially adopted.

20. Condensed Guarantor Data

On April 13, 2006, BCFWC issued $305 million aggregate principal amount of 11 % Senior Notes due 2014. The notes were issued under an indenture issued on April 13, 2006. Holdings and subsidiaries of BCFWC have fully and unconditionally guaranteed these notes. These guarantees are both joint and several. The following condensed consolidating financial statements present the financial position, results of operations and cash flows of Holdings, BCFWC, exclusive of subsidiaries (referred to herein as "BCFW"), and the guarantor subsidiaries. The Company has one non-guarantor subsidiary that is not wholly-owned and is considered to be "minor" as that term is defined in Rule 3-10 of Regulation S-X promulgated by the Securities and Exchange Commission.

Neither the Company nor any of its subsidiaries may declare or pay cash dividends or make other distributions of property to any affiliate unless such dividends are used for certain specified purposes including, among others, to pay general corporate and overhead expenses incurred by Holdings in the ordinary course of business, or the amount of any indemnification claims made by any director or officer of Holdings or the Company, to pay taxes that are due and payable by Holdings or any of its direct or indirect subsidiaries, or to pay interest on Holdings Senior Discount Notes, provided that no event of default under BCFWC's debt agreements has occurred or will occur as the result of such interest payment.

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS

As of December 1, 2007

ASSETS	Holdings	BCFWC	Guarantors	Eliminations	Consolidated
		(All amounts in thousands)			
Current Assets:					
Cash and Cash Equivalents	$ -	$ 6,175	$ 36,640	$ -	$ 42,815
Restricted Cash and Cash Equivalents	-	-	2,719	-	2,719
Investments	-	-	-	-	-
Accounts Receivable	-	39,042	2,009	-	41,051
Merchandise Inventories	-	1,555	869,379	-	870,934
Deferred Tax Asset	-	13,130	21,306	-	34,436
Prepaid and Other Current Assets	-	64,196	10,596	(29,070)	45,722
Assets Held for Disposal	-	-	6,990	-	6,990
Total Current Assets	-	124,098	949,639	(29,070)	1,044,667
Property and Equipment - Net of Accumulated Depreciation	-	62,042	899,030	-	961,072
Goodwill	-	46,219	-	-	46,219
Trademark	-	526,300	-	-	526,300
Net Favorable Leases		-	565,868	-	565,868
Other Assets	343,468	1,832,600	12,328	(2,132,874)	55,522
Total Assets	$ 343,468	$ 2,591,259	$ 2,426,865	$ (2,161,944)	$ 3,199,648
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Accounts Payable	$ -	$ 626,052	$ -	$ -	$ 626,052

Income Taxes Payable	-		29,070	(29,070)	-
Other Current Liabilities	-	107,949	107,951	-	215,900
Current Maturities of Long Term Debt	-	-	1,584	-	1,584
Total Current Liabilities	-	734,001	138,605	(29,070)	843,536
Long Term Debt	-	1,276,436	122,965	-	1,399,401
Other Liabilities	-	16,981	117,296	(10,000)	124,277
Deferred Tax Liability	-	220,373	268,593	-	488,966
Stockholders' Equity:					
Preferred Stock	-	-	-	-	-
Common Stock	-	-	-	-	-
Capital in Excess of Par Value	455,467	455,467	1,573,579	(2,029,046)	455,467
Retained Earnings (Accumulated Deficit)	(111,999)	(111,999)	205,827	(93,828)	(111,999)
Total Stockholders' Equity	343,468	343,468	1,779,406	(2,122,874)	343,468
Total Liabilities and Stockholders' Equity	$ 343,468	$ 2,591,259	$ 2,426,865	$ (2,161,944)	$ 3,199,648

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BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS

	As of June 2, 2007				
ASSETS	Holdings	BCFWC	Guarantors	Eliminations	Consolidated
	(All amounts in thousands)				
Current Assets:					
Cash and Cash Equivalents	$ -	$ 20,035	$ 13,843	$ -	$ 33,878
Restricted Cash and Cash Equivalents	-	-	2,753	-	2,753
Investments	-	-	-	-	-
Accounts Receivable	-	28,787	1,803	-	30,590
Merchandise Inventories	-	1,275	709,296	-	710,571
Deferred Tax Asset	-	13,233	21,910	-	35,143
Prepaid and Other Current Assets	-	24,741	13,849	(3,224)	35,366
Assets Held for Disposal	-	-	35,073	-	35,073
Total Current Assets	-	88,071	798,527	(3,224)	883,374
Property and Equipment - Net of Accumulated Depreciation	-	59,856	888,478	-	948,334
Goodwill	-	46,219	-	-	46,219
Trademark	-	526,300	-	-	526,300
Net Favorable Leases		-	574,879	-	574,879
Other Assets	380,470	1,738,583	9,231	(2,070,869)	57,415
Total Assets	$ 380,470	$ 2,459,029	$ 2,271,115	$ (2,074,093)	$ 3,036,521
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Accounts Payable	$ -	$ 395,375	$ -	$ -	$ 395,375
Income Taxes Payable	-	3,224	-	(3,224)	-
Other Current Liabilities	-	111,879	86,748	-	198,627
Current Maturities of Long Term Debt	-	4,500	1,474	-	5,974
Total Current Liabilities	-	514,978	88,222	(3,224)	599,976
Long Term Debt	-	1,338,415	117,915	-	1,456,330
Other Liabilities	-	10,622	47,825	(10,000)	48,447
Deferred Tax Liability	-	214,544	336,754	-	551,298
Stockholders' Equity:					
Common Stock	-	-	-	-	-

Capital in Excess of Par Value	454,935	454,935	1,522,383	(1,977,318)	454,935
Retained Earnings (Accumulated Deficit)	(74,465)	(74,465)	158,016	(83,551)	(74,465)
Total Stockholders' Equity	380,470	380,470	1,680,399	(2,060,869)	380,470
Total Liabilities and Stockholders' Equity	$ 380,470	$ 2,459,029	$ 2,271,115	$ (2,074,093)	$ 3,036,521

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the Six Months Ended December 1, 2007

	Holdings	BCFWC	Guarantors	Eliminations	Consolidated
	(All amounts in thousands)				
REVENUES:					
Net Sales	$ -	$ 1,866	$ 1,623,469	$ -	$ 1,625,335
Other Revenue	-	1,992	13,871	-	15,863
	-	3,858	1,637,340	-	1,641,198
COSTS AND EXPENSES:					
Cost of Sales (Exclusive of Depreciation and Amortization)	-	1,149	999,789	-	1,000,938
Selling and Administrative Expenses	-	65,420	463,868	-	529,288
Depreciation	-	13,154	48,448	-	61,602
Amortization	-	8,254	13,126	-	21,380
Impairment Charges	-	-	7,379	-	7,379
Interest Expense	-	59,345	7,565	-	66,910
Other (Income), Net	-	(802)	(1,699)	-	(2,501)
Equity in (Earnings) Loss of Subsidiaries	27,222	(59,041)	-	31,819	-
	27,222	87,479	1,538,476	31,819	1,684,996
Income (Loss) Before Provision (Benefit) for Income Taxes	(27,222)	(83,621)	98,864	(31,819)	(43,798)
Provision (Benefit) for Income Taxes	-	(56,399)	39,823	-	(16,576)
Net Income (Loss)	$ (27,222)	$ (27,222)	$ 59,041	$ (31,819)	$ (27,222)

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BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

	For the Three Months Ended December 1, 2007				
	Holdings	BCFWC	Guarantors	Eliminations	Consolidated
	(All amounts in thousands)				
REVENUES:					
Net Sales	$ -	$ 1,109	$ 945,457	$ -	$ 946,566
Other Revenue	-	1,350	7,735	-	9,085
	-	2,459	953,192	-	955,651
COSTS AND EXPENSES:					
Cost of Sales (Exclusive of Depreciation and Amortization)	-	687	556,476	-	557,163
Selling and Administrative Expenses	-	33,487	244,914		278,401
Depreciation	-	7,295	23,550	-	30,845
Amortization	-	5,769	4,860	-	10,629
Impairment Charges	-	-	6,826	-	6,826
Interest Expense	-	29,851	3,834	-	33,685
Other (Income), Net	-	(417)	(1,432)	-	(1,849)
Equity in (Earnings) Loss of Subsidiaries	(23,173)	(68,698)	-	91,871	-
	(23,173)	7,974	839,028	91,871	915,700
Income (Loss) Before Provision (Benefit) for Income Taxes	23,173	(5,515)	114,164	(91,871)	39,951
Provision (Benefit) for Income Taxes	-	(28,688)	45,466	-	16,778
Net Income (Loss)	$ 23,173	$ 23,173	$ 68,698	$ (91,871)	$ 23,173

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BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the Six Months Ended December 2, 2006

	Holdings	BCFWC	Guarantors	Eliminations	Consolidated
	(All amounts in thousands)				
REVENUES:					
Net Sales	$ -	$ 2,107	$ 1,639,506	$ -	$ 1,641,613
Other Revenue		4,234	15,320		19,554
		6,341	1,654,826		1,661,167
COSTS AND EXPENSES:					
Cost of Sales (Exclusive of Depreciation and Amortization)	-	1,315	1,026,068	-	1,027,383
Selling and Administrative Expenses	-	76,544	458,097	-	534,641
Depreciation	-	11,757	57,817	-	69,574
Amortization	-	4,904	16,918	-	21,822
Interest Expense	-	63,668	6,962	-	70,630
Impairment Charges	-	-	3,677	-	3,677
Other (Income), Net	-	(658)	(1,005)	-	(1,663)
Equity in (Earnings) Loss of Subsidiaries	40,061	(52,250)	-	12,189	
	40,061	105,280	1,568,534	12,189	1,726,064
Income (Loss) Before Provision (Benefit) for Income Taxes	(40,061)	(98,939)	86,292	(12,189)	(64,897)
Provision (Benefit) for Income Taxes	-				