

Burlington Coat Factory Investments Holdings, Inc.  
Form 10-Q/A  
June 20, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**  
**Amendment No. 1**

(Mark One)

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

For the quarterly period ended May 4, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 333-137916-110

**BURLINGTON COAT FACTORY**

# INVESTMENTS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction of

**20-4663833**  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

**1830 Route 130 North**

**Burlington, New Jersey**  
(Address of Principal Executive Offices)

**08016**  
(Zip Code)

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

As of June 18, 2013, the registrant has 1,000 shares of common stock outstanding, all of which are owned by Burlington Coat Factory Holdings, LLC, the registrant's parent holding company, and are not publicly traded.

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

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### Explanatory Note

This Amendment No. 1 on Form 10-Q/A (this Amendment) to the Quarterly Report on Form 10-Q of Burlington Coat Factory Investments Holdings, Inc. for the period ended May 4, 2013, as filed with the Securities and Exchange Commission on June 18, 2013 (the Form 10-Q), is being filed solely to correct typographical errors under Part 1, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations. Specifically, in the description of our \$1 Billion Senior Secured Term Loan Facility in Item 2, we have (A) corrected (i) the amount (approximately \$1 million instead of approximately \$14 million) we expect to recognize as a loss on the extinguishment of debt in connection with the Third Amendment to our Term Loan Credit Agreement (the Third Amendment) which will be recorded in the line item Loss on the Extinguishment of Debt in our Condensed Consolidated Statements of Operations and Comprehensive Loss during the second quarter of Fiscal 2013, and (ii) the estimated fees (approximately \$2 million instead of approximately \$1 million) related to the Third Amendment we expect to be recorded in the line item Costs Related to Debt Amendment in our Condensed Consolidated Statements of Operations and Comprehensive Loss during the second quarter of Fiscal 2013; and (B) added a new last sentence to the final paragraph of such description to disclose that we do not believe that the Third Amendment will have a material effect on our financial statements. Except as specifically noted above, this Amendment does not amend, modify or update any disclosures contained in the Form 10-Q. Accordingly, this Amendment does not reflect events occurring after the filing of the Form 10-Q on June 18, 2013.

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

The Company's management intends for this discussion to provide the reader with information that will assist in understanding the Company's financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. All discussions of operations in this report relate to Burlington Coat Factory Warehouse Corporation and its subsidiaries, which are reflected in the financial statements of Burlington Coat Factory Investments Holdings, Inc. and its subsidiaries (hereinafter we or our or Holdings). The following discussion contains forward-looking information and should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this report and in our Annual Report on Form 10-K related to the fiscal year ended February 2, 2013 (Fiscal 2012 10-K). Our actual results could differ materially from the results contemplated by these forward-looking statements due to various factors, including those discussed under the section of this Item 2 entitled Safe Harbor Statement.

#### Fiscal Year

Fiscal 2013 is defined as the 52 week year ending February 1, 2014. We define the 2012 fiscal year (Fiscal 2012) and the 2011 fiscal year (Fiscal 2011) as the 53 and 52 week periods ending February 2, 2013 and January 29, 2011, respectively.

#### Overview

##### *Three Month Period Ended May 4, 2013 Compared with the Three Month Period ended April 28, 2012*

Consolidated net sales increased \$82.6 million, or 8.4%, to \$1,065.0 million for the three months ended May 4, 2013 from \$982.4 million for the three months ended April 28, 2012. This increase was primarily attributable to an increase in sales related to new stores and stores previously opened that are not included in our comparable store sales as well as a 3.4%, or \$33.4 million, increase in our comparable store sales. We believe the comparable store sales increase was due primarily to our ongoing initiatives as discussed in further detail below (refer to the sections below entitled Ongoing Initiatives for Fiscal 2013 and Three Month Period Ended May 4, 2013 compared with the Three Month Period Ended April 28, 2012 for further explanation).

Cost of sales increased \$47.8 million, or 7.7%, during the three month period ended May 4, 2013 compared with the three month period ended April 28, 2012. The dollar increase in cost of sales was primarily related to sales from 21 net new stores that were opened since April 28, 2012 as well as our 3.4%, or \$33.4 million, comparable store sales increase.

Cost of sales as a percentage of net sales decreased to 62.7% during the three months ended May 4, 2013 compared with 63.1% during the three months ended April 28, 2012. The decrease in cost of sales as a percentage of net sales was primarily driven by lower markdown expense as a percentage of net sales as a result of continued improvements in the freshness of inventory this year and a lower shrink accrual rate based on our improved shrink trend during Fiscal 2012.

Total selling and administrative expenses increased \$20.6 million, or 6.7%, during the three months ended May 4, 2013 compared with the three months ended April 28, 2012, primarily related to new stores and stores that were not operating for the full three months ended April 28, 2012 but did operate for the full three months ended May 4, 2013. Selling and administrative expenses as a percentage of sales decreased to 30.8% during the three months ended May 4, 2013 from 31.3% during the three months ended April 28, 2012. The improvement in selling and administrative expenses as a percentage of net sales was primarily related to efficiencies realized in store operations as a result of our ongoing

store initiatives (refer to the section below entitled "Ongoing Initiatives for Fiscal 2013").

We recorded a net loss of \$0.7 million for the three month period ended May 4, 2013 compared with a net loss of \$3.9 million for the three month period ended April 28, 2012. The improvement in our net loss position was primarily driven by our 3.4% increase in comparable store sales as well as a decrease in interest expense as a result of our February 2013 Term Loan Amendment (refer to the section below entitled "Three Month Period Ended May 4, 2013 compared with the Three Month Period Ended April 28, 2012" for further explanation).

EBITDA and Adjusted Net Income (as defined below under the caption "Key Performance Measures") are non-GAAP financial measures of our performance, as defined below under the caption "Key Performance Measures." For the three months ended May 4, 2013, EBITDA increased \$5.9 million, or 9.2%, to \$69.6 as a result of increased gross margin, partially offset by increased selling and administrative expenses, primarily related to new stores and stores that were operating for the full three months ended May 4, 2013 but were not operating for the full three months ended April 28, 2012, as well as costs incurred related to the debt amendment during Fiscal 2013.

For the three months ended May 4, 2013, Adjusted Net Income increased \$10.3 million to \$11.1 million, as a result of improved gross margin, partially offset by increased selling and administrative expenses, primarily related to new stores and stores that were operating for the full three months ended May 4, 2013 but were not operating for the full three months ended April 28, 2012.

### **Debt Refinancing**

On February 15, 2013, BCFWC entered into Amendment No. 2 to our Term Loan Credit Agreement (Second Amendment). The Second Amendment creates a restricted payments basket of \$25 million and permits BCFWC to use the available amount to make restricted payments (which basket includes retained excess cash flow, in an amount not to exceed 50% of BCFWC's consolidated net income (as defined in the existing senior notes) since the second quarter of Fiscal 2011), in each case so long as certain conditions are satisfied. In connection with this amendment, the Company incurred a \$1.5 million amendment fee that was capitalized and included in the line item Other Assets on the Company's Condensed Consolidated Balance Sheet. Additionally, the Company incurred \$8.9 million of additional fees, inclusive of an \$8.6 million fee payable to Bain Capital, for consulting and advisory services. These fees are included in the line item Costs Related to Debt Amendment on the Company's Condensed Consolidated Statements of Operations and Comprehensive Loss.

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

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

In February 2013, the Issuers used the net proceeds from the offering of the 2018 Notes to pay a special cash dividend of approximately \$336 million, in the aggregate, to Indirect Parent's sole member, Burlington Holdings, Inc., which in turn distributed the proceeds to its stockholders. BCFWC paid a dividend to the Issuers of \$5.0 million in order to pay certain fees in connection with the issuance of the 2018 Notes, inclusive of a \$3.5 million fee to Bain Capital for various consulting and advisory services.

On February 14, 2013, Parent, and its principal shareholders (Bain Capital Integral Investors, LLC, Bain Capital Fund IX, LLC, BCIP Associates-G and BCIP TCV, LLC) entered into a Termination Agreement, pursuant to which the Stockholders Agreement among each of them and the other stockholders of Parent, dated as of April 13, 2006 (Prior Stockholders Agreement) was terminated. On February 14, 2013, Burlington Holdings, Inc. and the investors and managers from time to time party thereto, entered into a Stockholders Agreement (New Stockholders Agreement). The terms of the New Stockholders Agreement are substantially similar to the terms of the Prior Stockholders Agreement.

### **Current Conditions**

#### *Store Openings, Closings, and Relocations.*

During the three months ended May 4, 2013, we opened four Burlington Coat Factory Warehouse Stores (BCF Stores) and closed one store. As of May 4, 2013, we operated 503 stores under the names Burlington Coat Factory Warehouse (485 stores), Cohoes Fashions (two stores), Super Baby Depot (two stores) MJM Designer Shoes (13 stores) and Burlington Shoes (one store).

We continue to pursue our growth plans and invest in capital projects that meet our financial requirements. We currently plan to open between 16 and 20 new stores during the remainder of Fiscal 2013.

#### *Ongoing Initiatives for Fiscal 2013*

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

**I. Driving Comparable Store Sales Growth.** We intend to continue to increase comparable store sales through the following initiatives:

- (a) *Continue to Enhance Execution of the Off-Price Model.* We plan to drive comparable store sales by focusing on product freshness to ensure that we consistently deliver newness to the selling floors. We will continue to reduce comparable store inventories which we believe will result in faster inventory turnover and reduced markdowns. We

plant to maintain our ability to leverage our pack and hold program, which is designed to take advantage of terrific buys of either highly desirable branded product or key seasonal merchandise for the next year. While the amount of goods we purchase on pack and hold is purely based on the right opportunities in the marketplace, this continues to be a great avenue to source product. We also intend to use our business intelligence systems to identify sell-through rates by product, capitalize on strong performing categories, identify and buy into new fashion trends and opportunistically acquire products in the marketplace.

- (b) **Sharpening Focus on Our Core Female Customer.** We have focused on better serving our core female customer a brand-conscious fashion enthusiast, aged 25-49 by improving our product offering, store merchandising and marketing focus on women's ready-to-wear apparel and accessories to capture incremental sales from our core female customer and become a destination for her across all categories. We believe that these efforts will increase the frequency of her visits and her average spend, further improving the comparable store sales performance in women's categories.
- (c) **Continuing to Improve Our Customer Experience.** We have significantly enhanced the store experience and ease of shopping at all of our stores by implementing a comprehensive program focused on offering more brands and styles and simplifying store navigation. We have accomplished this by utilizing clear way-finding signs and distinct product signage, highlighting key brands and new arrivals, improving organization of the floor space, reducing rack density, facilitating quicker checkouts and delivering better customer service. We have made particular improvements in product size visibility, queuing and fitting rooms. To ensure consistent execution of our customer experience priorities, we have improved our store associate training and reorganized and strengthened our field management organization. Our improved customer experience, in conjunction with more consistent in-store execution, has contributed to a significant increase in overall customer satisfaction scores over the last two years. We have also implemented operational audits to measure performance against clearly articulated operational standards. To date, stores that have achieved superior audit scores have generated materially higher comparable store sales.
- (d) **Increasing Our e-Commerce Sales.** We have been selling to our customers online for more than a decade. We plan to leverage this heritage, along with our renewed focus on e-commerce, to expand our online assortment and utilize e-commerce strategies to drive incremental traffic to our stores.
- (e) **Enhancing Existing Categories and Introduce New Ones.** We have opportunities to expand the depth and breadth of certain existing categories such as ladies' apparel, children's products and home décor, while continuing to remain the destination for coats, and maintaining the flexibility to introduce new categories such as pet related merchandise.

## **II. Expanding and Enhancing Our Retail Store Base**

- (a) **Adhere to an Opportunistic yet Disciplined Real Estate Strategy.** We have grown our store base consistently since our founding in 1972, developing more than 99% of our stores organically, rather than through acquisition. We believe there is significant opportunity to expand our retail store base in the United States. In line with recent growth, our goal is to open approximately 20 to 25 new stores annually and continue to do so for the foreseeable future.
- (b) **Maintaining Focus on Unit Economics and Returns.** We have adopted a prudent approach to new store openings with a specific focus on achieving attractive unit economics and returns. This focus is demonstrated by the fact that the vast majority of our existing stores have positive EBITDA for Fiscal 2012. By focusing on opening stores with attractive unit economics we are able to minimize costs associated with store relocations and closures, achieve attractive returns on capital and continue to grow Company margins. We continue to explore the potential for modified store formats to provide incremental growth.
- (c) **Enhancing the Store Experience through Store Refreshes and Remodels.** Approximately 64% of our stores are new or have been refreshed, remodeled or relocated since 2006. In our refreshed and remodeled stores, we have incorporated new flooring, painting, lighting and graphics, relocated our fitting rooms to maximize productive selling space and made various other



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improvements as appropriate by location. We continue to invest in store refreshes and remodels on a store-by-store basis where appropriate, taking into consideration the age, sales and profitability of a store, as well as the potential impact to the customer shopping experience.

### **III. Enhancing Operating Margins: We intend to increase our operating margins through the following initiatives:**

- (a) **Improving Inventory Management.** We continue to improve inventory freshness by focusing on receipt flows by month, optimizing our markdowns, and actively reducing the inventory that has been on the selling floor more than 60 days. In addition, we plan to continue to reduce comparable store inventories which we believe will result in continued faster inventory turnover and reduced markdowns.

- (b) **Optimizing Logistics and Distribution.** We believe executing the strategy to support more in-season and opportunistic buying as well as measured expansion of pack and hold initiatives will assist in maximizing sales and total margin dollars.
  
- (c) **Driving Operating Leverage.** We believe that we will be able to leverage our growing sales over the fixed costs of our business. In addition, we are focused on continuing to improve the efficiency of our corporate and in-store operations through better people, processes and systems.

#### **Uncertainties and Challenges**

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

Consumer spending habits, including spending for the merchandise that we sell, are affected by, among other things, prevailing economic conditions, inflation, levels of employment, salaries and wage rates, prevailing interest rates, housing costs, energy costs, commodities pricing, income tax rates and policies, consumer confidence and consumer perception of economic conditions. In addition, consumer purchasing patterns may be influenced by consumers' disposable income, credit availability and debt levels.

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

We closely monitor our net sales, gross margin, expenses and working capital. We have performed scenario planning such that if our net sales decline, we have identified variable costs that could be reduced to partially mitigate the impact of these declines. If adverse economic trends continue, or if our efforts to counteract the impacts of these trends are not sufficiently effective, there could be a negative impact on our financial performance and position in future fiscal periods. For further discussion of the risks to us regarding general economic conditions, please refer to the section below entitled "Liquidity and Capital Resources" and the risks discussed in the Fiscal 2012 10-K under the heading "Risk Factors."

#### **Key Performance Measures**

We consider numerous factors in assessing our performance. Key performance measures used by management include Adjusted Net Income, EBITDA, comparable store sales, gross margin, inventory, store payroll as a percentage of net sales and liquidity.

*Adjusted Net Income and EBITDA* are non-GAAP financial measures of our performance.

We present Adjusted Net Income and EBITDA because we believe they are useful supplemental measures in evaluating the performance of our business and provide greater transparency into our results of operations. In particular, we believe that excluding certain items that may vary substantially in frequency and magnitude from operating income are useful supplemental measures that assist in evaluating our ability to generate earnings and leverage sales, respectively, and to more readily compare these metrics between past and future periods.

Adjusted Net Income has limitations as an analytical tool, and should not be considered either in isolation or as a substitute for net income or other data prepared in accordance with GAAP. Some of these limitations include:

Adjusted Net Income does not reflect the amortization of net favorable leases which are amortized over the life of the lease;

Adjusted Net Income does not reflect costs related to debt amendments that are expensed during the fiscal periods;

Adjusted Net Income does not reflect impairment charges on long lived assets;



Adjusted Net Income does not reflect annual advisory fees paid to Bain Capital that are expensed during the fiscal periods. For the three months ended May 4, 2013, Adjusted Net Income increased \$10.3 million to \$11.1 million, as a result of improved gross margin, partially offset by increased selling and administrative expenses, primarily related to new stores and stores that were operating for the full three months ended May 4, 2013 but were not operating for the full three months ended April 28, 2012.

The following table shows our reconciliation of Net Loss to Adjusted Net Income for the three months ended May 4, 2013 compared with the three months ended April 28, 2012:

	(in thousands)	
	Three Months Ended	
	May 4, 2013	April 28, 2012
<b>Reconciliation of Net Loss to Adjusted Net Income:</b>		
Net Loss	\$ (702)	\$ (3,940)
Net Favorable Lease Amortization (a)	8,830	7,169
Costs Related to Debt Amendment (b)	8,855	
Impairment Charges (c)	51	13
Advisory Fees (d)	1,071	1,035
Tax Effect (e)	(6,996)	(3,435)
<b>Adjusted Net Income</b>	<b>\$ 11,109</b>	<b>\$ 842</b>

- (a) Net favorable lease amortization represents the non-cash amortization expense associated with favorable and unfavorable leases that were recorded as a result of purchase accounting related to the April 2006 Merger Transaction, and are recorded in the line item Depreciation and Amortization in our Condensed Consolidated Statement of Operations and Comprehensive Loss.
  - (b) Primarily related to advisory and professional fees associated with the February 2013 Term Loan Amendment.
  - (c) Represents Impairment Charges on Long Lived Assets.
  - (d) Represents the annual advisory fee of Bain Capital expensed during the fiscal periods and recorded in the line item Selling and Administrative Expenses in our Condensed Consolidated Statement of Operations and Comprehensive Loss.
  - (e) Tax effect is calculated based on the effective tax rates of 37.2% and 41.8% (before discrete items), for the respective periods.
- EBITDA (earnings before net interest expense and loss on extinguishment of debt, income tax expense and depreciation, amortization and impairment charges) has limitations as an analytical tool, and should not be considered either in isolation or as a substitute for net income or other data prepared in accordance with GAAP. Some of these limitations include:

EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

EBITDA does not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

EBITDA does not reflect our income tax expense or the cash requirements to pay our taxes;

EBITDA does not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments; and

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will likely have to be replaced in the future, and EBITDA measures do not reflect any cash requirements for such replacements. EBITDA for the three months ended May 4, 2013 increased \$5.9 million, or 9.2%, to \$69.6 million. The improvement in EBITDA was primarily the result of increased gross margin, partially offset by increased selling and administrative expenses, primarily related to new stores and stores

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that were operating for the full three months ended May 4, 2013 but were not operating for the full three months ended April 28, 2012, as well as costs incurred related to the debt amendments during Fiscal 2013.

The following table shows our reconciliation of Net Loss to EBITDA for the three months ended May 4, 2013 compared with the three months ended April 28, 2012:

	(in thousands)	
	Three Months Ended	
	May 4, 2013	April 28, 2012
<b>Reconciliation of Net Loss to EBITDA:</b>		
Net Loss	\$ (702)	\$ (3,940)
Interest Expense	26,589	29,479
Interest Income	(76)	(22)
Income Tax Benefit	(230)	(1,717)
Depreciation and Amortization	43,992	39,925
Impairment Charges	51	13
<b>EBITDA</b>	<b>\$ 69,624</b>	<b>\$ 63,738</b>

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

We define comparable store sales as sales of those stores, including online sales, commencing on the first day of the fiscal month one year after the end of their grand opening activities, which normally conclude within the first two months of operations. For the three months ended May 4, 2013, we experienced increases in comparable store sales of 3.4%.

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

*Gross Margin.* Gross margin is a measure used by management to indicate whether we are selling merchandise at an appropriate gross profit. Gross margin is the difference between net sales and the cost of sales. Our cost of sales and gross margin may not be comparable to those of other entities, since some entities include all of the costs related to their buying and distribution functions in cost of sales. We include certain of these costs in the line items Selling and Administrative Expenses and Depreciation and Amortization in our Condensed Consolidated Statements of Operations and Comprehensive Loss. We include in our Cost of Sales line item all costs of merchandise (net of purchase discounts and certain vendor allowances), inbound freight, distribution center outbound freight and certain merchandise acquisition costs, primarily commissions and import fees. Gross margin as a percentage of net sales during the three months ended May 4, 2013 increased to 37.3% compared with 36.9% during the three months ended April 28, 2012. The increase in our gross margin as a percentage of net sales for the three months ended May 4, 2013 compared with the three months ended April 28, 2012 is due to lower markdown expense as a percentage of net sales as a result of continued improvements in the freshness of inventory this year and a lower shrink accrual rate based on our improved shrink trend during Fiscal 2012. In accordance with our policy, physical inventories are taken during the fourth quarter of the fiscal year at which point our estimated shrink will be adjusted to actual.

*Inventory.* Inventory at May 4, 2013 was \$727.2 million compared with \$680.2 million at February 2, 2013. The increase of \$47.0 million was primarily the result of the seasonality of our business and an increase in pack and hold inventory. Our store inventory is typically at its lowest levels in January, after the holiday selling season, and returns to normal levels during the first quarter of the fiscal year. Inventory at May 4, 2013 increased \$66.3 million from \$660.9 million at April 28, 2012 to \$727.2 million at May 4, 2013. This increase was primarily driven by 21 net new stores opened since April 28, 2012 as well as increased pack and hold inventory. These increases were partially offset by an average inventory per comparable store decrease of 8.7% as a result of our ongoing initiative to reduce inventory levels which we believe will result in faster turns and reduced markdowns.

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

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

Inventory turnover is a measure that indicates how efficiently inventory is bought and sold. It measures the length of time that we own our inventory. This is significant because usually the longer the inventory is owned, the more likely markdowns may be required to sell the inventory. Inventory turnover is calculated by dividing retail sales before sales discounts by the average retail value of the inventory for the period being measured. This inventory turnover calculation is based on a rolling 13 month average of inventory for the period being measured. Our annualized inventory turnover rate (inclusive of stores and warehouse inventory) as of May 4, 2013 and April 28, 2012 was 3.2 turns per year and 2.9 turns per year, respectively.

*Store Payroll as a Percentage of Net Sales.* Store payroll as a percentage of net sales measures our ability to manage our payroll in accordance with increases or decreases in net sales. The method of calculating store payroll varies across the retail industry. As a result, our store payroll as a percentage of net sales may differ from other retailers. We define store payroll as regular and overtime payroll for all store personnel as well as regional and territory personnel, exclusive of payroll charges to corporate and warehouse employees. Store payroll as a percentage of net sales was 9.4% during the three months ended May 4, 2013 compared with 10.0% during the three months ended April 28, 2012. The improvement in store payroll as a percentage of net sales was primarily driven by efficiencies realized in our stores as we continue to improve the execution within store operations.

*Liquidity.* Liquidity measures our ability to generate cash. Management measures liquidity through cash flow and working capital position. Cash flow is the measure of cash generated from operating, financing, and investing activities. We experienced an increase in cash flow of \$59.0 million during the three month period ended May 4, 2013 resulting in a cash and cash equivalent balance of \$102.3 million as of May 4, 2013 compared with an increase in cash flow generated during the three months ended April 28, 2012 of \$18.0 million. This increase was primarily driven by fewer repayments, net of borrowings, on our ABL Line of Credit during the three month period ended May 4, 2013 compared with the three month period ended April 28, 2012, partially offset by an increase in our inventories from February 2, 2013 compared with a decrease in our merchandise inventory from January 28, 2012 to April 28, 2012. Additionally offsetting the increase was a smaller increase in accounts payable during the period from February 2, 2013 to May 4, 2013 compared with the period from January 28, 2012 to April 28, 2013 as a result of our working capital management strategy that was employed at the end of Fiscal 2011 that did not repeat at the end of Fiscal 2012. Our working capital management strategy accelerated certain vendor payments at the end of Fiscal 2011 that typically would not have been made until the first quarter of the next fiscal year, which lowered our accounts payable balances at the end of Fiscal 2011.

Changes in working capital also impact our cash flows. Working capital equals current assets (exclusive of restricted cash and cash equivalents) minus current liabilities. Working capital at May 4, 2013 decreased \$32.0 million from \$140.6 million at April 28, 2012 to \$108.6 million. The decrease in working capital was primarily attributable an increase in accounts payable, partially offset by increases in inventory and prepaid and other current assets. Working capital at May 4, 2013 was \$108.6 million compared with \$104.8 million at February 2, 2013.

### **Critical Accounting Policies and Estimates**

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

Our critical accounting policies and estimates are consistent with those disclosed in our Fiscal 2012 10-K.

**Results of Operations**

The following table sets forth certain items in the Condensed Consolidated Statements of Operations and Comprehensive Loss as a percentage of net sales for the three month periods ended May 4, 2013 and April 28, 2012.

	Percentage of Net Sales Three Months Ended	
	May 4, 2013	April 28, 2012
Net Sales	100.0%	100.0%
Other Revenue	0.8	0.8
<b>Total Revenue</b>	<b>100.8</b>	<b>100.8</b>
Cost of Sales	62.7	63.1
Selling and Administrative Expenses	30.8	31.3
Costs Related to Debt Amendment	0.8	
Restructuring and Separation Costs	0.2	0.1
Depreciation and Amortization	4.1	4.1
Impairment Charges Long-Lived Assets		
Other (Income) Expense, Net	(0.2)	(0.2)
Interest Expense	2.5	3.0
<b>Total Expense</b>	<b>100.9</b>	<b>101.4</b>
Loss before Income Tax Benefit	(0.1)	(0.6)
Income Tax Benefit	(0.0)	(0.2)
<b>Net Loss</b>	<b>(0.1)%</b>	<b>(0.4)%</b>

**Three Month Period Ended May 4, 2013 compared with the Three Month Period Ended April 28, 2012*****Net Sales***

We experienced an increase in net sales for the three months ended May 4, 2013 compared with the three months ended April 28, 2012 of \$82.6 million, or 8.4%, to \$1,065.0 million for the three months ended May 4, 2013 from \$982.4 million for the three months ended April 28, 2012. This increase was primarily attributable to the following:

an increase in net sales of \$44.4 million from new stores opened during Fiscal 2013 and stores previously opened that were not included in our comparable store sales and

an increase in comparable store sales of \$33.4 million, or 3.4%, to \$1,012.6 million.

We believe the comparable store sales increase for the three month period ended May 4, 2013 was due primarily to our ongoing initiatives as discussed previously under the caption entitled Ongoing Initiatives for Fiscal 2013.

***Other Revenue***

Other revenue (consisting of rental income from leased departments, sublease rental income, layaway, alteration and other service charges, and miscellaneous revenue items) increased to \$8.0 million for the three month period ended May 4, 2013 compared with \$7.5 million for the three month period ended April 28, 2012 primarily as a result of increased rental income from leased departments and increased layaway charges.

***Cost of Sales***



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Cost of sales increased \$47.8 million, or 7.7%, during the three month period ended May 4, 2013 compared with the three month period ended April 28, 2012. The dollar increase in cost of sales was primarily related to the increase in net sales as described above. Cost of sales as a percentage of net sales decreased to 62.7% during the three months ended May 4, 2013 compared with the three months ended April 28, 2012 of 63.1%. The decrease in cost of sales as a percentage of net sales was primarily driven by lower markdown expense as a percentage of net sales as a result of continued improvements in the freshness of inventory this year and a lower shrink accrual rate based on our improved shrink trend during Fiscal 2012.

**Selling and Administrative Expenses**

Selling and administrative expenses increased \$20.6 million, or 6.7%, for the three month period ended May 4, 2013 compared with the three month period ended April 28, 2012. Selling and administrative expenses as a percentage of net sales decreased to 30.8% of net sales for the three month period ended May 4, 2013 compared with 31.3% of net sales for the three month period ended April 28, 2012. The increase in selling and administrative expenses is summarized in the table below:

	(in thousands)					
	Three Months Ended			Percentage of		
	May 4, 2013	Sales	April 28, 2012	Sales	\$ Variance	% Change
Payroll and Payroll Related	\$ 157,358	14.8%	\$ 149,311	15.2%	\$ 8,047	5.4%
Occupancy	103,638	9.7	96,981	9.9	6,657	6.9
Other	32,963	3.1	29,857	3.1	3,106	10.4
Business Insurance	8,706	0.8	6,327	0.6	2,379	37.6
Benefit Costs	7,403	0.7	6,883	0.7	520	7.6
Advertising	17,636	1.7	17,778	1.8	(142)	(0.8)
<b>Selling &amp; Administrative Expenses</b>	<b>\$ 327,704</b>	<b>30.8%</b>	<b>\$ 307,137</b>	<b>31.3%</b>	<b>\$ 20,567</b>	<b>6.7%</b>

Payroll and payroll related costs as a percentage of net sales decreased to 14.8% during the three months ended May 4, 2013 from 15.2% during the three months ended April 28, 2012. The decrease is primarily driven by efficiencies realized in our stores as a result of our ongoing store initiatives. The increase in payroll and payroll related expense of \$8.0 million during the three months ended May 4, 2013 compared with the three months ended April 28, 2012 was primarily related to the \$5.3 million of incremental payroll and payroll related costs incurred as the result of the addition of three net new stores as well as stores that were operating for the full three months ended May 4, 2013 but were not operating for the full three months ended April 28, 2012. Also contributing to the increase in payroll dollars was a planned incremental labor investment of \$2.0 million in logistics as part of our ongoing investments to drive sales.

The increase in occupancy related costs of \$6.7 million during the three months ended May 4, 2013 compared with the three months ended April 28, 2012 was primarily related to a \$6.3 million increase in new stores and stores that operated for the full three month period ended May 4, 2013 but were not operating for the full three months ended April 28, 2012.

Other selling and administrative expenses increased \$3.1 million for the three months ended May 4, 2013 compared with the three months ended April 28, 2012, primarily attributable to a \$1.5 million increase related to the operation of new stores and stores that were operating for the full three months ended May 4, 2013 but were not operating for the full three months ended April 28, 2012.

Business insurance increased \$2.4 million for the three months ended May 4, 2013 compared with the three months ended April 28, 2012, primarily attributable to increases in the number and average value of claims related to workers' compensation and general liability insurance.

**Costs Related to Debt Amendment**

Costs related to debt amendment totaled \$8.9 million during the three months ended May 4, 2013. These costs were refinancing fees related to the February 2013 Term Loan Amendment.

**Restructuring and Separation Costs**

Restructuring and separation costs totaled \$1.6 million and \$1.5 million during the three months ended May 4, 2013 and the three months ended April 28, 2012, respectively. In an effort to improve workflow efficiencies and realign certain responsibilities, we effected a reorganization of certain positions within our store, field and corporate locations during both of the three month periods.

**Depreciation and Amortization**

Depreciation and amortization expense related to the depreciation of fixed assets and the amortization of favorable and unfavorable leases amounted to \$44.0 million during the three month period ended May 4, 2013 compared with \$39.9 million during the three month period ended April 28, 2012. The increase in depreciation and amortization expense is primarily driven by accelerated amortization related to store closures as well as capital expenditures related to investments in our warehouse functions and 21 net new stores opened since April 28, 2012.



**Other Income, Net**

Other Income, Net (consisting of investment income, gains and losses on disposition of assets, breakage income and other miscellaneous items) increased \$0.2 million to \$2.5 million for the three month period ended May 4, 2013 compared with the three month period ended April 28, 2012.

**Interest Expense**

Interest expense was \$26.6 million for the three month period ended May 4, 2013 compared with \$29.5 million for the three month period ended April 28, 2012. The \$2.9 million decrease in interest expense was primarily driven by lower average balances and lower interest rates related to our Term Loan Facility and ABL Line of Credit. Our average interest rates and average balances related to our Term Loan Facility and our ABL Line of Credit, for the three months ended May 4, 2013 compared with the three months ended April 28, 2012 are summarized in the table below:

		<b>Three Months Ended</b>	
		<b>May 4, 2013</b>	<b>April 28, 2012</b>
Average Interest Rate	ABL Line of Credit	2.0%	2.2%
Average Interest Rate	Term Loan	5.5%	6.3%
Average Balance	ABL Line of Credit	\$ 24.5 million	\$ 80.8 million
Average Balance	Term Loan	\$ 871.0 million	\$ 957.4 million

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### ***Income Tax Benefit***

Income tax benefit was \$0.2 million and \$1.7 million for the three month periods ended May 4, 2013 and April 28, 2012, respectively. The effective tax rates for the three month periods ended May 4, 2013 and April 28, 2012 were 24.7% and 30.4%, respectively. In accordance with ASC Topic No. 270, *Interim Reporting* (Topic No. 270) and ASC Topic No. 740, *Income Taxes* (Topic No. 740), at the end of each interim period we are required to determine the best estimate of our annual effective tax rate and then apply that rate in providing for income taxes on a current year-to-date (interim period) basis. We used this methodology during the first quarter of Fiscal 2013, resulting in the annual effective income tax rate of 37.2% (before discrete items) being our best estimate. The effective tax rate for the three months ended May 4, 2013 was impacted by discrete adjustments that decreased the tax benefit by \$0.1 million primarily related to the reduction in unrecognized tax benefits (including interest and penalties) upon the closing of ongoing state audits related to filing positions taken by the Company, and true-ups for income tax estimates in prior periods.

Our best estimate of the projected annual effective income tax rate for the three months ended April 28, 2012 was 41.8% (before discrete items). The effective tax rate for the three months ended April 28, 2012 was impacted by discrete adjustments that increased the tax benefit by \$0.6 million predominantly relating to tax positions that are considered effectively settled as the result of the finalization of an IRS audit, offset by federal income tax true-ups as well as state tax assessments.

### ***Net Loss***

Net loss amounted to \$0.7 million for the three months ended May 4, 2013 compared with a net loss of \$3.9 million for the three months ended April 28, 2012. The improvement in our net loss position was primarily driven by our 3.4% increase in comparable store sales and our reduction in interest expense as a result of our refinancing, partially offset by \$8.9 million of refinancing fees related to the February 2013 Term Loan Amendment.

### **Liquidity and Capital Resources**

#### ***Overview***

We fund inventory expenditures during normal and peak periods through cash flows from operating activities, available cash, and our ABL Line of Credit. Liquidity may be affected by the terms we are able to obtain from vendors and their factors. Our working capital needs follow a seasonal pattern, peaking each October and November when inventory is received for the Fall selling season. Our largest source of operating cash flows is cash collections from our customers. In general, our primary uses of cash are providing for the purchase of inventory, the payment of operating expenses, debt servicing, the opening of new stores and the remodeling of existing stores. As of May 4, 2013, we had \$484.8 million available on our ABL Line of Credit. The maximum borrowings during the three months ended May 4, 2013 were \$125.0 million. Average borrowings during the three months ended May 4, 2013 were \$24.5 million.

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

We closely monitor our net sales, gross margin, expenses and working capital. We have performed scenario planning such that if our net sales decline, we have identified variable costs that could be reduced to partially mitigate the impact of these declines and maintain compliance with our debt covenants. We believe that cash generated from operations, along with our existing cash and our ABL Line of Credit, will be sufficient to fund our expected cash flow requirements and planned capital expenditures for at least the next twelve months as well as the foreseeable future. However, there can be no assurance that we would be able to offset any declines in our comparable store sales with savings initiatives.

Our Term Loan Facility agreement contains financial, affirmative and negative covenants and requires that we, among other things, maintain on the last day of each fiscal quarter a consolidated leverage ratio not to exceed a maximum amount and maintain a consolidated interest coverage ratio of at least a certain amount. The consolidated leverage ratio compares our total debt to Adjusted EBITDA, (as defined in our Term Loan Credit Agreement), for the trailing twelve months, and that ratio may not exceed 6.25 to 1 through November 2, 2013; 5.5 to 1 through November 1, 2014; 5.00 to 1 through October 31, 2015; and 4.75 to 1 January 30, 2016 and thereafter. The consolidated interest coverage ratio compares our consolidated interest expense to Adjusted EBITDA, for the trailing twelve months, and that ratio must exceed 1.85 to 1 through November 2, 2013; 2.00 to 1 through October 31, 2015; and 2.10 to 1 at January 30, 2016 and thereafter. Adjusted EBITDA is a non-GAAP financial measure of our liquidity. Adjusted EBITDA starts with consolidated net income/loss for the period and adds back (i) depreciation, amortization, impairments and other non-cash charges that were deducted in arriving at consolidated net income/loss, (ii) the (benefit) provision

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for taxes, (iii) interest expense, (iv) advisory fees, and (v) unusual, non-recurring or extraordinary expenses, losses or charges as reasonably approved by the administrative agent for such period. Adjusted EBITDA is used to calculate the consolidated leverage ratio and the interest coverage ratio. We present Adjusted

EBITDA because we believe it is a useful supplemental measure in evaluating the performance of our business and provides greater transparency into our results of operations. Adjusted EBITDA provides management, including our chief operating decision maker, with helpful information with respect to our operations such as our ability to meet our future debt service, fund our capital expenditures and working capital requirements, and comply with various covenants in each indenture governing our outstanding notes and the credit agreements governing our senior secured credit facilities which are material to our financial condition and financial statements.

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

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted EBITDA does not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

Adjusted EBITDA does not reflect our income tax expense or the cash requirements to pay our taxes;

Adjusted EBITDA does not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will likely have to be replaced in the future, and Adjusted EBITDA measures do not reflect any cash requirements for such replacements; and

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

Adjusted EBITDA for the three months ended May 4, 2013 increased \$9.5 million, or 13.6%, to \$79.5 million. The increase in Adjusted EBITDA was primarily the result of increased gross margin, partially offset by increased selling and administrative expenses, primarily driven by new stores and stores that were operating for the full three months ended May 4, 2013 but were not operating for the full three months ended April 28, 2012.

The consolidated leverage ratio for the three months ended May 4, 2013 was 3.7 compared with 4.4 as of April 28, 2012. The interest coverage ratio for the three months ended May 4, 2013 was 3.5 compared with 3.3 as of April 28, 2012.

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The following table shows our calculation of Adjusted EBITDA for the three months ended May 4, 2013 compared with the three months ended April 28, 2012:

	(in thousands)	
	Three Months Ended	
	May 4, 2013	April 28, 2012
<b><u>Reconciliation of Net Loss to Adjusted EBITDA:</u></b>		
Net Loss	\$ (702)	\$ (3,940)
Interest Expense	26,589	29,479
Income Tax Benefit	(230)	(1,717)
Depreciation and Amortization	43,992	39,925
Impairment Charges Long-Lived Assets	51	13
Interest Income	(76)	(22)
Non Cash Straight-Line Rent Expense (a)	1,544	1,160
Advisory Fees (b)	1,071	1,035
Stock Compensation Expense (c)	510	791
Amortization of Purchased Lease Rights (d)	227	232
Severance and Restructuring (e)	1,625	1,478
Franchise Taxes (f)	300	348
Advertising Expense Related to Barter (g)	664	922
Loss on Disposal of Fixed Assets (h)	16	167
Litigation Reserves (i)		69
Costs Related to Debt Amendment (j)	8,855	
Dividends Paid (k)	(4,955)	
<b>Adjusted EBITDA</b>	<b>\$ 79,481</b>	<b>\$ 69,940</b>
<b><u>Reconciliation of Adjusted EBITDA to Net Cash Provided by (Used In) Operating Activities:</u></b>		
Adjusted EBITDA	\$ 79,481	\$ 69,940
Interest Expense	(26,589)	(29,479)
Changes in Operating Assets and Liabilities	49,162	209,937
Other Items, Net	(6,674)	(5,642)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 95,380</b>	<b>\$ 244,756</b>
<b>Net Cash Used in Investing Activities</b>	<b>\$ (29,650)</b>	<b>\$ (28,342)</b>
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>\$ (6,718)</b>	<b>\$ (198,424)</b>

- (a) Represents the difference between the actual base rent and rent expense calculated in accordance with GAAP (on a straight line basis), in accordance with the credit agreements governing the Term Loan Facility and ABL Line of Credit.
- (b) Represents the annual advisory fee of Bain Capital expensed during the fiscal periods, in accordance with the credit agreements governing the Term Loan Facility and ABL Line of Credit.
- (c) Represents expenses recorded under ASC Topic No. 718 *Stock Compensation* during the fiscal periods, in accordance with the credit agreements governing the Term Loan Facility and ABL Line of Credit.
- (d) Represents amortization of purchased lease rights which are recorded in rent expense within our selling and administrative line item, in accordance with the credit agreements governing the Term Loan Facility and ABL Line of Credit.
- (e) Represents a severance and restructuring charge resulting from a reorganization of certain positions within our field and corporate locations (refer to Note 4 to our Condensed Consolidated Financial Statements entitled *Restructuring and Separation Costs* for further discussion), in accordance with the credit agreements governing the Term Loan Facility and ABL Line of Credit.
- (f) Represents franchise taxes paid based on our equity, as approved by the administrative agents for the Term Loan Facility and ABL Line of Credit.
- (g) Represents non-cash advertising expense based on the usage of barter advertising credits obtained as part of a non-cash exchange of inventory, as approved by the administrative agents for the Term Loan Facility and ABL Line of Credit.



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- (h) Represents the gross non-cash loss recorded on the disposal of certain assets in the ordinary course of business, in accordance with the credit agreements governing the Term Loan Facility and ABL Line of Credit.

- (i) Represents reduction in legal assessment in conjunction with legal settlements as approved by the administrative agents for the Term Loan Facility and ABL Line of Credit.
- (j) Represents advisory and professional fees associated with the February 2013 Term Loan Amendment.
- (k) Represents dividends paid to the Issuers in order to pay certain fees in connection with the issuance of the 2018 Notes in accordance with the credit agreements governing the Term Loan Facility and ABL Line of Credit.

***Cash Flow for the Three Months Ended May 4, 2013 Compared with the Three Months Ended April 28, 2012***

We had a \$59.0 million increase in cash flow for the three months ended May 4, 2013 compared with generating \$18.0 million of cash flow for the three months ended April 28, 2012. Net cash provided by operating activities amounted to \$95.4 million for the three months ended May 4, 2013. For the three months ended April 28, 2012, net cash provided by operating activities amounted to \$244.8 million. The decrease in net cash provided by operating activities was primarily the result of changes in the Company's working capital. The biggest driver of the decrease relates to cash flow from changes in merchandise inventories and accounts payable. Cash flow from the change in merchandise inventories for the three months ended May 4, 2013 decreased \$68.3 million as a result of incremental inventory related to new stores and well as increases in our pack and hold inventory. The decrease in the cash flow from the change in accounts payable for the three months ended May 4, 2013 of \$64.6 million compared with the three months ended April 28, 2012 was driven by a smaller increase in accounts payable from February 2, 2013 to May 4, 2013 compared with the accounts payable increase from January 28, 2012 to April 28, 2012 related to our working capital management strategy at the end of Fiscal 2011 that did not repeat in Fiscal 2012. Based on the working capital management strategy, we accelerated certain payments at the end of each fiscal year that typically would not have been made until the first quarter of the next fiscal year, which lowered our accounts payable balances at the end of each fiscal year. As our accounts payable balances return to historical levels this creates additional cash flow. The decrease in accounts payable that generates this item was primarily driven by the accelerated payments during January of Fiscal 2011 of \$152.9 million that did not repeat in January of Fiscal 2012.

Net cash used in investing activities increased to \$29.7 million for the three months ended May 4, 2013 from \$28.3 million for the three months ended April 28, 2012. This increase was primarily the result of a \$1.5 million increase in cash paid for property and equipment during the three months ended May 4, 2013 as compared with the three months ended April 28, 2012.

Cash flow used in financing activities decreased \$191.7 million during the three months ended May 4, 2013 compared with the three months ended April 28, 2012. This decrease was primarily driven by borrowings net of repayments of \$190.0 million during the three months ended April 28, 2012 compared with no borrowings, net of repayments during the three months ended May 4, 2013.

Cash flow and working capital levels assist management in measuring our ability to meet our cash requirements. Working capital measures our current financial position. Working capital is defined as current assets (exclusive of restricted cash) less current liabilities. Working capital at May 4, 2013 was \$108.6 million compared with \$104.8 million at February 2, 2013.

***Operational Growth***

During the three months ended May 4, 2013, we opened four BCF stores, and closed one store. As of May 4, 2013, we operated 503 stores primarily under the name Burlington Coat Factory Warehouse. We estimate that we will spend between \$150 and \$160 million, net of approximately \$33 million of landlord allowances, in capital expenditures during Fiscal 2013, including approximately \$55 million, net of the previously mentioned landlord allowances for store expenditures, and approximately \$25 million for information technology. We expect to use the remaining capital to support continued distribution facility enhancements and other initiatives, inclusive of \$25 million related to the construction of our new corporate headquarters. For the three months ended May 4, 2013, capital expenditures, net of landlord allowances, amounted to \$22.4 million.

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

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



From time to time we make available for sale certain assets based on current market conditions. These assets are recorded in the line item *Assets Held for Sale* in our Condensed Consolidated Balance Sheets. Based on prevailing market conditions, we may determine that it is no longer advantageous to continue marketing certain assets and will reclassify those assets out of the line item *Assets Held for Sale* and into the respective asset category based on the lesser of their carrying value or fair value less cost to sell.

#### ***Dividends***

During the three months ended May 4, 2013 dividends were \$5.0 million paid to the Issuers in order to pay certain fees in connection with the issuance of the 2018 Notes. During the three months ended April 28, 2012 dividends of \$1.7 million were paid in connection with the \$300.0 million declared dividend as part of the 2011 Term Loan Facility refinancing.

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

Holdings and each of our current and future subsidiaries, have fully, jointly, severally, unconditionally, and irrevocably guaranteed BCFWC's obligations pursuant to the \$600 million ABL Line of Credit, \$1,000 million Term Loan Facility and the \$450 million Notes due in 2019. As of May 4, 2013, we were in compliance with all of our debt covenants.

#### ***\$1 Billion Senior Secured Term Loan Facility***

As discussed previously under the caption *Debt Refinancing*, on February 15, 2013 we entered into the Second Amendment to the Term Loan Credit Agreement. The Second Amendment creates a restricted payments basket of \$25 million and permits BCFWC to use the available amount to make restricted payments (which basket includes retained excess cash flow, in an amount not to exceed 50% of BCFWC's consolidated net income (as defined in the existing senior notes) since the second quarter of Fiscal 2011), in each case so long as certain conditions are satisfied. In connection with this amendment, the Company incurred a \$1.5 million amendment fee that was capitalized and included in the line item *Other Assets* on the Company's Condensed Consolidated Balance Sheet. Additionally, the Company incurred \$8.9 million of additional fees, inclusive of an \$8.6 million fee payable to Bain Capital, for various consulting and advisory services. These fees were included in the line item *Costs Related to Debt Amendment* on the Company's Condensed Consolidated Statements of Operations and Comprehensive Loss.

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

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

As a result of this transaction, mandatory quarterly payments of \$2.2 million will be payable as of the last day of each quarter beginning with the quarter ended August 3, 2013. These payments have been recorded by in our Condensed Consolidated Balance Sheet in the line item *Current Maturities of Long Term Debt*. We expect to recognize a loss on the extinguishment of debt of approximately \$1 million, which will be recorded in the line item *Loss on the Extinguishment of Debt* in our Condensed Consolidated Statements of Operations and Comprehensive Loss during the second quarter of Fiscal 2013. In addition, estimated fees of approximately \$2 million are expected to be recorded in the line item *Costs Related to Debt Amendment* in our Condensed Consolidated Statements of Operations and Comprehensive Loss during the second quarter of Fiscal 2013. Accordingly, we do not believe that this transaction will have a material effect on our financial statements.

#### ***ABL Line of Credit***

During the three month period ended May 4, 2013 we had no outstanding borrowings on our ABL Line of Credit and unused availability of \$484.8 million. As of April 28, 2012 we repaid \$190.0 million, net of borrowings and had unused availability of \$472.4 million.

#### ***Off-Balance Sheet Arrangements***

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



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## Contingencies and Contractual Obligations

### *Legal*

We establish reserves for the settlement amounts, as well as reserves relating to legal claims, in connection with litigation to which we are party from time to time in the ordinary course of business. The aggregate amount of such reserves were \$0.9 million, as of both May 4, 2013 and February 2, 2013, and \$5.5 million as of April 28, 2012. We believe that potential liabilities in excess of those recorded will not have a material effect on our Condensed Consolidated Financial Statements. However, there can be no assurances to this effect.

There have been no significant changes to our contractual obligations and commercial commitments table as disclosed in our Fiscal 2012 10-K, except as follows:

### *Lease Agreements*

We enter into lease agreements during the ordinary course of business in order to secure favorable store locations. As of May 4, 2013, we were committed to 16 new lease agreements for locations at which stores are expected to be opened during the remainder of Fiscal 2013. Inclusive of these new leases, our minimum lease payments for all operating leases are expected to be \$164.8 million, \$228.8 million, \$207.1 million, \$191.7 million and \$800.0 million for the remainder of the fiscal year ended February 1, 2014, and the fiscal years ended January 31, 2015, January 30, 2016, January 28, 2017 and February 3, 2018 and all subsequent years thereafter, respectively.

### *Letters of Credit*

We had letters of credit arrangements with various banks in the aggregate amount of \$44.1 million and \$33.6 million as of May 4, 2013 and April 28, 2012, respectively. Based on the terms of the credit agreement related to the ABL Line of Credit, we had the ability to enter into letters of credit up to \$484.8 million and \$472.4 million as of May 4, 2013 and April 28, 2012, respectively. Among these arrangements as of May 4, 2013 and April 28, 2012, we had letters of credit in the amount of \$31.5 million and \$29.1 million, respectively, guaranteeing performance under various insurance contracts and utility agreements. Additionally, we had outstanding letters of credit agreements in the amounts of \$12.6 million and \$4.5 million at May 4, 2013 and April 28, 2012, respectively, related to certain merchandising agreements.

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

## Safe Harbor Statement

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

Many of these factors are beyond our ability to predict or control. In addition, as a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. The cautionary statements referred to in this section also should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no obligation to publicly update or revise any forward-looking statements, whether



as a result of new information, future events or otherwise, except as required by law. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report might not occur. Furthermore, we cannot guarantee future results, events, levels of activity, performance or achievements.

#### **Recent Accounting Pronouncements**

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

There were no new accounting standards that had a material impact on our Condensed Consolidated Financial Statements during the period ended May 4, 2013 and there were no new accounting standards or pronouncements that were issued but not yet effective as of May 4, 2013 that we expect to have a material impact upon becoming effective.

## **PART II OTHER INFORMATION**

### **Item 6. Exhibits.**

<b>Exhibit</b>	<b>Description</b>
4.1 (1)	Indenture, dated February 20, 2013, among Burlington Holdings, LLC, Burlington Holdings Finance, Inc. and Wilmington Trust, National Association.
4.2 (1)	Form of 9.00%/9.75% Senior Notes due 2018 (included in Exhibit 4.1).



<b>Exhibit</b>	<b>Description</b>
10.1 (1)	Amended and Restated Advisory Agreement, dated as of February 14, 2013, by and among Burlington Holdings, Inc., Burlington Coat Factory Holdings, Inc., Burlington Coat Factory Warehouse Corporation and Bain Capital Partners, LLC.
10.2 (1)	Termination Agreement, dated as of February 14, 2013, by and among Burlington Coat Factory Holdings, Inc., Bain Capital Integral Investors, LLC, Bain Capital Fund IX, LLC, BCIP Associates-G and BCIP TCV, LLC.
10.3 (1)	Stockholders Agreement, dated as of February 14, 2013, by and among Burlington Holdings, Inc. and the investors and managers from time to time party thereto.
10.4 (2)	Amendment No. 2, dated February 15, 2013, by and among Burlington Coat Factory Warehouse Corporation, the facility guarantors signatory thereto, each lender party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent.
10.5 (3)	Amendment No. 3, dated May 17, 2013, by and among Burlington Coat Factory Warehouse Corporation, the facility guarantors signatory thereto, each lender party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent.
10.6 (4)	Burlington Holdings, Inc. 2006 Management Incentive Plan (Amended and Restated May 1, 2013).
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS (4)	XBRL Instance Document
101.SCH (4)	XBRL Taxonomy Extension Schema
101.CAL (4)	XBRL Taxonomy Extension Calculation Linkbase
101.DEF (4)	XBRL Taxonomy Extension Definition Linkbase
101.LAB (4)	XBRL Taxonomy Extension Label Linkbase
101.PRE (4)	XBRL Taxonomy Extension Presentation Linkbase

- (1) Incorporated by reference to our Annual Report on Form 10-K filed on April 26, 2013.
- (2) Incorporated by reference to our Current Report on Form 8-K filed on February 21, 2013.
- (3) Incorporated by reference to our Current Report on Form 8-K filed on May 22, 2013.
- (4) Incorporated by reference to our Quarterly Report on Form 10-Q filed on June 18, 2013.

**SIGNATURES**

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

**BURLINGTON COAT FACTORY**

**INVESTMENTS HOLDINGS, INC.**

*/s/ THOMAS A. KINGSBURY*  
**Thomas A. Kingsbury**

**President & Chief Executive Officer**

*/s/ TODD WEYHRICH*  
**Todd Weyhrich**

**Executive Vice President & Chief Financial Officer**

**(Principal Financial Officer)**

Date: June 20, 2013

**INDEX TO EXHIBITS**

<b>Exhibit</b>	<b>Description</b>
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