

Burlington Coat Factory Investments Holdings, Inc.
Form 10-Q
April 15, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 1, 2008

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)

1830 Route 130 North

20-4663833
(I.R.S. Employer
Identification No.)

08016

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Burlington, New Jersey
(Address of Principal Executive Offices)

(Zip Code)

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

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

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 April 15, 2008, 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)

| | March 1, 2008 | June 2, 2007 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 45,532 | \$ 33,878 |
| Restricted Cash and Cash Equivalents | 2,707 | 2,753 |
| Accounts Receivable, Net | 31,572 | 30,590 |
| Merchandise Inventories | 784,139 | 710,571 |
| Deferred Tax Assets | 36,849 | 35,143 |
| Prepaid and Other Current Assets | 40,941 | 34,257 |
| Income Tax Receivable | -- | 1,109 |
| Assets Held for Disposal | 5,078 | 35,073 |
| Total Current Assets | 946,818 | 883,374 |
| Property and Equipment, Net | 936,245 | 948,334 |
| Tradenames | 526,300 | 526,300 |
| Favorable Leases, Net | 557,470 | 574,879 |
| Goodwill | 46,219 | 46,219 |
| Other Assets | 61,137 | 57,415 |
| Total Assets | \$ 3,074,189 | \$ 3,036,521 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 465,427 | \$ 395,375 |
| Income Taxes Payable | 24,561 | -- |
| Other Current Liabilities | 202,087 | 198,627 |
| Current Maturities of Long Term Debt and Capital Leases | 1,592 | 5,974 |
| Total Current Liabilities | 693,667 | 599,976 |
| Long Term Debt and Capital Leases | 1,404,768 | 1,456,330 |
| Other Liabilities | 128,900 | 48,447 |
| Deferred Tax Liability | 475,951 | 551,298 |

Commitments and Contingencies (Note 16)

Stockholders' Equity:

| | | |
|--|--------------|--------------|
| Common Stock | - | - |
| Capital in Excess of Par Value | 456,222 | 454,935 |
| Accumulated Deficit | (85,319) | (74,465) |
| Total Stockholders' Equity | 370,903 | 380,470 |
| Total Liabilities and Stockholders' Equity | \$ 3,074,189 | \$ 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)

| | Nine Months Ended | | Three Months Ended | |
|--|-------------------|------------------|--------------------|------------------|
| | March 1, 2008 | March 3, 2007 | March 1, 2008 | March 3, 2007 |
| REVENUES: | | | | |
| Net Sales | \$ 2,612,448 | \$ 2,628,912 | \$ 987,113 | \$ 987,299 |
| Other Revenue | 23,966 | 30,373 | 8,103 | 10,819 |
| | 2,636,414 | 2,659,285 | 995,216 | 998,118 |
| COSTS AND EXPENSES: | | | | |
| Cost of Sales (Exclusive of Depreciation and Amortization) | 1,613,242 | 1,649,636 | 612,304 | 622,253 |
| Selling and Administrative Expenses | 802,792 | 790,960 | 273,504 | 256,319 |
| Depreciation | 94,001 | 103,815 | 32,399 | 34,216 |
| Amortization | 32,136 | 32,523 | 10,756 | 10,726 |
| Interest Expense | 96,813 | 102,344 | 29,903 | 31,714 |
| Impairment Charges | 7,873 | 3,677 | 494 | - |
| Other Income, Net | (10,534) | (4,867) | (8,033) | (3,204) |
| | 2,636,323 | 2,678,088 | 951,327 | 952,024 |
| Income (Loss) Before Income Tax Expense (Benefit) | 91 | (18,803) | 43,889 | 46,094 |
| Income Tax Expense (Benefit) | 533 | (9,794) | 17,109 | 15,042 |
| Net (Loss) Income | \$ (442) | \$ (9,009) | \$ 26,780 | \$ 31,052 |

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(All amounts in thousands)

| | Nine Months Ended | |
|---|-------------------|------------------|
| | March 1, 2008 | March 3, 2007 |
| OPERATING ACTIVITIES | | |
| Net Loss | \$ (442) | \$ (9,009) |
| Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities: | | |
| Depreciation | 94,001 | 103,815 |
| Amortization | 32,136 | 32,523 |
| Impairment Charges | 7,873 | 3,677 |
| Accretion of Senior Notes and Senior Discount Notes | 10,081 | 8,801 |
| Interest Rate Cap Agreement - Adjustment to Market | 176 | 1,883 |
| Provision for Losses on Accounts Receivable | 2,194 | 2,256 |
| Provision for Deferred Income Taxes | (30,969) | (52,703) |
| Loss on Disposition of Fixed Assets and Leasehold Improvements | 1,024 | 1,223 |
| Stock Option Expense and Deferred Compensation Amortization | 1,287 | 6,826 |
| Non-Cash Rent Expense | 1,460 | 4,663 |
| Other | (806) | 245 |
| Changes in Assets and Liabilities: | | |
| Accounts Receivable | (6,561) | (6,349) |
| Merchandise Inventories | (73,568) | (58,458) |
| Prepaid and Other Current Assets | (7,866) | (1,194) |
| Accounts Payable | 70,052 | 22,690 |
| Accrued and Other Current Liabilities | 30,573 | 48,260 |
| Deferred Rent Incentives | 15,144 | 20,414 |
| Net Cash Provided by Operating Activities | 145,789 | 129,563 |
| INVESTING ACTIVITIES | | |
| Cash Paid for Property and Equipment | (64,982) | (54,343) |
| Proceeds Received from Sale of Fixed Assets and Leasehold Improvements | 2,159 | 4,650 |
| Change in Restricted Cash and Cash Equivalents | 46 | 11,040 |
| Lease Acquisition Costs | (4,150) | -- |
| Other | (34) | 66 |
| Net Cash Used in Investing Activities | (66,961) | (38,587) |
| FINANCING ACTIVITIES | | |
| Proceeds from Long Term Debt - ABL Senior Secured Revolving Facility | 437,301 | 404,858 |
| Principal Payments on Long Term Debt | (1,327) | (1,243) |
| Principal Payments on Term Loan | (11,443) | (13,500) |

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| | | |
|--|------------|------------|
| Principal Payments on Long Term Debt - ABL Senior Secured Revolving Facility | (490,556) | (479,994) |
| Equity Investment | -- | 200 |
| Purchase of Interest Rate Cap Contract | (424) | -- |
| Payment of Dividends | (725) | -- |
| Net Cash Used in Financing Activities | (67,174) | (89,679) |
| Increase in Cash and Cash Equivalents | 11,654 | 1,297 |
| Cash and Cash Equivalents at Beginning of Period | 33,878 | 58,376 |
| Cash and Cash Equivalents at End of Period | \$ 45,532 | \$ 59,673 |
| Supplemental Disclosure of Cash Flow Information | | |
| Interest Paid | \$ 78,932 | \$ 87,216 |
| Income Taxes Paid, Net of Refunds | \$ 5,831 | \$ 13,720 |
| Non-Cash Investing Activities: | | |
| Accrued Purchases of Property and Equipment | \$ (2,700) | \$ (2,012) |

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 1, 2008
(UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Presentation

The 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 the Company. 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 nine month period ended March 1, 2008 is not necessarily indicative of results for the fiscal year ending May 31, 2008 ("Fiscal 2008").

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 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 Fiscal 2007.

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of Burlington Coat Factory Investments Holdings, Inc. and all of its subsidiaries in which it has a 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.

Revenue Recognition

The Company records revenue at the time of sale and delivery of merchandise, net of allowances for estimated future returns. The Company accounts for layaway sales and leased department revenue in compliance with Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements", as revised and rescinded by SAB No. 104, "Revenue Recognition". Layaway sales are recognized upon delivery of merchandise to the customer. The amount of cash received upon initiation of the layaway is recorded as a deposit liability within "Other Current Liabilities" in the Company's Condensed Consolidated Balance Sheets. Store value cards (gift cards and store credits issued for

merchandise returns) are recorded as a liability at the time of issuance, and the related sale is recorded upon redemption. Prior to December 29, 2007, except where prohibited by law, after 12 months of non-use, a monthly dormancy service fee was deducted from the remaining balance of the store value card and recorded as "Other Revenue". The Company presents sales, net of sales taxes, in its Condensed Consolidated Statement of Operations.

On December 29, 2007, the Company discontinued assessing a dormancy service fee on inactive store value cards. Instead, the Company now estimates and recognizes store value card breakage income in proportion to actual store value card redemptions and records such income in the line item "Other Income, Net" in the Company's Condensed Consolidated Statement of Operations. The Company determines an estimated store value card breakage rate by continuously evaluating historical redemption data. Breakage income is recognized in proportion to the historical redemption patterns for those store value cards for which the likelihood of redemption is remote. See Note 12 and Note 13.

2. 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):

| | March 1, 2008 | June 2, 2007 |
|------------------|------------------|-----------------|
| Fixed Assets | \$ 2,325 | \$ 32,320 |
| Favorable Leases | 2,753 | 2,753 |
| | \$ 5,078 | \$ 35,073 |

During the nine months ended March 1, 2008, the Company completed the sale of assets with a carrying value of \$1.9 million that were previously held for sale related to two locations. Additionally, certain 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. As a result, the Company reclassified operating stores with a fixed asset value of \$28.0 million out of the line item “Assets Held for Disposal” on the Company’s Condensed Consolidated Balance Sheets into the line item “Property and Equipment, Net.” The impact of the transaction resulted in a charge against the line item “Other Income, Net” in the Company’s Condensed Consolidated Statements of Operations of \$0.3 million for the nine months ended March 1, 2008, reflecting the adjustment for depreciation expense that would have been recognized had the asset been continuously classified as held and used.

3. Long Term Debt

Long-term debt consists of (in thousands):

| | March 1, 2008 | 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. | 319 | 375 |
| Promissory Note, non-interest bearing, due in monthly payments of \$17 through January 1, 2012 | 783 | 934 |
| Senior Notes, 11.125% due at maturity on April 15, 2014, semi-annual interest payments from April 15, 2008 to April 15, 2014. | 300,066 | 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. | 97,658 | 87,978 |
| \$900 million Senior Secured Term Loan Facility, LIBOR plus 2.25% due in quarterly payments of \$2.3 million from March 1, 2008 to May 28, 2013. | 872,807 | 884,250 |
| \$800 million Available Business Line (“ABL”) Senior Secured Revolving Facility, LIBOR plus spread based on average outstanding balance. | 105,745 | 159,000 |
| Capital Lease Obligations | 25,687 | 25,912 |
| Subtotal | 1,406,360 | 1,462,304 |

| | | |
|---|--------------|--------------|
| Less Current Portion | (1,592) | (5,974) |
| Long-Term Debt and Obligations Under Capital Leases | \$ 1,404,768 | \$ 1,456,330 |

The \$900 million Senior Secured Term Loan Facility is to be repaid in quarterly payments of \$2.3 million from March 1, 2008 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 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 the fiscal year ended May 30, 2009 ("Fiscal 2009") and \$0.2 million of the quarterly payment to be made in the fourth quarter of Fiscal 2009. As a result, the Company is not required to make any cash payments related to the mandatory quarterly payments earlier than the fourth quarter of Fiscal 2009.

Repayments, net of borrowings amounted to \$53.3 million for the nine months ended March 1, 2008, related to the Company's \$800 million 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. For the three months ended March 1, 2008, the Company borrowed \$2.0 million, net of repayments.

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

As of March 1, 2008, the Company was 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 the indentures governing the BCFWC Senior Notes and Holdings Senior Discount Notes, contain covenants that, among other things, limit the Company's ability and the ability of the Company's restricted subsidiaries to pay dividends on, redeem or repurchase capital stock; make investments; incur additional indebtedness or issue preferred stock; create liens; permit dividends or other restricted payments by the Company's subsidiaries; sell all or substantially all of the Company's assets or consolidate or merge with or into other companies; and engage in transactions with affiliates.

The Company had \$47.9 million and \$55.6 million in deferred financing fees, net of accumulated amortization, as of March 1, 2008 and June 2, 2007, respectively, related to its long term debt instruments recorded in the line item "Other Assets" on the Company's Condensed Consolidated Balance Sheets. Amortization of deferred financing fees amounted to \$7.7 million and \$2.6 million for the nine and three month periods ended March 1, 2008, respectively, and \$7.7 million and \$2.6 million for the nine and three month periods ended March 3, 2007, respectively. These amounts are recorded in the line item "Amortization" in the Company's Condensed Consolidated Statements of Operations.

4. Lines of Credit